NASDAQ:SHEN Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, everyone. Welcome to Shenandoah Telecommunications' first quarter 2026 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Lucas Binder, VP of Corporate Finance for Shentel.

Lucas Binder | VP of Corporate Finance:

Good morning, and thank you for joining us. The purpose of today's call is to review Shentel's results for the first quarter 2026. Our results were announced in a press release distributed this morning. We filed our Form 10-Q with the SEC. 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 and 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 FCC 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:

Thanks, Lucas. Good morning, everyone, and thank you for joining us today. Starting on slide four, I'll share some of our first quarter highlights. During the quarter, we released 22,000 passives to sales, bringing our total Glowfiber expansion markets passives to 449,000. We added approximately 6,000 Glowfiber net customers in the first quarter and 9% improvement over the prior year period. And we now serve a total of 94,000 customers. Our commercial fiber business also delivered a strong quarter with 196,000 in sales bookings and revenue growth of 4.7% year over year. Collectively, these results demonstrate the excellent momentum we continue to see in our fiber businesses. We were also pleased with our first quarter financial results. Consolidated revenues and adjusted EBITDA grew 4.8% and 15% year over year respectively, and we remain on track to deliver positive free cash flow in 2027. Turning to slide five, we highlight our integrated broadband network that spans more than 19,000 fiber route miles across eight states with over 700,000 total broadband passings. As shown on the map, all planned glow fiber markets have now been launched, and our primary focus is adding passings in our existing Virginia, Pennsylvania, Maryland, and Ohio markets. We remain on track to complete our glow fiber expansion in 2026, reaching 510,000 passings. On slide six, our sales and marketing team continues to drive strong growth across our Glowfiber expansion markets. And during the first quarter, we added approximately 6,000 new customers and nearly 7,000 total video, voice, and data revenue generating units. Our five-year price guarantee rate card introduced in the second half of 2025 is gaining traction, supported by the expansion of our door-to-door sales channel. Over the past 12 months, we have added more than 23,000 new data customers, more than 26,000 total RGUs as well. Total Glow Fiber revenue generating units surpassed 110,000 in the first quarter, up 31% compared to the prior year. Moving to slide seven, first quarter construction was strong with over 22,000 passings added, bringing

the total to more than 449,000. Coupled with the continued increase in homes passed, penetration rose to 20.9%, a 30 basis point increase over the fourth quarter, and 150 basis point increase 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. We are expecting data penetration rates of approximately 37% five to seven years after launching a market, and our most mature cohorts launched in 2019 and 2020 have now exceeded this with an average penetration rate of 37.5%. In addition to providing the fastest speeds in our markets, we continue to focus on providing outstanding local customer service. As shown on slide nine, our average monthly return was 0.92% in the first quarter, which continues to be among the best in the industry. Broadband data average revenue per user for the first quarter was stable sequentially and year over year at more than $77. We continue to have success selling up the rate card with nearly 82% of our new residential customers in the first quarter selecting speeds of one gig or higher, including 18% choosing two gig service and 5% choosing five gig service. Our commercial fiber business is highlighted on slide 10. In the first quarter, incremental monthly sales bookings exceeded 196,000, driven by strong demand from wireless carriers, wholesale customers, and school systems. Our service delivery team installed 167,000 in new monthly revenue during the quarter, and the acquired Horizon backlog that drove elevated installation activity in 2025 is now substantially complete. Average monthly compression and disconnect churn remained very low at 0.4% in the first quarter, reflecting exceptional support from both our network operations center and sales team. Turning to slide 11, we show our operating results for our incumbent broadband markets. At the end of the first quarter, we served more than 111,000 broadband data customers. Data, voice, and video RGUs totaled more than 156,000 at year end, down 4% year over year, primarily due to video customers moving to online streaming services. Total broadband passings in our incumbent markets stayed steady compared to the fourth quarter, and we expect to complete 1,800 additional government-subsidized incumbent grant passings in 2026, primarily in West Virginia. As shown on slide 12, the recently constructed subsidized passings represent a strong growth segment for incumbent markets, with data penetration exceeding 40% within six quarters of a neighborhood launch. Average penetration in our 2023 cohorts is over 52%, with the oldest cohort reaching 71%. We've already achieved an aggregate penetration of 37% across 23,000 subsidized passings. Moving to slide 13, monthly broadband data churn was stable sequentially and up modestly year over year at 1.46% for the first quarter. The slight uptick in churn was due to promotional activity from satellite competition in some of our most rural markets without a fixed wireline competitor. In these markets, we implemented a speed increase late in the first quarter, providing customers with higher speeds at the same price to better differentiate our service from satellite offerings. Across approximately a third of our passings where we face another fixed broadband competitor, our rate card strategy of offering greater value with higher speeds at the same price continues to be effective at mitigating churn. As expected, broadband data ARPU declined 1.6% from a year ago to $82, driven by the addition of new customers with more aggressive pricing in our competitive markets. I'll now turn the call over to Jim to walk you through our first quarter financial results.

