NASDAQ:SHEN Q3 2025 Earnings Call Transcript

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Michelle | Conference Operator:

Good afternoon, everyone. Welcome to the Shenandoah Telecommunications Third Quarter 2025 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the call over to Mr. Lucas Bender, VP of Corporate Finance for Shentel.

Lucas Bender | VP of Corporate Finance, Shenandoah Telecommunications (Shentel):

Thank you, Michelle. Good afternoon, and thank you for joining us. The purpose of today's call is to review Shentel's results for the third quarter of 2025. Our results were announced in a press release distributed after the market closed this afternoon, and the presentation we will be reviewing is included on the investor page on our investor.chentel.com website. Please note that an audio replay of this call will be made available later today. The details are set forth in the press release announcing this call. With us on the call today are Ed McKay, President and Chief Executive Officer, and Jim Volk, Senior Vice President and Chief Financial Officer. After the prepared remarks, we will conduct a question and answer session. I refer you to slide two of the presentation, which contains our safe harbor disclaimer, and remind you that this conference call may include forward-looking statements subject to certain risks and uncertainties that may cause our actual results to differ materially from these forward-looking statements. Additionally, we have provided a detailed discussion of various risk factors in our SEC filings, which you are encouraged to review. your caution not to place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements. With that, I will now turn the call over to Ed. Go ahead, Ed.

Ed McKay | President and Chief Executive Officer, Shentel:

