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Cogent Communications Holdings, Inc. NasdaqGS:CCOI

Earnings Call

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Presentation

Operator

Good morning, and welcome to the Cogent Communications Holdings Second Quarter 2026 Earnings Conference Call. As a reminder, this conference call is being recorded, and it will be available for replay at www.cogentco.com. The transcript of this conference call will be posted on Cogent's website when it becomes available. Cogent's summary of financial and operational results attached to its press release can be downloaded from the Cogent website. I would now like to turn it over to Mr. Dave Schaeffer, Chairman and Chief Executive Officer of Cogent Communications Holdings. You may begin.

David Schaeffer
Founder, Chairman, CEO & President

Hey, thank you, and good morning. Welcome to our second quarter 2026 earnings conference call. I'm Dave Schaeffer, Cogent's Chief Executive Officer, and with me on this morning's call is Tad Weed, our Chief Financial Officer. I'd like to focus on a few key events and significant matters that transpired in the quarter. I'd like to recognize these events and give you an update on these important matters.

We have made significant progress in several areas: our data center monetization, our net leverage reduction, our cost reduction, and completion of various integration projects. The continued product rotation into more profitable on-net services, a reduction in our capital expenditures and a reduction in our capital lease payments, and continued progress in the sale of wavelength services.

First, for data centers and leverage. As we stated in our previous call, we intend to monetize 24 of the facilities that we acquired from the Sprint acquisition and converted into data centers, either through the outright sale or leasing these facilities on a wholesale basis.

In June, we closed on the sale of 10 of these former Sprint facilities that we converted into data centers for total proceeds of $225 million paid in cash by the purchaser in the quarter. The sale of these assets resulted in a GAAP gain of $130.7 million. We intend to use the majority of these proceeds from the transaction to reduce both our gross leverage and our net leverage.

We reduced our net leverage as adjusted, inclusive of our payments from T-Mobile in this quarter, to 6.23x EBITDA from 6.79x at the close of last quarter and from 6.61x in Q2 of 2025. We continue to have multiple parties interested in the remaining former Sprint facilities that we have put up for sale. We are in negotiation for several letters of intent on these facilities. Our total cash and restricted cash balances at the end of Q2 2026 was $369.7 million. Now I'd like to touch on the amendment that we received to our 2032 secured note indenture.

In June, we obtained approval from the majority of the holders of these 2032 notes to amend the note with a supplemental indenture. The key features included in this revision are an increase in maximum secured debt leverage ratio, from 4x to 4.75x. A commitment on our part to use at least $175 million in proceeds from the sale of these initial data centers that was then contributed from outside of the borrowing group into the borrowing group to be used for the repurchase of debt obligations at a discount.

During the quarter, we repurchased $20.4 million of par value 2032 notes at an average price of $91.955, resulting in a gain in the quarter of $1.6 million. Continuing in July, we purchased an additional $118.4 million of par value notes at an average price of $90.071, resulting in an additional gain of $11.8 million, which will be recognized in the third quarter.

The total purchases of our 2032 notes to date have been $138.8 million of face value, at an average price of $90.348, resulting in a cumulative gain of $13.4 million. We are making progress on the refinancing of our $750 million 2027 unsecured notes.

Our $750 million unsecured notes mature in June of 2027. The make-whole period for our 2027 unsecured notes ended on June 15, 2026. These notes have become current, and we are in the process of completing our refinancing of these notes. We expect that transaction to be completed in the third quarter of 2026.

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Now for a couple of comments on our wavelength business. Wavelength business continues to grow. At quarter's end, we are offering wavelengths in 1,137 locations with 10 gig, 100 gig, and 400 gig services available and provisioning intervals in approximately 30 days, which do continue to improve. Wavelength revenue for the quarter was $14.8 million, an increase of 63.8% from a year ago, and a sequential increase of 9.2%. Our wavelength customers increased year-over-year by 66.4% and sequentially by 8% to a total of 2,445 customer connections.

In addition, during the quarter, to the new installs that we have reported, we re-provisioned 77 existing wavelengths, converting them into higher capacity wavelengths. Most of these were conversions from 100 gig to 400 gig waves as customers have become more confident in the quality of our network.

At quarter's end, we have sold wavelength services in 608 unique locations, and we have sold those wavelength services now to a combined customer base of 546 unique customers. We still believe that we will capture 25% of the North American long-haul wavelength market. We also today still have only captured 3% of that market. Now for a comment on our gross margin improvement. We continue to reduce costs. Our gross margins percentages increased on a year-over-year basis by 260 basis points and increased sequentially by 90 basis points to 47%.

