NASDAQ:SHEN Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, everyone. Welcome to Shenandoah Telecommunications' second 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, 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 second quarter of 2026. Our results were announced in a press release distributed this morning. In addition, 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 that may cause our actual results to differ materially from these forward-looking statements. We have provided a detailed discussion of various risk factors in our FCC 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. Good morning, everyone, and thank you for joining us today. Starting on slide four, I'll share some of our second quarter highlights. The quarter included several important milestones for Shentel and our Glowfiber business. We achieved a record 6,200 Glowfiber net additions during the quarter, demonstrating continued strong demand for our service. We also surpassed 100,000 Glowfiber data customers, representing 31.3% year-over-year growth and underscoring the success of our seven-year investment in fiber to the home. Fiber revenue, which includes both glow fiber and commercial fiber, grew 21.4% year-over-year in the second quarter, reflecting the strong momentum we continue to see across both fiber businesses. For the first time, our fast-growing fiber businesses represented 51% of consolidated revenue in the second quarter, exceeding the combined revenue for incumbent broadband and Arlec businesses. Consolidated revenue for the quarter was $93.5 million, an annual increase of 5.5%, and adjusted EBITDA was $32 million, up 12.9% year over year. This growth reflects the success in our Fiber First strategy we put in place years ago, including our early investment in fiber to the home starting in 2019, the expansion of our commercial fiber business through the Horizon acquisition, and our continued focus on driving sustained residential and commercial growth. Our operating footprint also provides a strategic advantage with close proximity to major data center hubs in Ashburn, Virginia and Columbus, Ohio. I would like to thank our team members for their dedication and execution in achieving these results. As we complete our fiber of the home build and position our business to return to positive free cash flow beginning in 2027, I'm excited about the opportunities ahead to continue building on the momentum. Turning to slide five, we highlight our scaled integrated broadband network that spans more than 19,800 fiber route miles across eight states with approximately 730,000 total broadband passings. As shown on the map, all planned glow fiber markets have now been launched, and we've added nearly 97,000 fiber passings over the past 12 months. We remain on track to substantially 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 Glow Fiber expansion markets. During the second quarter, we added over 6,000 new customers, a record for quarterly net additions, and nearly 7,000 total data, video, and voice revenue generating units. Our five-year price guarantee card introduced in the second half of 2025 continues to drive interest and is supported by the expansion of our door-to-door sales channel. Over the past 12 months, we've added approximately 24,000 new data customers and more than 26,000 total RGUs. Total Glowfiber revenue generating units surpassed 117,000 in the second quarter, up 30% compared to the prior year. Moving to slide seven, second quarter construction was strong with more than 26,000 passings added, bringing the total to more than 475,000. Penetration rose to 21.1%, 20 basis point increase over the first quarter and a 93 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're expecting data penetration rates of approximately 37% five to seven years after launching a market. Our most mature cohorts launched during the two years ending in the third quarter of 2021 have surpassed the five-year mark and currently average 35% penetration, providing confidence in our ability to reach our objective. In addition to providing the fastest speeds in our markets, we continue to focus on providing outstanding local customer service. As shown on slide 9, our average monthly churn was 1.21% in the second quarter, which continues to be among the best in the industry. As expected, seasonal customer move activity was elevated during the quarter. Almost half of our churn, or approximately 59 basis points, was driven by customers relocating. Included in that figure are 13 basis points associated with customers who transferred their Glowfiber service to a new address. We saw virtually no low-fiber churn to satellite providers during the quarter. Broadband data average revenue per user for the second quarter was down slightly sequentially year over year to just under $77. We continue to have success selling up the rate card and differentiating our offerings through faster speeds than our cable competitors. Customer demand for higher speed products remain strong, with more than 80% of new residential customers in the second quarter selecting speeds of one gig or higher, including nearly 19% choosing two gig service and almost 5% choosing five gig service. Our commercial fiber business is highlighted on slide 10. In the second quarter, incremental monthly sales bookings exceeded 180,000, driven by strong demand across commercial and enterprise customers, including wireless carriers, wholesale customers, and school systems. Our service delivery team had a strong quarter, installing 209,000 in new monthly revenue, and the exceptional customer support from our sales and network operations teams kept average monthly compression and disconnect churn very low at 0.4%. Turning to slide 11, we ended the second quarter with more than 110,000 broadband data customers in our incumbent broadband markets, a modest decline of less than 1% year over year. While total RGUs declined at a faster rate, the decrease was