Thanks, Lucas, and good afternoon, everyone. So thanks for joining us today. So as we begin the call, I'd like to share our vision for Shentel. We're focused on four key pillars that are driving operational execution and positioning us for long-term value creation. First, we're focused on building on our success. We have a proud history of delivering exceptional local customer service and deploying high quality networks in smaller markets. We're enhancing that foundation by integrating advanced technology and AI to boost operational efficiency. For example, we're currently using AI to streamline our technical support operations and optimize digital marketing, ensuring that the right offer reaches the right customer at the right time. Our second pillar is successfully completing our build. Finishing our network expansion remains a top priority, and I'm very proud of our team's achievements over the past six years. At the end of Q3, Glowfiber reached a major milestone, passing 400,000 homes and businesses in our greenfield expansion markets. We remain on track to substantially complete our build by the end of 2026. Our third pillar is accelerating growth. We're focused on driving penetration rates in glow fiber markets and expanding our commercial fiber business. We're growing the size of our direct sales team, and we've simplified our online purchase experience and launched targeted digital marketing with compelling rate plans. Our 100% fiber optic glow network gives us a clear competitive edge, and our many unique commercial fiber routes connect our smaller markets back to major metropolitan data centers. Finally, we're focused on achieving positive free cash flow. Prior to our heavy investment cycle in Glow Fiber expansion markets, Shentel consistently delivered positive free cash flow. Returning to that position is a key milestone, and we remain on track to reach positive free cash flow for the full year of 2027, driven by declining capital intensity and continued customer growth. To support this transition, we plan to refinance our credit facilities through a hybrid structure, asset-backed securitization for our glow fiber and commercial fiber businesses, paired with a new credit facility for our incumbent broadband business. We expect this approach to lower our cost of debt, strengthen our credit profile, and increase financial flexibility. These improvements will position us to capitalize on opportunities in a consolidating industry and deliver greater value to our investors. We anticipate completing the refinancing in the coming months. Thank you for your continued trust in Chantel. We remain focused on operational excellence, strategic agility, and delivering value to our customers and shareholders. Starting on slide four, we share some of our key highlights from the quarter. We reached the milestone of 400,000 total Glow Fiber passings driven by 21,000 homes released to sales in the third quarter. Glow fiber data revenue generating units grew to 83,000 at the end of the quarter, representing year-over-year growth of 39.5%, and glow fiber revenues grew 41.1%, reaching 21.3 million. Consolidated revenues reached 89.8 million, an increase of 2.5% year-over-year growth. Adjusted EBITDA climbed to $29.7 million, up 11.7% year-over-year, and our margins expanded 300 basis points to 33%. Jim will provide you with more details on the key drivers of our fine hour-to-hour results in a few minutes. Moving to slide five, we show our integrated broadband network that spans more than 18,000 fiber route miles across eight states. Our markets have compelling competitive dynamics that differentiate us from our broadband peers. 92% of our Glowfiber passings are duopoly markets with only one fixed broadband competitor. And in our incumbent markets, 70% of our passings have no fixed broadband competitor. On slide six, our sales and marketing team continues to drive growth in our Glowfiber expansion markets. In the third quarter, we added 6,400 new customers and approximately 7,200 total data, video, and voice revenue generating units. 600 of the new customer additions were from our recent Blacksburg, Virginia acquisition that we closed and integrated in July. Over the last 12 months, we've added more than 23,000 data RGUs across the Glowfiber expansion markets. We ended the third quarter with approximately 83,000 Glowfiber customers, 39% increase year-over-year. Our total Glowfiber revenue generating units reached more than 97,000 at the end of the quarter, up 37% from the same period a year ago. Moving to slide seven, Glowfiber passings exceeded 400,000 at the end of the third quarter, an increase of 81,000 year-over-year. Broadband data penetration in our Glowfiber expansion markets climbed 2.1 percentage points to 20.6% at the end of the third quarter. As shown on slide eight, growth in our Glowfiber expansion markets has followed a consistent predictable pattern with steady increases in data penetration rates as cohorts mature. We typically achieve 15% data penetration rates within the first year and 25% by year three. Our earliest cohorts, which launched in 2019 and 2020, have now reached an average data penetration rate of 37%. We're also pleased with our sales and marketing team's ability to quickly engage customers when launching new neighborhoods, as demonstrated by our 8% penetration rate for communities introduced in the third quarter. On slide 9, monthly broadband data churn for the quarter remains steady at 1.17%. As a reminder, third quarter is the seasonally highest churn quarter due to greater move churn, especially around schools and universities. Our broadband data average revenue per user remains strong in the third quarter at roughly $77, supported by customer adoption of higher speed tiers. In the middle of the third quarter, we introduced new promotional rate plans that offer enhanced speeds with a five-year price guarantee. As a result of this new plan, we saw an increase in subscriber gross additions in the second half of the quarter, with 68% of our new residential customers choosing speeds of one gig or higher, including 12% choosing speeds of two gig and 3% choosing speeds of five gig. As a Greenfield overbuilder and share taker, we have not raised broadband service prices since we launched Glow Fiber six years ago. In addition, our fiber networks have ample excess capacity and are superior to our competitors' DOCSIS networks in providing faster, symmetrical speeds. Our new promotional plans leverage our competitive advantage as well, and we believe they will be a key driver in accelerating growth. As more customers select these new plans, we expect minimal impact to Data ARPU in the next couple of quarters and a decline of approximately 1% for 2026. Turning to slide 10, we show our operating performance for the incumbent broadband markets. At the end of the third quarter, we served about 112,000 broadband data customers, reflecting a year-over-year increase of 580. Data voice and video RGUs totaled 160,000 at the end of the third quarter, down 3% year-over-year, primarily due to video customers moving to online streaming options. Total broadband homes and businesses passed in our incumbent markets grew to 248,000 at the end of the quarter, up about 14,000 over the same period a year ago. This increase was driven by construction of new government subsidized passings in previously unserved areas. As a result, approximately 20% of our incumbent broadband passings are now equipped with fiber-to-the-home technology. As shown on slide 11, these new passings represent a strong growth catalyst in our incumbent markets, and we're seeing data penetration exceed 45% five quarters after a neighborhood is launched. Our oldest cohort from first quarter of 2023 has reached 61% penetration, and we've achieved an aggregate penetration of 30% across more than 19,000 subsidized passings. Moving to slide 12, monthly broadband data churn improved six basis points year over year, reaching 1.61% in the third quarter. Our rate card strategy of offering higher speeds and more value for the same price continues to be effective in mitigating churn. Broadband data ARPU declined 1% from a year ago as expected to $82. Our commercial fiber business is highlighted on slide 13. In the third quarter, we continued to execute with sales of almost 157,000 in incremental monthly revenue, an increase of 19% over the prior year quarter. This followed record-setting sales in the first half of the year. We're seeing strong performance across a broad and diverse customer base, including wireless carriers, mid-market and enterprise customers, wholesale partners, educational institutions, and state and local governments. Our service delivery team installed 215,000 in new monthly revenue in the third quarter, similar to prior periods. Average monthly compression and disconnect churn remain very low at 0.4% in the third quarter, driven by exceptional support from our network operations center and our sales team. So I'll now turn the call over to Jim to walk you through our financials and outlook for the rest of 2025.

Jim Volk | Senior Vice President and Chief Financial Officer, Shentel:

Thank you, Ed, and good afternoon, everyone. I'll start on slide 15 with the financial results for the third quarter 2025. Revenue grew 2.5% to $89.8 million, driven by another quarter of strong global fiber expansion market revenue growth of $6.2 million, or 41.1%. The global fiber revenue growth was partially offset by declines in our other lines of business. Incumbent broadband markets revenue declined $1.6 million, primarily due to a 15% decline in video RGUs due to customers switching to streaming video services. The commercial fiber revenue declined 1.1 million, primarily due to 900,000 in non-cash deferred revenue adjustments for one of our national wireless carrier customers, and a 500,000 decline in early termination fees earned in 2024. Excluding these variances, Commercial fiber revenue grew 2.3% over the same period in 2024. RLAC revenue declined $1.3 million, primarily due to lower government support revenue and a 21% decrease in DSL subscribers, as many of these customers have migrated to our recently constructed broadband Internet service. Adjusted EBITDA grew $3.1 million, or 11.7%, to $29.7 million, driven by the previously mentioned revenue growth and $900,000 and lower operating expenses as we recognize synergy savings from the Horizon acquisition. Adjusted EBITDA margins increased 300 basis points to 33% in the third quarter of 2025. Moving to slide 16, we invested $212 million in capital expenditures year to date, net of 39.9 million in government subsidies collected. We constructed over 1,700 route miles of fiber in the last year, and we have completed construction on 89% of the planned 22,000 government subsidized unserved passings in our incumbent markets. We expect to complete this construction in mid-2026, and this will be a driver of lower capital intensity in future years. Turning to slide 17, we are reiterating our annual guidance. We expect 2025 revenues of $352 to $357 million and adjusted EBITDA of $113 to $118 million. CapEx net of grant reimbursements of $55 to $65 million is expected to be $260 million to $290 million. I'd now like to update you on our liquidity and debt positions on slide 18. Liquidity was $230 million on September 30th, including $23 million in cash, $118 million in available revolver capacity, and $72 million in remaining reimbursements under available government grants. At the end of the third quarter, we had $535 million of outstanding debt. Our first Our first material maturity is July 2027. Thank you, and operator, we are now ready for questions.

