NASDAQ:SHEN Q3 2026 Earnings Call Transcript

Generated on 11/25/2026

Victor | Conference Operator:

Good morning, everyone. Welcome to Shenandoah Telecommunications' third 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 Shentel.

Lucas Binder | Vice President of Corporate Finance:

Thank you, Victor. Good morning, and thank you for joining us. The purpose of today's call is to review Shentel's results for the third 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 review is available on the Investor page of our website at investor.chantel.com. An audio replay of this call will be available later today with details included in the press release announcing this call. With us 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. Please turn to slide two, which contains our safe harbor disclaimer. This call may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially from those statements. We encourage you to review the detailed discussions of risk factors in our SEC filings, including our annual report on Form 10-K and quarterly reports on Form 10-Q. Forward-looking statements reflect management's current beliefs, assumptions, and expectations and are not guarantees of future performance. You should not place undue reliance on them. Except as required by law, we undertake no obligation to publicly update or raise any forward-looking statements or revise any forward-looking statements. We will also discuss certain non-GAAP measures, reconciliations, and additional information are included in today's release and presentation. With that, I will turn the call over to Ed. Go ahead, Ed.

Ed McKay | President and Chief Executive Officer:

and many more customers, advancing our major construction programs toward completion and converting revenue growth into stronger adjusted EBITDA growth. For the third quarter, Glowfiber surpassed half a million passings, an important milestone as we move closer to completing our planned expansion. We added 8,600 Glowfiber data customers, a record quarter for net additions, and ended the quarter with approximately 109,000 data customers, up 32% year over year. Our fiber businesses continued to gain scale with combined low fiber and commercial fiber revenue growing 19.5% year-over-year and representing 52% of consolidated revenues. Total revenue was $93.9 million, up 4.6% year-over-year, while adjusted even to increase 11.8% to $33.2 million. The higher rate of adjusted EBITDA growth reflects the operating leverage we're beginning to realize from continued growth in our fiber businesses. I think it is also important to recognize how Shentel's business is evolving relative to other broadband providers. While many traditional cable operators are navigating broadband subscriber declines, we continue to add customers at a strong pace. More than half of our revenue now comes from our growing fiber businesses, and with our major network expansion substantially complete by year end, we believe we are uniquely positioned to convert that growth into expanding margins and positive free cash flow starting in 2027. Turning to slide five, our integrated network now includes more than 20,000 fiber route miles across eight states and approximately 755,000 total broadband passes. At quarter end, Glowfiber passed approximately 501,000 homes and businesses, including 25,000 added during the third quarter. We remain on track to substantially complete our planned Glowfiber expansion in 2026, and now expect to pass approximately 517,000 homes and businesses by the

