NASDAQ:SHEN Q4 2025 Earnings Call Transcript

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Liz | Conference Operator:

Thank you for standing by. My name is Liz and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Shenandoah Telecommunications Company fourth quarter 2025 earnings call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, press star one again. Thank you. I would now like to turn the call over to Lucas Binder, Vice President of Corporate Finance for Chantel. Please go ahead.

Lucas Binder | Vice President of Corporate Finance:

Good morning and thank you for joining us. The purpose of today's call is to review Chantel's results for the fourth quarter and full year 2025. Our results were announced in a press release distributed this morning. In addition, we filed our Form 10-K and also a Form S-3 with the SEC to fulfill our Horizon merger contractual requirements to GCM. The presentation we will be reviewing is included on the investor page on our investor.chentel.com website. Please note that an audio reply 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 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. You are cautioned 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:

Thanks, Lucas, and good morning, everyone. Thank you for joining us today. This past year marked another important step forward for Centel as we continue to execute on our Fiber First strategy. Strong year-over-year growth in both glow fiber and commercial fiber drove a notable shift in our revenue mix with our fiber-based lines of business surpassing our incumbent broadband revenue in the fourth quarter. Throughout 2025, we remained disciplined and focused on our four strategic pillars that continue to guide our operational and financial priorities. Building on our long history of success, completing our fiber network expansion, accelerating growth, and positioning the business to inflect to positive free cash flow in 2027. I'm pleased with the way our team delivered on each of these priorities, strengthening our position, and keeping our strategy firmly on track. Starting on slide four, we share some of our four-year highlights. At year-end 2025, we passed approximately 427,000 homes and businesses in our low-fiber expansion markets, an annual increase of 81,000 passings. Our government subsidized passings in the government broadband markets more than doubled year over year to 22,000, and penetration in these areas has already reached 31%. We are well on our way to substantially completing construction for these capital intensive expansion projects by the end of 2026. Glow fiber data RGU's grew 35% in 2025 to 88,000, and we maintain data RPU by driving customers to higher speed tiers. Lastly, we successfully refinanced our debt with our inaugural ABS financing

in December that will save us approximately 170 basis points in cash interest expense and extend our maturities to 2030. We finished 2025 with strong momentum, driving customer growth, expanding our high-value fiber business, and strengthening our balance sheet. This performance gives us confidence in our trajectory as we move into 2026. Turning to slide five, we show our integrated broadband network that spans more than 19,000 fiber route miles across eight states with over 679,000 total broadband passings. Our markets have compelling competitive dynamics that differentiate us from our peers in the broadband industry. Eighty-eight percent of our glow fiber passings are duopoly markets with only one fixed broadband competitor, and in our incumbent markets, 70 percent of our passings have no fixed broadband competitor. As we enter the home stretch of our Glowfiber expansion, we remain focused on return on investment. Due to rising aerial make ready costs in some areas, we have recently decided to pass on investments in certain Ohio markets where the cost to pass increased, reducing our ability to earn a return on our investments above our hurdle rate of 15%. As you can see on the map, all of the planned Glowfiber markets have been launched. And our primary focus in 2026 is adding passings in our Virginia, Pennsylvania, Maryland, and Ohio markets. Despite the reduction in targeted passings, we remain confident in our plans to achieve positive free cash flow in 2027. On slide six, our sales and marketing team continues to drive growth in our Glowfiber expansion markets. In the fourth quarter, we added 5,300 new customers and more than 6,000 total data, video, and voice revenue generating units. For full year 2025, we added approximately 23,000 new customers and 26,000 total RGUs. As a result, total Glow Fiber revenue generating units surpassed 103,000 by year end, up 33% compared to the prior year. Moving to slide seven, the fourth quarter marked our strongest construction period of the year, with more than 26,000 low-fiber passings completed, bringing total passings to just under 427,000. While the significant increase in new passings kept penetration flat quarter over quarter at 20.6%, penetration improved 1.8 percentage points year over year. Penetration trends across our Glowfiber cohorts are shown on slide eight and reflect blended penetration rates for both residential and small and medium business passings. Business passings account for about 8% of our total passings and they typically exhibit a slower penetration ramp than residential passings. However, business customers generate data ARPU that is more than 40% higher than residential customers. Due to the slower business ramp, cohorts with a higher concentration of business passings can show lower penetration. This dynamic is evident in the Q4 2023, Q1 and Q4 2024, and Q1 2025 cohorts, which have a significantly higher mix of business passings than other cohorts. Excluding the differences in residential and business mix, Penetration growth in our Glowfiber expansion markets has followed a consistent and predictable pattern with steady increases as cohorts mature. Our earliest cohorts launched in 2019 and 2020 now have an average data penetration rate of more than 37%. On slide nine, we highlight our most recent Net Promoter Score Customer Satisfaction Survey where we received an outstanding score of 61. This result compares very favorably with cable competitors that often have single digit scores. Our continued focus on customer service is a key driver of our low churn, with average monthly churn of 1.01% in the fourth quarter and 1.07% for full year 2025. Broadband data average revenue per user increased to more than $77 in the fourth quarter, representing a 2.3% year-over-year increase. Midway through the third quarter, we introduced new promotional rate plans offering higher speeds with a five-year price guarantee. With these plans available for a full quarter, more than 75% of our new residential subscribers selected speeds of one gig or higher, including 20% choosing two gig service and 5% choosing five gig service. The increase in ARPU was driven by our shift away from a first-month free promotion in prior periods, along with strong adoption of the five-year price guarantee plans in the fourth quarter. As these plans continue to roll through our base, we expect data ARPU to decline by approximately 1% over the next few quarters before stabilizing. Turning to slide 10, we show our operating performance for the incumbent broadband markets. At the end of 2025, we served about 112,000 broadband data customers, reflecting a year-over-year increase of over 600. Data voice and video RGUs totaled more than 158,000 at the end of the year, down 3% year-over-year, primarily due to video customers moving to online streaming services. Total broadband passings in our incumbent markets grew to 252,000 at year-end, up about 13,000 compared to the prior year. This increase was driven by the construction of government subsidized passings in previously unserved areas. We've substantially completed construction and fulfilled our grant obligations in Virginia, and we expect to complete the remaining 1300 government subsidized incumbent grant passings in West Virginia in 2026. As a result of our government grant fiber construction, approximately 21% of our incumbent broadband passings are now equipped with fiber to the home