Our EBITDA, EBITDA as adjusted, and EBITDA adjusted margins also improved. We expanded our sequential EBITDA as adjusted margin. Our EBITDA as adjusted for the quarter increased sequentially by $900,000, or just under $1 million, to $71.1 million. And our EBITDA as adjusted margin increased sequentially by 90 basis points to 30.2%.

We also have worked diligently on the organizational optimization of our workforce. As we are completing various integration projects, we are evaluating the optimal size of all of our departments as the integration of these former Sprint assets into Cogent is now being completed. We reduced our total headcount to 1,682 at quarter's end, a reduction of 113 individuals from the end of the previous quarter, and a reduction of 207 individuals from Q2 of 2025.

This reduction represents approximately 6% of our workforce from the previous quarter. The expenses associated with these reductions have been recognized in the second quarter.

Now I'd like to take a moment to talk about our long-term objectives and beliefs around targets. We expect our revenues to grow at between 6% and 8% over a multi-year period. While we acknowledge our revenue growth in Q2 of 2026 was negative, we do believe that the decline in revenue from the acquired Sprint customer base is moderating. We anticipate EBITDA margins to average over a multi-year period approximately 200 basis points a year, kind of mirroring the type of margin expansion that Cogent had experienced prior to the acquisition of Sprint.

Our revenue and EBITDA guidances are not intended to be quarterly or targeted to a specific year, but rather a multi-year. Now I'd like to ask Tad to read our safe harbor language and provide some additional details on our operating performance for the quarter.

I'll then conclude with a few summary remarks, and we'll then open the floor for questions.

Thaddeus G. Weed
VP, CFO & Treasurer

Yes, thank you, Dave. Good morning, everyone. This earnings conference call includes forward-looking statements. These forward-looking statements are based upon our current intent, belief, and expectations. These forward-looking statements and all other statements that may be made on this call that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to our SEC filings for more information on the factors that could cause actual results to differ.

Cogent undertakes no obligation to update or revise our forward-looking statements. If we use non-GAAP financial measures during this call, you will find these reconciled to the corresponding GAAP measurements in our earnings releases that are posted on our website at cogentco.com. A discussion of the results for the quarter and the revenue mix since Sprint closing, which the first full quarter was Q3 '23, versus this quarter. Despite our revenue decreases, we have been able to increase our margins.

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Our increases in our gross margin and our EBITDA margin have been driven by cost reductions and a rotation to our more profitable on-net products. Comparing our revenue by connection type from the third quarter of 2023, which again was the first full quarter we were combined with Sprint Wireline, to this quarter illustrates the material changes to the composition of our revenues and the strength of the underlying Cogent Classic business.

Our on-net revenues were 47% of our total revenues in the third quarter of 2023. Our total on-net revenues, including on-net wavelengths, increased 63.8%. So close to 64% of our total revenues this quarter, and that was compared to 62.4% last quarter and 57.4% in the second quarter of last year. Our off-net revenues were 48% of our total revenues in the third quarter of '23, are much less profitable. Our off-net revenues have decreased to 35.9% of our total revenues this quarter, compared to 37.2% last quarter and 41.5% in the second quarter of last year. 18% of our sales this quarter were for on-net services. In the aggregate, our non-core revenues were 5% of our total revenues in the third quarter of '23. And they have decreased to less than $1 million and were about 0.4% of our revenues this quarter.

Our total revenues for the quarter were $235.6 million. Revenue declined by $3.6 million to 1.5%. USF tax revenues had a negative impact on our sequential revenue results of $0.6 million and a negative year-to-year impact of $1.1 million. The combined impact of USF tax and FX had a negative impact combined of $0.8 million on our sequential revenue results. We analyze and classify our revenues into four network connection types and three customer types. Our four network connection types are on-net, off-net, wavelength, and non-core. Our three customer types are NetCentric, Corporate, and Enterprise customer.

For the quarter, sequentially, our on-net revenues, including wave revenues, increased by $1 million. Our less profitable off-net revenues declined by $4.5 million, so most of the decline was related to off-net. Non-core revenues decreased by $0.1 million. Our wavelength revenues by themselves, which is almost entirely on-net, increased by $1.2 million. IPv4 lease revenue, which is included in on-net, our on-net IPv4 leasing revenue increased sequentially by 0.5% to $18.1 million and 18.1% year-over-year.