end of the year. As shown on slide six, Glowfiber customer growth accelerated in the third quarter with a record 8,600 data net additions, up 48% from the third quarter of 2025. Our five-year price guarantee and expansion of our door-to-door sales channel have been key drivers of this growth. Over the past 12 months, we've added more than 26,000 new data customers and 30,000 total RGUs. We ended the third quarter with more than 127,000 low fiber revenue generating units, up 31% compared to the prior year. Moving to slide seven, broadband data penetration reached 21.7%, increasing 68 basis points sequentially and 108 basis points year over year. Over the past 12 months, we released approximately 100,000 passings to sales, creating a larger base for continued customer growth. Penetration trends for Glowfiber expansion markets are shown on slide eight. Our older cohorts continue to increase penetration with passings launched in 2019 and 2020 now averaging 38.5%, exceeding our medium term target of 37%. In addition to providing the fastest speeds in our markets, we remain focused on delivering outstanding local customer service. As shown on slide nine, our annual Glowfiber customer satisfaction survey produced an outstanding net promoter score of 58. We continue to rank among broadband industry leaders in both customer satisfaction and retention with average monthly churn of just 1.1% over the past 12 months. Broadband data average revenue per user for the third quarter was down slightly both sequentially and year over year to just under $76. The 1% year-over-year decline was consistent with our expectations following the introduction of our five-year price guarantee plans a year ago. We continue to have success moving customers up the rate card and differentiating low fiber with faster speeds than our competitors. Demand for higher speed products remains strong, with more than 83% of new residential customers selecting speeds of one gig or higher in the third quarter. including 20% choosing two gig service and 5% choosing five gig service. Our commercial fiber business is highlighted on slide 10. In the third quarter, incremental monthly sales bookings exceeded 185,000 driven by strong demand across commercial and enterprise customers including wireless carriers and wholesale customers. Our service delivery team installed 178,000 new monthly revenue in the quarter and our average monthly compression and disconnect turn remain low, averaging 0.5% over the last 12 months. On slide 11, incumbent broadband markets ended the quarter with more than 110,000 broadband data customers, down less than 2% year over year. The decline in total RGU's continued to be driven by video customer losses as customers shift to streaming services. Total broadband passings in our incumbent markets increased slightly during the quarter, and we expect to complete the government grant subsidized fiber passings by the end of 2026. As shown on slide 12, our 23,000 subsidized passings completed in recent years, predominantly with fiber, have reached aggregate data penetration of 43%. The 2023 cohorts are averaging more than 60%, with the oldest cohort approaching 72%. These results demonstrate strong customer demand across these previously uncertain areas. We expect overall penetration to reach approximately 65% over the next few years, representing roughly 5,000 incremental customers on our superior fiber network. Moving to slide 13, broadband data monthly churn increased modestly in the third quarter to 1.76%. The increase was driven primarily by a combination of wired broadband competition and softer demand in some of our more rural markets, where inflation continues to pressure household budgets. Broadband data ARPU declined 3% year over year to approximately $80. Our focus this year has been on modernizing our offerings in these rural markets to better meet customer needs. We saw churn improve in September and expect both churn and ARPU to gradually stabilize over the coming quarters as we make additional changes to our rate card and product offerings to maximize customer lifetime value. I want to thank our employees for their continued dedication to serving our customers and executing on our fiber expansion strategy. Glowfiber's successful growth over the past several years reflects the collective efforts of our entire team and builds on Shentel's proud legacy. Jim, I'll turn it over to you to review our financial results.

Jim Volk | Senior Vice President and Chief Financial Officer:

Thank you, Ed, and good morning, everyone. I will begin on slide 15 with our third quarter financial results. Revenues increased 4.6% year-over-year to $93.9 million. Glow fiber expansion market revenue grew 6.9 million, or 32.2%, driven by a 31.8% increase in data subscribers and relatively stable year-over-year data output. Commercial fiber revenue grew 1.2 million, or 5.9%. This growth was driven by recurring revenue growth in the enterprise and carrier verticals. Combined, glow fiber and commercial fiber revenue grew 19.5%