technology. As shown on slide seven, these new subsidized passings represent a strong growth catalyst for our incumbent markets, with data penetration exceeding 45% within six quarters of a neighborhood launch. Our earliest cohort from the first quarter of 2023 has reached 61% penetration, and we've already achieved an aggregate penetration of 31% across more than 22,000 subsidized passings. Moving to slide 12, monthly broadband data churn improved sequentially and remaining steady year over year at 1.47% for the fourth quarter. Our rate card strategy, offering greater value with higher speeds at the same price, continues to be effective at mitigating churn. As expected, broadband data ARPU declined 2.4% from a year ago to $82, given by the addition of new customers with more aggressive pricing in competitive markets. Our commercial fiber business is highlighted on slide 13. In the fourth quarter, incremental monthly bookings exceeded 155,000 in line with the prior year period. After record bookings in the first half of 2025, second half bookings increased almost 9% compared to the second half of 2024. 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 $191,000 in new monthly revenue in the fourth quarter, modestly as we continue to work through the backlog and move bookings to revenue more quickly. Average monthly compression and disconnect churn remained very low at 0.6% in the fourth quarter, driven by exceptional support from our network operations center and sales team. Before I turn the call over to Jim, I want to briefly address a recently announced reduction in force. On February 23rd, we announced a workforce reduction of approximately 10% of our employees to better align our staffing levels with the planned completion of the construction phase of Glow Fiber. Impacting employees will have a standard departure date through the end of 2026, with the longest impact in the fourth quarter. All affected employees are eligible for severance pay and benefits, as well as career transition services. We expect to incur approximately $3.1 million in restructuring costs and anticipate annual savings of roughly $12.3 million starting in 2027, split evenly between operating expenses and capitalized labor. While our major Glow Fiber market expansion is nearing completion by year-end, we remain firmly focused on driving continued growth in Glow Fiber and commercial fiber and delivering the high level of service our customers expect and deserve. I'll now turn the call over to Jim to walk you through our 2025 financial results and our outlook for 2026.

Jim Volk | Senior Vice President and Chief Financial Officer:

Thank you, Ed, and good morning, everyone. I'll start on slide 15 with the financial results for the fourth quarter of 2025. Revenues grew 7.2% to 91.6 million, driven by another quarter of strong low fiber expansion market revenue growth of 6.5 million, or 39%, driven by a 37% increase in data subscribers and a 2% increase in data ARPU. Commercial fiber revenue grew 2 million, or 10.8% year-over-year, driven primarily by a negative deferred revenue adjustment in the fourth quarter of 2024. Incumbent broadband markets revenue declined 1.7 million, primarily due to lower video and data revenues from a 14.8 percent decline in video RGUs as customers switched to streaming video services, and a 2.4 percent decline in data ARPU due to a more aggressive rate card in competitive markets. Broadband data subscribers did grow 0.6% in the year-over-year. RLEC revenue declined 500,000, primarily due to lower DSL revenue from a 24.4% decline in DSL RGUs, partially due to customers migrating to our broadband data service in the recently constructed passings supported by government grants. Adjusted EBITDA grew $8 million, or 31.3% to $33.5 million, driven by $6.2 million in revenue growth and $1.8 million in lower expenses from a combination of horizon synergy savings, higher capitalized labor from a strong quarter of fiber construction, and lower bad debt. Adjusted EBITDA margins increased significantly. 670 basis points, 36.5% in the fourth quarter, due to a combination of recurring synergy savings, seasonality due to a strong quarter of fiber construction favorably impacting higher capitalized labor and lower network compensation expenses, and non-recurring debt expense adjustments. We expect adjusted EBITDA margin to decline slightly in the first half of 2026 before expanding again in the second half of 2026. On slide 16, we share our last five-year financial results. Revenues in adjusted EBITDA grew at a compounded annual growth rate of 10 percent and 16 percent respectively. We believe these growth rates are industry-leading among publicly traded broadband companies. Please note that we acquired 19 million of annual run rate EBITDA when we acquired Horizon in