Jim Volk | Senior Vice President and Chief Financial Officer:

Thank you, Ed, and good morning, everyone. I'll start on slide 15 with financial results for the first quarter. Revenues grew 4.8% to 92.2 million, driven by another quarter of strong low fiber expansion market revenue growth of 6.4 million, or 34.6%, due to a 33.7% increase in data subscribers and stable data arbitrage. Commercial fiber revenue grew 900,000 were 4.7% year-over-year, driven primarily by growth among existing customers in the enterprise and carrier verticals. Incumbent broadband markets revenue declined 2.2 million, primarily due to lower video revenue from a 14.6% decline in video RGUs as customers switched to streaming video services, and to a lesser extent, lower data revenues due to a 1.6% decline in data ARPU from a more aggressive rate card in competitive markets. RLEC revenues declined 800,000, primarily due to lower DSL revenue from a 28% decline in DSLRGUs and lower government grant support revenues. Approximately half of the decline in DSLRGUs was due to customer upgrades to our broadband service. Adjusted EBITDA grew $4.1 million, or 15%, to $31.7 million, driven by $4.3 million in revenue growth and slightly higher operating expenses. Adjusted EBITDA margins increased 300 basis points to 34.4% in the first

quarter of 2026, as compared to the first quarter of 2025, due to a combination of high incremental margins in globe fiber fewer lower margin video customers, and a favorable true-up related to a government grant. Turning to slide 16, we reiterate our annual guidance for 2026. We expect revenues of $370 to $377 million, adjusted EBITDA of $131 to $136 million, and CAPEX net of grant reimbursements to be $220 to $250 million. Moving to slide 17, we invested $75.8 million in capital expenditures in the first quarter of 2026 and collected $11.5 million in government grants for net CapEx of $64.3 million. CapEx declined 16% compared to the first quarter of 2025 due to completing 91% of the incumbent broadband market's government subsidized bills to unserved areas in 2025. We have also completed construction of 88% of our target glow fiber passings as of March 31st and expect to complete the glow fiber expansion by the end of 26. I'd now like to update you on our liquidity and debt maturities on slide 18. As of March 31st, we had $707 million in outstanding debt and $636 million of net debt. We have no debt maturities until 2029. Total available liquidity was approximately 195 million as of March 31st, consisting of 44 million of cash and cash equivalents, 27 million in restricted cash, 18 million available under the VFN, 68 million available under the RCF, and 38 million remaining reimbursements available under government grants. In addition, the company has over 117 million of VFN commitments that are not available to draw as of March 31st. We expect the available VFN capacity to reach the commitment levels with continued growth in the secured fiber network revenues from the ABS entities. In summary, as noted on slide 19, we have three catalyst 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, and declining cost of capital after refinancing our debt in 2025. Thank you, and operator, we are now ready for questions.

Operator | Conference Operator:

Thank you. As a reminder, to ask a question, please press star 1 1 on your telephone and wait for your name to be announced. To withdraw your question, please press star 1 1 again. One moment for questions. Our first question comes from Hamed Korsan with PWS Financial. You may proceed.

Hamed Korsan | Analyst, PWS Financial:

Hey, good morning. First question is, are you seeing any changes or challenges in adding subscribers given the competitive nature that you're talking about in your markets?