and represented 52% of consolidated revenue. We expect strong fiber revenue growth to continue, reaching approximately 60% of consolidated revenue by 2028. Incumbent broadband markets revenue declined $2.8 million, primarily due to lower video revenue from a 13% decline in video RGUs as customers continue to switch to streaming video services, as well as lower data revenues due primarily to a 3% decline in data RPUs. RLEC revenue declined $1.1 million primarily due to lower DSL revenue from a 35% decline in DSL RGUs and lower government support revenues. We have successfully migrated about 4,500 DSL customers to our recently constructed broadband internet service in our Virginia and Ohio telephone markets since 2023. We expect DSL customer base to stabilize after we migrate the remaining 600 DSL customers in the next year or so. Adjusted EBITDA increased $3.5 million, or 11.8%, to $33.2 million. Revenue grew $4.1 million, partially offset by $600,000 in higher operating expenses. Incremental adjusted EBITDA margin was an outstanding 85% driven by the high margin global fiber revenue growth. Compared to the same periods in 2025, adjusted EBITDA margin expanded 200 basis points in the third quarter and 300 basis points year-to-date. We expect adjusted EBITDA margins to expand another 300 to 400 basis points in 2027, driven by continued high margin global fiber revenue growth and a full year of operating expense savings from the previously announced reduction in force that will be completed in December. Turning to slide 16, we are reiterating our 2026 operating guidance. We continue to expect revenues of $370 to $377 million and adjusted EBITDA of $131 to $136 million. For our capital expenditures outlook, we are increasing our guidance to a range of $255 to $275 million from our prior guidance of $220 to $250 million. The primary drivers of the increase are twofold. One, we expect to construct 7,000 additional globe fiber passings by year end, bringing total to approximately $517,000 from $510,000. Two, the timing of government grant receipts will likely extend into 2027, which will result in higher net capex for 2026. Please note that our prior capex guidance was based upon net capital expenditures. On slide 17, we invested $215 million in capital expenditures during the first nine months of 2026 and collected $22 million in government grants, resulting in net capital expenditures of $193 million. Net capital expenditures declined 9% from the first nine months of 2025. As of September 30th, we are 97% complete with our Glow Fiber expansion and 99% complete with our incumbent broadband expansion. And we expect to substantially complete the remaining construction by year end. I'd now like to update you on our liquidity and debt maturities on slide 18. As of September 30th, we had $760 million in outstanding debt. We have no debt maturities until 2029, and 75% of our debt is fixed rate, providing meaningful protection from potential increases in short-term interest rates. Total available liquidity was $139 million, consisting of $19 million in cash and cash equivalents, $27 million in restricted cash, as required by the ABS indenture, 16 million available under the VFN, 50 million available under the RCF, and 27 remaining reimbursements available under government grants. In addition, the company has over 84 million of VFN commitments that are not available to draw as of September 30th. We expect the available VFN capacity to reach the commitment levels with continued growth in the secure fiber network revenues from the ABS entities. As we wrap up the final two months of our network expansion, we have greater visibility into our financial outlook. Slide 19 highlights the three keys to generating and growing positive free cash flow beginning in 2027. Number one, low double-digit adjusted EBITDA growth rates driven by our fiber businesses. Two, mid-20% capital intensity consisting primarily of success-based and maintenance capital spending. And three, 5.9 to 6% cost of debt that is primarily fixed-rate notes. As we complete our investment phase and transition to positive free cash flows, we expect to de-risk our business plan while retaining significant runway for globe fiber penetration, high margin revenue growth, and cash flow generation. Thank you, operator. We are now ready for questions.

Victor | Conference Operator:

Thank you. To ask a question, you'll need to press star 1-1 on your telephone and wait for a name to be announced. To withdraw your question, please press star 101 again. Please stand by. We'll compile the Q&A roster. One moment for our first question. First question will come from the line of Ahmed Corson from BWS Financial. Your line is open.

Hamed Khorsand | Analyst, BWS Financial:

Good morning. The first question I have, just given what you're saying about the business and how you're adding subscribers, On one hand, it seems like you're adding a lot more Glow Fiber subscribers, but the commentary makes it sound like it's getting tougher for that incremental ad. Is that a good assessment, or is it still easy to find Glow Fiber subscribers?

Ed McKay | President and Chief Executive Officer:

This is Ed. Good morning. I would say we are still having significant success adding Glow Fiber customers. When you look at our gross ads, Our net ads in the third quarter of this year versus net ads in the third quarter of last year, those net ads are up 48%. So we are having success. We have a lot of runway ahead of us. Our penetration rate in Glow Fiber right now is still below 22%. We've got a lot of runway to hit our 37% midterm target, and we believe there's upside beyond that longer term. We're still able to add Glow Fiber customers at an accelerated pace year over year.

Hamed Khorsand | Analyst, BWS Financial:

Are you seeing any competitive threats at all in any of your markets right now, or is that the east?