2024. This was fully offset by 12 million of lower EBITDA when we sold our tower business in the same year and 7 million in lower EBITDA from backhaul revenue churn due to the one-time network rationalization event following T-Mobile's acquisition of Sprint. While we are proud of our team's performance over the past five years, we are even more excited about our growth prospects over the next five years when we expect low double-digit EBITDA growth rates combined with significantly lower capital intensity starting in 2027. Turning to slide 17 for our annual guidance for 2026, we expect 2026 revenues of $370 to $377 million, or 4.4% growth based upon the midpoint. We are guiding to adjusted EBITDA of $131 million to $136 million or 12.1% growth based upon the midpoint. We expect 2026 CapEx net of grant reimbursements to be $220 to $250 million or a 21% decline at the midpoint. Moving to slide 18, we invested $359 million in capital expenditures in 2025 and collected $63 million in government grants for net CapEx of $296 million. We have completed construction of 84% of target global fiber passings and 94% of target incumbent government grant passings in unserved areas. In summary, capital intensity is trending down as we get closer to the end of the expansion phase. Capital intensity intensity declined from 91% in 24 to 83% in 25 and to a range of 59 to 67% in 26 based upon our guidance. For 2027, we are currently trending to the high end of the long-term target capital intensity range we provided a year ago. We expect our residential businesses to be in the 25% range and our commercial business in the 30% range initially, before declining further over time as our businesses scale. I'd now like to update you on our refinance credit facilities and liquidity on slide 19. As previously announced in December, we successfully refinanced our $675 million term loan and revolving credit facility with a hybrid capital structure featuring asset-backed securitization, or ABS notes, supported by most of our fiber business, and a revolving credit facility backed primarily by our incumbent business. The ABS notes include $567 million of privately placed investment grade notes to institutional investors due December 2030 with a weighted average interest rate of 5.69% and $175 million variable funding note facility or VFN with a group of financial institutions. The VFN has a maturity date of December 2029 and bears interest at SOPR plus 175 basis points. The VFN is a revolving facility within the ABS special purpose entities that is also investment graded and securitized by the same fiber assets and customer contracts. It is also governed by the same ABS indenture as the ABS notes. We did not borrow from the VFN as of December 31st, 2025. Concurrently, we established the new $175 million revolving credit facility, or RCF, with a group of financial investors maturing December 2030. The RCF bears interest at SOPR plus 250 to 300 basis points, depending upon net leverage as defined in the RCF agreement. We borrowed $75 million from the RCF as of December 31, 2025. Please note that these are two discrete credit facilities separated legally by special purpose entities established for ABS. Chantel and the non-ABS entities have no recourse to the loans of the ABS entities. Likewise, the ABS entities have no recourse to the loans of the RCF. As of December 31st, we have $642 million in outstanding debt with a weighted average interest rate of 5.75%. This compares favorably to September 30th weighted average interest rate of our prior credit facility of 7.47%, saving us 172 basis points in cash interest driven by the investment grade rated ABS notes. Based on our current debt levels, this will save us $11 million annually in cash interest. Total available liquidity was approximately $235 million as of December 31st. consisting of $27 million of cash and cash equivalents, $21 million in restricted cash as required by the ABS indenture, $44 million available under the VFN, $93 million under the RCF, and $50 million available under government grants. In addition, the company has over $130 million of VFN commitments that are not available to draw as of December 31st. The available capacity of the VFN will increase based upon fiber revenue growth from the ABS entities multiplied by a net operating income margin as defined in the ABS indenture and a 6.25 multiple. We are very pleased with our new credit facilities and the financial flexibility they will provide us in future years. In summary, As noted on slide 20, we have three catalysts converging that we expect will lead us to generating and growing positive free cash flow in 2027 and beyond. Low double-digit adjusted EBITDA growth rates driven by our fiber businesses, declining capital intensity as we exit the construction phase of our business plan in 2027, and declining cost of capital after refinancing our debt in December 2025 with primarily investment-grade ABS notes. This is a very exciting time for Centel and our shareholders. Thank you, operator. We are now ready for questions.