Michelle | Conference Operator:

Thank you. To ask a question, please press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. One moment for our first question. Our first question will come from the line of Frank Loudon with Raymond James and Associates. Your line is open. Please go ahead.

Frank Loudon | Analyst, Raymond James & Associates:

Great, thank you. So I want to get your thoughts on creating longer term shareholder value, either through M&A, either as a buyer or seller. Is that on the table? And then if not, what else can you do to drive higher shareholder returns? And that's the first question. And then I have a follow up. Thanks.

Ed McKay | President and Chief Executive Officer, Shentel:

Sure, Frank. This is Ed. Appreciate the question. You know, the industry is consolidating, and we want to be a player in that. We think the refinancing we're working on gives us the flexibility to be a player there, and we're looking for opportunities to expand our footprint. We're also looking to drive efficiencies in our business. Some of the technology we're deploying will help us there, and also we'll be getting to efficiencies as we wind down our construction process.

Jim Volk | Senior Vice President and Chief Financial Officer, Shentel:

Yeah, Frank, if I could add to that, you know, the global fiber expansion is coming to an end in 2026, and we expect the positive free cash flow inflection point is a significant accomplishment, and we will be generating several years in front of us of significant free cash flow in 2028 and beyond. So, I think that will be another driver, you know, based upon our organic plan.

Frank Loudon | Analyst, Raymond James & Associates:

Okay. All right. And then, so, I think you mentioned you're at 30% penetration in your subsidized passings. Can you remind us how many subsidized passings have you been granted and what you get? And then ultimately, what's sort of the target penetration for those builds?

Ed McKay | President and Chief Executive Officer, Shentel:

Yes. In our incumbent cable markets, about 22,000 is what we're targeting. And we expect penetration in the high 60% range.

Frank Loudon | Analyst, Raymond James & Associates:

Okay.

Ed McKay | President and Chief Executive Officer, Shentel:

And we also have several thousand other passings in closed fiber markets as well.

Frank Loudon | Analyst, Raymond James & Associates:

Okay. All right, great. Okay, thank you very much.

Michelle | Conference Operator:

Thank you, and one moment for our next question. Our next question comes from the line of Hamid Khorasan with BWS Financial Inc. Your line is open. Please go ahead.

Hamid Khorasan | Analyst, BWS Financial Inc.:

Hi, I just want to say that you're – Pricing actually took with Glow Fiber. What sparked that? Are you seeing increased competition or just a lack of consumer willingness to take on the new service that you had to feel like you had to do a new pricing scheme?

Ed McKay | President and Chief Executive Officer, Shentel:

Ahmed, good afternoon. Good question there. So Comcast launched a five-year price guarantee in our markets in June. We did see a little bit of impact there on the gross ad side. No impact on the churn side, though, but we decided to respond with our own five-year guarantee. We've got enhanced bandwidth speeds, and that five-year guarantee started in mid-August, and we've seen a significant lift in gross ads since then. In fact, they're above the levels we experienced before Comcast launched their five-year plan. But we continue to believe we have a competitive advantage there, not only with speed, but with our local customer service and our network reliability as well.

Unidentified Analyst | Analyst:

Why isn't this growth leading to you raising your guidance? Ahmed, this is Jim.

Jim Volk | Senior Vice President and Chief Financial Officer, Shentel:

I can respond to that one. It takes several quarters of for growth to accumulate here. So it's not something that you get in the first quarter. But our customer churn is very low, as you're aware. Generally, we've been averaging about 1% per year. So we think these customers will be with us for 100 plus months. So it'll take an accumulation of higher gross ads for a couple of quarters before you see a significant lift in our revenues.

Unidentified Analyst | Analyst:

Okay. Thank you.

Michelle | Conference Operator:

Thank you, and I'm showing no further questions, and I would like to hand the conference back over to Jim Volk for any further remarks.

Ed McKay | President and Chief Executive Officer, Shentel:

Yes, thank you all for joining.

Jim Volk | Senior Vice President and Chief Financial Officer, Shentel:

We're at a very exciting point in our evolution, and we look forward to updating you at our next quarterly call. Have a good evening.

Michelle | Conference Operator:

This concludes today's conference call. Thank you for participating. You may now disconnect.