largely attributable to expected video subscriber losses as consumers continued the industry-wide shift towards streaming services. Total broadband passings in our incumbent markets increased slightly quarter over quarter, and we expect to complete approximately 1,100 additional government subsidized fiber passings in the second half of 2026, primarily in West Virginia. As shown on slide 12, our recently constructed subsidized passings represent a strong growth opportunity for our incumbent markets and data penetration has exceeded 40% within 18 months of a neighborhood launch. The average penetration of our 2023 cohorts is over 59%, with the oldest cohort reaching more than 72%. We've already achieved an aggregate penetration of 40% across 23,000 subsidized passes. Moving to slide 13, broadband data monthly churn increased modestly in the second quarter to 1.73%. The increase was driven by a combination of normal seasonal move activity, wired broadband competition across roughly 35% of our passings, and softer demand in rural markets with weaker demographics as inflation continues to pressure household budgets. Customer moves contributed 65 basis points of churn, including 23 basis points associated with customer transfers to another Shentel service address. The impact from satellite competition declined from the first quarter and remained a relatively small contributor to churn. We saw further improvement in June and will continue to monitor competitive activity across all technologies. Broadband data ARPU declined 2.6% year over year to $81. As we previously disclosed, we introduced a more competitive rate card a few years ago in markets where we face wired broadband competition. Those markets drove about a 1% decline in ARPU, consistent with recent quarters. Late in the first quarter, we introduced a new rate card in our rural markets where demographics are weaker and demand was softer. The pricing change reduced ARPU by an additional 1.6%, but it has already improved the satellite-related churn we saw in the first quarter. We expect a new pricing strategy to drive higher growth SADs and further churn improvement over the coming quarters. Overall, we believe these changes will maximize long-term revenue by balancing subscriber growth, retention, and ARPU. I'll now turn the call over to Jim to walk you through our second quarter 2026 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 the financial results for the second quarter. Revenue grew 5.5% to $93.5 million, driven by another quarter of strong Glow fiber expansion market revenue growth of $6.5 million or 32.8% due to a 31.3% increase in data subscribers and stable year-over-year data output. Commercial fiber revenue grew $1.9 million or 9.8% year-over-year. This growth was driven by a combination of recurring revenue growth in the enterprise and carrier verticals a non-cash sales type lease of customer equipment in the second quarter of 26, and a negative non-cash deferred revenue adjustment for one of our national wireless carrier customers in the second quarter of 2025. Fiber revenue, the combination of our fast-growing glow and commercial fiber revenue, grew 21.4% to 51% of total revenue in the second quarter. For the first time, fiber revenue exceeded incumbent broadband markets and Arlec Revenue. Incumbent broadband markets revenue declined 2.5 million, primarily due to lower video revenue from a 14.1% decline in video RGUs as customers continue to switch to streaming video services and lower data revenues due primarily to a 2.6% decline in data ARPU. Arlec revenue declined 1 million primarily due to lower DSL revenue from a 31% decline in DSLRGUs and lower government grant support revenues. Approximately half of the decline in DSLRGUs was due to transfers to our own broadband service. Adjusted EBITDA grew 3.6 million or 12.9% to 32 million, driven by 4.9 million revenue growth and offset by 1.3 million higher operating expenses. Incremental adjusted EBITDA margin was 73% in the second quarter. Adjusted EBITDA margins increased 200 basis points to 34.3% in the second quarter of 26 as compared to the second quarter of 2025. 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 government grant reimbursements to be $220 to $250 million. We expect second half 2026 revenue and adjusted EBITDA to be favorably impacted by continued high margin growth fiber revenue growth, similar to recent quarterly trends, and lower operating expenses from the previously announced reduction in force. Moving to slide 17, we invested $146 million in capital expenditures in the first half of 26 and collected $20 million in government grants for net capex of $126 million. Net capex declined 18% to the first half of 2025 due to decline in incumbent government subsidized construction. As of June 30th, construction was complete for 95% of the subsidized passings and 93% of our target globe fiber passings, with both projects expected to be substantially complete by the end of 2026. I'd now like to update you on our liquidity and debt maturities on slide 18. As of June 30th, we had $728 million in outstanding debt, $674 million of net debt, We have no debt maturities until 2029, and 78% of our debt is fixed rate, providing meaningful protection for potential increases in short-term interest rates. Total available liquidity was 159 million, consisting of 24 million of cash and cash equivalents, 31 million in restricted cash as required by the ABS InVenture, 2 million available under the VFN, 75 million available under the revolving credit facility and 27 remaining reimbursements under government grants. In addition, the company has over 105 million of VFN commitments that are not available to draw as of June 30th. However, 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 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, and declining cost of capital after refinancing our debt in December 2025. Thank you, operator, and we're now ready for questions.