Ed McKay | President and Chief Executive Officer:

In Glow Fiber, really no additional changes from a competitive threat standpoint. We still see some fiber upgrades in local telephone company markets from DSL in some areas, but again, not significant. In our incumbent cable business, same thing. We do see some upgrades from the local telephone companies, DSL, but the majority of our passings in our incumbent business still do not have a wired cable competitor or fiber competitor.

Hamed Khorsand | Analyst, BWS Financial:

Okay. And then as far as your ARPU is concerned, is that more of a metric of what the The price card you've moved to in recent months?

Ed McKay | President and Chief Executive Officer:

Correct. In our Glow Fiber business, really the five-year rate card that we rolled out last year impacted the ARPU by about 1% as we expected. In our incumbent cable markets, we've updated the rate card to be more effective in the more rural areas that are income constrained and are really feeling the pinch from inflation. So our goal there is to really maximize the lifetime value of those customers. So we're balancing return, ARPU, as well as gross ads.

Hamed Khorsand | Analyst, BWS Financial:

Okay. Thank you.

Ed McKay | President and Chief Executive Officer:

Thank you.

Victor | Conference Operator:

Thank you. One moment for our next question. Our next question comes from Christian Schwab from Craig Halem. Your line is open.

Ben Taxel | Analyst, Craig-Hallum:

Hey, guys. It's Ben Taxel. I'm for Christian this morning. Another solid quarter. I have a couple of questions. First on the any update, you know, your footprint, you know, I think you previously said you have around 20 data centers across the footprint. And last quarter you announced a master service agreement with a hyperscaler. Any updates there on, you know, AI data center customers across the footprint?

Ed McKay | President and Chief Executive Officer:

so good morning Ben thank you for the question so I'll say it takes time to negotiate contracts with these major hyperscalers our discussions are ongoing regarding multiple opportunities they're progressing well we still see this as a significant growth opportunity for us I just don't have anything additional to share right at this moment all right and then just just quickly on those on those customers um

Ben Taxel | Analyst, Craig-Hallum:

Have you guys done an internal IRR calculation or what a return on investment could be like for these types of customers?

Ed McKay | President and Chief Executive Officer:

Jim, you want to take that one?

Jim Volk | Senior Vice President and Chief Financial Officer:

Yeah, Ben, we tend to do more of a customer lifetime value calculation, which... essentially looks at the lifetime of the customer, which is kind of the inverse of churn, which for us, with 1.1% churn on the Glow Fiber side, that equates to almost 100 months or eight plus years. And then we look at the recurring revenue and recurring adjusted EBITDA from that customer, and then we subtract out the cost of acquisition. And for Glow Fiber, that gives us the value of those customers are worth a couple thousand dollars when you do those calculations. And we'll do the same calculations on the incumbent cable side as well.

Ben Taxel | Analyst, Craig-Hallum:

All right. And just remind me, you know, as we increase the passings by 7,000, I mean, say the roughly 30,000, sorry, 30 million in CapEx increase, how much of that is just on adding passings? It may be helpful to just kind of give the cost so I can compare it to what you just said.

Jim Volk | Senior Vice President and Chief Financial Officer:

Yeah, Ben, so about $10 million of the increase related to the 7,000 additional passings. About $15 million relates to the government grant subsidies, which is really just a timing issue. We don't control exactly when the governments reimburse us for the grants. But it looks like based upon timing, it is going to extend into the first quarter. and then the remaining piece, $5 million, which is a variety of smaller things.

Ben Taxel | Analyst, Craig-Hallum:

Thanks. So, I mean, say $1,500 a passing and, I mean, you just said a couple thousand, say $3,000. And where the stock is, I mean, how I'm viewing it as you guys aren't getting even close to the full value of what your passings are worth, is that kind of how you're viewing it internally?