Liz | Conference Operator:

At this time, I would like to remind everyone, in order to ask a question, press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Hamed Khorasan with BWS Financial. Please go ahead.

Hamed Khorasan | Analyst, BWS Financial:

Hey, good morning. About the markets that you've decided not to enter in Ohio, how much CapEx are you looking to save? And is it all being – was it all planned for 26? So it already brings down the CapEx that you're projecting for 26?

Jim Volk | Senior Vice President and Chief Financial Officer:

Yeah, Ahmed, the CapEx per passing – you know, in this last year is roughly going to be around $1,400 per passing. Now, some of that money has been previously spent in prior years, and we're now really focusing primarily on just placing the fiber. So it's mainly construction labor at this stage, which will probably be about 75% of the $1,400 or call it, you know, $1,000 per passing. Yeah, the markets that we decided to pass on wasn't, wasn't an issue of timing as much as it was an issue of return on investment. As Ed mentioned in his scripted comments, the cost of aerial make ready has gone up significantly, like 2 and 3x in some markets, and it just made it uneconomical for us to build these markets and get a return on investment as we've expected of roughly 15%.

Hamed Khorasan | Analyst, BWS Financial:

Okay. From a competitive standpoint, you introduced this five-year guarantee, I think, last quarter. Have you seen any step down as far as competitive pressures go, or is it still the same?

Ed McKay | President and Chief Executive Officer:

Ahmed, recently one of our large cable competitors actually increased their prices on their five-year guarantee. That just happened recently here in the first quarter. Other than that, we haven't seen significant changes since we launched the five-year price guarantee.

Hamed Khorasan | Analyst, BWS Financial:

Okay. And then you had said, if I heard you right, that it takes a bit longer on the business down the residential. How fast – I don't think I heard you say how fast it takes for a residential to sign up.

spk06:

Sorry.

Ed McKay | President and Chief Executive Officer:

Say it again. For a residential customer – To sign up?

Hamed Khorasan | Analyst, BWS Financial:

Yeah, to sign up for service. I know you were talking about how there's a delayed factor when it comes to business customers.

Ed McKay | President and Chief Executive Officer:

Yeah, so with the business customers, in many cases they're under contract. We have to wait for that contract to roll off. And in some markets there are actually multiple providers going after business customers. So we expect terminal penetration on business customers to be lower than residential customers. But then residential customers that ramp to our target, you know, 37% plus penetration rate, we're tracking five to seven years after we launch a market.

spk06:

Okay. Thank you.

Liz | Conference Operator:

Your next question comes from the line of Vikash Harlalka with New Street Research. Please go ahead.

Vikash Harlalka | Analyst, New Street Research:

Hi, thanks so much for taking my question. I just have a couple of questions. Why did you feel the need to offer a five-year price guarantee plan? Was it because competition was going in that direction? And then how does that impact ARPU growth? And I'll ask my second after you answer this one.

Ed McKay | President and Chief Executive Officer:

Yeah, so it was in response to competition. One of our large cable competitors launched a five-year price guarantee plan. we did initially see some impact on gross ads when they launched it. Didn't see any impact on churn, but once we launched our own five-year price guarantee, that impact on gross ads we felt was mitigated. And as I mentioned in my script, we do expect short-term impact on ARPU as those five-year price guarantees roll through about 1% over the next few quarters, but we expect it to stabilize after that in our global fiber markets.

Vikash Harlalka | Analyst, New Street Research:

Got it. And I have one strategic question. We recently met with many small private fiber operators. There seems to be a lot of appetite for M&A. Could you just remind us how you're thinking about M&A? And if you're looking to buy fiber assets out there, what characteristics are you looking for in any potential targets?

Ed McKay | President and Chief Executive Officer:

Well, I'll say we've certainly seen consolidation start. We believe consolidation will continue. At this point in time, we're focused on successfully completing our build plan, accelerating customer growth, and then reaching that positive free cash flow inflection point in 2027. So that's really our main focus right now. As we look ahead further into the future, from an M&A standpoint, we'd be most interested in a pure play fiber

provider less interested in a cable provider and not interested at all in a copper provider.

spk06:

Got it. Thanks so much. You're welcome. Thank you.

Liz | Conference Operator:

We have no further questions at this time. I will now turn the call back over to Jim Volk for closing remarks.

Jim Volk | Senior Vice President and Chief Financial Officer:

Well, thanks everyone for joining our call this morning. As I mentioned earlier, this is a very exciting time for Chantel. And we look forward to updating you on our progress in future quarters. Thank you. Have a good day.

Liz | Conference Operator:

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.