Operator | Conference Operator:

Thank you. If you would like to ask a question, please press star 1-1 on your telephone. You will then hear an automated message advising your hand is raised. If you would like to remove yourself from the queue, please press star 1-1 again. We ask that you wait for your name and company to be announced before proceeding with your question. One moment while we compile the Q&A roster. Our first question will be coming from the line of Christian Schwab of Craig Hallam. Please go ahead.

Christian Schwab | Analyst, Craig Hallam:

Thank you. Congrats on the good quarter. I'm wondering if you could give us an update. We kind of talked about it a little bit last quarter on the data center opportunity. I know in your geographical footprint, you know, we got 20 data centers sitting in Ohio and we have a lot in Virginia. I'm wondering if there's anything new to report there.

Ed McKay | President and Chief Executive Officer:

Christian, good morning. This is Ed. We don't have anything specific to report at this time. I will state that we're making progress there. We do have a master service agreement in place with a major hyperscaler that will enable them to potentially buy services in the future. So we're still confident in the opportunity going forward.

Christian Schwab | Analyst, Craig Hallam:

Great. I know I think you kind of talked about before that that you maybe would need multiple, you know, customers to really make a go at that, if you will. But since you do have an MSA with one, you know, is one customer good enough if the terms and opportunity is right?

Ed McKay | President and Chief Executive Officer:

So the advantage we have, we have existing fiber and existing conduit in close proximity to some of these data centers. So that gives us an advantage where we can provide the service without having to make as significant a capital investment as other providers may.

Christian Schwab | Analyst, Craig Hallam:

Okay, fantastic. And then just as we do transition, you know, the business model from heavy CapEx, to CapEx Lite and Free Cash Flow Positive. I just wanted to confirm again that the target over the next couple of years is still kind of a 40% consolidated EBITDA margin target and 50% long-term. That's still accurate, right?

Jim Volk | Senior Vice President and Chief Financial Officer:

Yes, Christian, that is accurate. We expect to grow EBITDA margins by 300 to 400 basis points a year for the next couple of years and expect that we have a clear visibility to get to 40% in a couple of years.

Christian Schwab | Analyst, Craig Hallam:

Excellent. No other questions. Thanks, guys.

Operator | Conference Operator:

Thank you. One moment for the next question, please. And our next question is coming from the line of . Horace Vend of BWS Financial. Please go ahead.

Horace Vend | Analyst, BWS Financial:

Hey, good morning. So first off, could you just talk a little bit more about the competitive landscape? I know you were talking about the pricing solves some of your issues with satellite. Are you seeing any other encroachment in your markets? Is the pricing list that you have now solving that issue?

Ed McKay | President and Chief Executive Officer:

Good morning, Ahmed. I appreciate the question. We mentioned in the script we have about 35% of our incumbent broadband footprint that overlaps with a wired competitor. We believe we're priced competitively there. Our prices are typically lower than that wired competitor with similar bandwidth. and as far as the satellite competition, I mentioned the impact has been minimal. Really the only place we saw any impact at all was in our rural markets. We believe with our new rate card, we're well positioned there because the bottom line is we have faster speeds, we have superior latency and we believe we have superior customer service as well. So we believe we are well positioned going forward.

Horace Vend | Analyst, BWS Financial:

Okay. And then could you just talk about if you're increasing your sales efforts on the commercial SMB side and what the growth opportunity is there for you?

Ed McKay | President and Chief Executive Officer:

So we have added additional resources on the commercial side and particularly on the SMB side as well. We are seeing good progress there. And we've mentioned previously with the data center activity, we think this is basically a new growth opportunity for us above and beyond what we've traditionally seen. So we're optimistic about the growth.

Horace Vend | Analyst, BWS Financial:

Okay, great. Thank you.

Operator | Conference Operator:

Thank you. One moment for the next question. And our next question is coming from the line of Vakish Harlada of New Street Research. Please go ahead.

Vikash Harlada | Analyst, New Street Research:

Hi, it's Vikash Harlada from New Street. Thanks for taking my question. I just want to go back to the satellite question. You mentioned that there was no impact on churn in 2Q2. What exactly changed from 1K to 2K? Was it just your pricing? Did satellite pull back on marketing? Any color there would be very helpful. And then if we sort of flip that the other way around, do you see a lot of satellite customers switch to glow fiber when you build fiber in a market where satellite was the only viable option? Thank you.

Ed McKay | President and Chief Executive Officer:

Yes, so as I mentioned during the script, no impact that was material at all in Glow Fiber, just a minimal impact in the incumbent broadband markets in the rural areas. So I think our new rate card helped bring satellite churn down in the second quarter. With our service, you can get double the speed for a lower price than satellite offers currently. That was certainly a factor, but I think satellite also backed off some of their aggressive promotions. They were giving away free equipment. That's now gone to a lease. They also had some low introductory rates. They backed off those as well. So I think the combination of those two certainly reduced churn in the second quarter. And I mentioned we saw a significant reduction in June as well. So we think we're on a good trajectory there. And as far as our Glow Fiber markets with the satellite customers moving to Glow Fiber, I don't think we have good visibility into that. So I think we're primarily gaining customers from the incumbent cable provider and then new customers moving into the area. I would say it's probably less of an impact from migrations from Starlink or some other provider to our service.

Vikash Harlada | Analyst, New Street Research:

Thanks so much.

Ed McKay | President and Chief Executive Officer:

You're welcome. Thank you.

Operator | Conference Operator:

Thank you. And there are no more questions. Thank you. We appreciate your time today and we look forward to updating you in future quarters. This concludes today's programming. Thank you so much for joining. You may now disconnect.