Ed McKay | President and Chief Executive Officer:

In our glow fiber markets, we're not. Our net ads were up 9% over the first quarter of 2025. So we're very pleased with our progress there. We did mention in our incumbent markets, we did see a little bit of churn to Starlink with some of the promotional offers they launched in the first quarter. But other than that, we're on plan as expected.

Hamed Korsan | Analyst, PWS Financial:

Okay. And then as far as the changeup goes, you know, ending your construction phase and going into more of a subscriber growth phase here, are you going to be increasing marketing expense, or should we expect just CapEx to decline and it's just going to be incremental here to cash flow?

Ed McKay | President and Chief Executive Officer:

Yeah, I would expect marketing expense to be similar, and the primary impact will be the decline in CapEx.

Hamed Korsan | Analyst, PWS Financial:

Okay, great. Thank you.

Operator | Conference Operator:

Thank you. Our next question comes from Christian Schwab with Craig Hallam. You may proceed.

Christian Schwab | Analyst, Craig Hallum:

Yeah, congratulations on the solid results. On your ASP on the Glow Fiber business – And in the recent areas and trends of moving, you know, from just not just one gig speed or higher at 82%, but having people want two and 5%, do you think those trends are sustainable over a multi-year period? And do you have any target expectations for customers needs for higher speeds that, you know, two gigabytes, excuse me, and above as your penetration rates go to your target levels on the fiber that's been laid in the last few years. Meaning, you know, your blended ASP at 77, I think in most markets, your one gig product is Priced around $65. So do you see ASP trends in that business increasing over time, or is it too early to tell?

Ed McKay | President and Chief Executive Officer:

I'd say, you know, medium term, we are offering five-year price guarantees on the higher speed tiers. But, you know, longer term, I think there's opportunity there. And we were very pleased with the speed mix in the past quarter. You know, the demand is out there for those higher speeds, and we do think that's sustainable going forward.

Christian Schwab | Analyst, Craig Hallum:

Okay, fantastic. And then on the commercial fiber business, could you just – Remind us what your growth objectives are there and how you see that market over a multi-year timeframe doing for you and the potential for you to add additional subscribers?

Ed McKay | President and Chief Executive Officer:

Well, I'll start and then I'll pass it over to Jim. One opportunity we do see is with data centers moving out to our more rural areas, we think that's an additional opportunity for incremental revenue. We're really not playing in the hyperscaler space today. There have been several data center announcements in our markets. We think we certainly have the opportunity to win our share of those services. And that would be additive to our current revenue. And I'll let Jim talk a little about the growth projections.

Jim Volk | Senior Vice President and Chief Financial Officer:

Yeah, Christian, we're generally expecting mid single digit revenue growth rates from the commercial business over like a three or four year period. It's important to note this is a little bit of a lumpy business. Some of the larger deals like what Ed mentioned, you know, that we're working on on the hyperscalers and

some of the carrier business tends to be a little lumpy. But we do have

Christian Schwab | Analyst, Craig Hallum:

know each quarter we're adding more enterprise customers uh along the way as well um but uh but yeah we think there's a nice growth opportunity here in the mid single digit uh growth rates great and then in the follow-up on the data center for for clarity can you just remind us of of the the miles of fiber that you have and the connectivity um potential that you have in data center um So people can understand maybe potentially a little bit better why data center customers would be coming to you.

Ed McKay | President and Chief Executive Officer:

So 19,000 plus route miles of fiber in total. Our fiber network stretches from Chicago all the way to the Washington, D.C., Ashburn, Virginia area. And we hit major markets in between like Columbus, Ohio, like Pittsburgh. uh you know and we have many you know unique fiber routes so as these data centers move out further from the metropolitan areas seeking you know areas with with land uh and power uh we we believe we have a the opportunity to take advantages of those unique fiber routes that that we have and you know gain some of that business can you give us an idea um

Christian Schwab | Analyst, Craig Hallum:

you know, what the revenue potential would be, not this year, but over a multi-year timeframe, given that trend, as data centers move out a little bit away from metro into rural areas that might want to take advantage of your 19,000 fiber miles. Can you give us an idea of the revenue potential, not an estimate, but, you know, maybe an aspiration or goal that you guys may have for that marketplace?