Jim Volk | Senior Vice President and Chief Financial Officer:

Yes, that's correct. Going back to Glow Fiber passings and your question on IRRs, we've been underwriting all of the Glow Fiber markets to an IRR of 15%. And that would include the additional 7,000 passings that we're planning to build by the end of this year. But as far as for valuation, Ben, we're disappointed where the stock is sitting today. We think there's some macro issues driving that more so than our fundamentals. But ironically, if you do the calculations, we're trading at roughly 10 times today, whereas five months ago we were trading roughly at 12 times EBITDA. and we're significantly de-risking our business plan by completing the construction phase and going free cash flow positive. So, you know, a lot of times I would suspect that March or even multiples would expand during that period of transition, but we seem to be getting hit with some outside influences outside of our business.

Ben Taxel | Analyst, Craig-Hallum:

Yeah, and just speaking of outside influences, it seems like if there's a comment on SpaceX, your stock will trade down, but as you can maybe highlight more, you guys don't believe SpaceX is a risk virtually at all, especially in the glow fiber business, correct?

Ed McKay | President and Chief Executive Officer:

Ben, that's right. We've seen virtually no churn impact from satellite in our low fiber markets. Even in our incumbent broadband markets, the churn impact has been minimal, less than 10 basis points of churn. So that satellite impact peaked in the first quarter of this year, and it has declined every quarter since. We believe our updated rate cards in our incumbent cable markets, they compete very effectively against satellite. So we do not believe this is a significant long-term factor for us.

Ben Taxel | Analyst, Craig-Hallum:

Perfect. Great quarter, guys. That's all I got.

Victor | Conference Operator:

Thank you. And our next question will come from Vikash Harlanka from New Street Research. Your line is open.

Vikash Harlanka | Analyst, New Street Research:

Hey, guys. Thanks for taking my questions. I know you touched upon stabilization and broadband ARPU. Could you just provide us any visibility into when you expect broadband ARPU to stabilize and maybe start growing? And then second, I just wanted to understand your capital allocation philosophy, especially given that now you're almost done with your fiber build. What's your long-term leverage target? When do you get there and then what do you plan to do with any excess cash that you may generate? Thank you.

Ed McKay | President and Chief Executive Officer:

Jim, do you want to take that one?

Jim Volk | Senior Vice President and Chief Financial Officer:

Sure. I'll start with the last question. We expect that leverage at the end of the year to be about 5.7 to 5.8 times EBITDA. We do expect to deliver relatively quickly. By the end of 27, we expect the net leverage to be below five times. And by 29, we expect it to be below four times. So we're confident in our ability to deliver the business. In regard to the ARPU, so two different stories here with the two different residential lines of business. On the Globe Fiber side, when we introduced a year ago the five-year price guarantee rate plans, we expected about 1%. Declining ARPU due to the promotional plans that we had put out there. And then in our five-year plans, we're not charging for equipment for the first year, but we do charge it starting in the second year. So some of that equipment revenue is kicking in in the fourth quarter. So we still expect a small decline from the third quarter to the fourth quarter. But starting in 27, we expect ARPU to actually be flat to slightly rising. So we're just about at the point that it starts to pivot back up. On the incumbent side, we introduced several new initiatives this year, as Ed talked about, in the markets that we don't have wireline competition. but we have low demographics that have been pinched pretty hard by the inflation. So we've been doing that more on a retention and a promotional plan basis. But DCASH, we expect, we're planning to introduce a new rate card in early 2027. that will move away from some of the promotional activity and get into more everyday pricing. And we believe it will increase customer lifetime value. There's going to be some pluses and minuses in those new rate plans that we think will allow us to grow penetration in some of these lower income markets better than what we've done recently. But the ARPU will probably still slightly decline, but not at the rate that we had this Thank you. And this concludes the question and answer session. I'll now let you turn back over to Ed for close remarks.

Ed McKay | President and Chief Executive Officer:

Thanks for joining us today. We're very excited about our growth opportunities. We look forward to updating you on our progress in the future quarters. Thank you.

Victor | Conference Operator:

Thank you for your participation in today's conference. This has concluded the program. You may now disconnect. Everyone have a great day.