Jim Volk | Senior Vice President and Chief Financial Officer:

Yeah, Christian, I think it would be a little premature to get into revenue expectations, but I can tell you there is about 20 data centers being either built or being built close to our fiber in the eight states that we operate in. So not clear to me whether all of them are actually going to get built, but if they do get built, we think we're in a prime position to win some business here.

Christian Schwab | Analyst, Craig Hallum:

Great. Fantastic. No other questions. Thank you.

Operator | Conference Operator:

Thank you. And as a reminder, to ask a question, please press star 1-1 on your telephone. Our next question comes from Vikash Harlalka with Newstree Research. You may proceed.

Vikash Harlalka | Analyst, Newstree Research:

Hi. Thanks so much for taking my question. There's a lot of concern among broadband investors based around pricing power and broadband output growth for the industry. Do you think that broadband businesses have pricing power today or are we entering a period of deflation for the business? And then I have a follow-up.

Ed McKay | President and Chief Executive Officer:

So I'll say in our glow fiber business, we're expecting fairly flat ARPU in the near term. I think over time, we do gain that pricing power. And in our incumbent business, we mentioned earlier, as we've seen some competition in our markets, we have seen a slight decline in ARPU there. So I think it's a bit of a mix depending on which business you're looking at.

Jim Volk | Senior Vice President and Chief Financial Officer:

If I could add to that, in our incumbent business, about two-thirds of the passings, we are the only fixed wireline provider. So we do think we have some pricing power there as well.

Vikash Harlalka | Analyst, Newstree Research:

Got it. That's helpful. And then I just wanted to go back to your comment about increased competition from Starlink during the quarter. It sounds like the competition was mainly because Starlink is had some promotions. And so did you lose customers in the growth ad side or churn or both? And do you see this competition as continuing from here? And if so, what's your plan on addressing this increased competition? Thank you.

Ed McKay | President and Chief Executive Officer:

So we only saw the impact in the most rural areas of our incumbents broadband market we saw really no impact in glow fiber and no impact in the majority of our incumbent passings so so what they started offering in the first quarter was fifteen dollars off for four months as a promotion but i think the biggest factor was they offered free equipment it was previously 350 dollars um you know so we'll we'll see how long this this lasts you know they could be offering these promotions you know in preparation for a potential ipo later this year. But we have the ability to increase speeds. So we've done that. Late in the first quarter, we increased speeds significantly in our rural incumbent areas. Most of those customers that left were on legacy rate cards. So we've given those customers more value for the same price, and we think that will help mitigate it.

Vikash Harlalka | Analyst, Newstree Research:

Very helpful. Thanks so much.

Ed McKay | President and Chief Executive Officer:

Thank you.

Operator | Conference Operator:

Thank you. Our next question comes from Christian Schwab with Craig Hallam. You may proceed.

Christian Schwab | Analyst, Craig Hallum:

Yeah, just a quick follow-up on that. Just on the Starlink promotion in your most rural markets, these are very slow speeds. Can you just quantify a little bit more clarity around your commentary to compete with Starlink, how you increased sales? Give us an idea of what speed you were operating at, to what speed you can move

customers to compete with Starlink, because this really isn't a competition for fiber at 1, 2, and 5 gig speeds.

Ed McKay | President and Chief Executive Officer:

So in all of these markets, we have the ability to offer gigabit speeds. And I think it was customers were looking for a potentially lower-priced alternative. But when you compare our pricing to Starlink's pricing, after that promotional discount expires, we're actually favorable from a pricing standpoint and a speed standpoint. So we'll see how long these customers stay on Starlink. We certainly think we have the opportunity to win some of those back as well.

Christian Schwab | Analyst, Craig Hallum:

Okay. Thanks for the clarity.

Ed McKay | President and Chief Executive Officer:

You're welcome. Thank you.

Operator | Conference Operator:

Thank you. I would now like to turn the call back over to Ed McKay for any closing remarks.

Ed McKay | President and Chief Executive Officer:

Thank you for joining us today. We look forward to updating you on our progress in the future quarters. And, operator, that concludes our call.

Operator | Conference Operator:

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.