Our lease price per address has been stable for the last several quarters and was $0.40 per month. We have titled 37.8 million IPv4 addresses, and we've leased approximately 15 million IPv4 addresses as of today. The substantial changes in the acquired Sprint Wireline revenue base have masked the underlying performance of our Cogent Classic business. Our consolidated revenue declines have been largely attributed to the reduction in the acquired Sprint Wireline corporate and enterprise non-core and off-net revenues.

At closing, the Sprint Wireline revenues were 42% of our total revenue. That has declined to only 15% of our revenues this quarter. We acquired the Sprint Wireline with a revenue run rate of $118 million. This acquired revenue base has decreased from $118 million and down to $34 million for this quarter. That's an $84 million reduction in quarterly revenues related to our acquired Sprint Wireline revenue base, or a 71% decline since deal closing.

At deal closing, which was 3 years ago, our Cogent Classic revenue run rate was $155 million per quarter. And the Cogent Classic revenue base has increased from then by 29% from $155 million to $200 million for this quarter. Revenue by Corporate, NetCentric, and Enterprise.

Our total Corporate Business represented 41.9% of our revenues for the quarter. That decreased by 9.6% year-over-year and sequentially by 2.4%. Our total NetCentric Business continues to increase and to benefit from the growth in video traffic, activity related to artificial intelligence, streaming, IPv4 leasing, and wavelength sales.

Our NetCentric Business represents 45.6% of our revenues this quarter. Our quarterly NetCentric revenues increased by 10.4% year-over-year and sequentially by 1.6%.

Lastly, our Enterprise Business, our total enterprise business was 12.5% of our revenues this quarter. Our quarterly enterprise revenue decreased by 26% year-over-year and sequentially by 8.9%, primarily due to reduction in the acquired Sprint Wireline enterprise off-net revenues as non-core is down to less than $1 million.

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Revenue and customer connections by network type. On-net revenue. We serve our on-net customers in 3,627 total on-net buildings. Our total on-net revenue, including on-net wavelength sales, was $150.2 million for the quarter, a year-over-year increase of 6.2% and a sequential increase of 0.7%.

Our off-net revenue was $84.5 million for the quarter, a year-over-year decrease of 17.3% and a sequential decrease of 5.1%. Our off-net revenue results are impacted by the continued grooming and termination of low-margin off-net contracts, and particularly the acquired Sprint Wireline customers.

From pricing, our average price per megabit for installed base decreased sequentially slightly to $0.11 from $0.12 last quarter and from $0.17 for the second quarter of last year. Our average price per megabit for our new customer contracts also slightly declined to $0.06 compared to $0.07 last quarter and $0.08 in the second quarter of last year.

Our ARPUs for the quarter were as followed. Our on-net IP ARPU was $513. Off-net IP ARPU was $1,197. Our wavelength ARPU was $2,100. And our wavelength ARPU for new waves this quarter was $2,206, as there were more larger connections installed. Our IPv4 ARPU, again, was $0.40 per address, very stable.

Our churn rates, our on-net monthly churn rate slightly increased to 1.3% from 1.2% last quarter. Our off-net churn rate is primarily driven by the reduction in the acquired Sprint customer base. And that rate was 2.3%, an increase from 1.7% last quarter. Lastly, our wavelength monthly churn rate was about 0.5%.

Traffic. Our IP network traffic growth continued for the quarter. Our IP network traffic growth for the quarter increased sequentially by 3% in what is a traditionally seasonally slow quarter for traffic growth, and year-over-year grew at an accelerated rate up to 16%.

Sales rep productivity, our sales rep productivity materially improved substantially and was 4.5 this quarter compared to 4.1 last quarter. Our long-term average is 4.8. Comments on FX, our revenue earned outside of the United States was about 21% of our revenues for the quarter, very consistent. Based on the average Euro and Canadian conversion rate so far this quarter, so in the third quarter, we estimate that the FX conversion impact on sequential revenues will be negative $0.3 million and year-over-year also negative $0.8 million. Customer concentration, our revenues and customer base are not highly concentrated.

Our top 25 customers are 16% of our revenues this quarter. CapEx and payments on capital leases. Our CapEx declined by 16.7% sequentially and 31.4% year-over-year to $38.5 million for the quarter. We continue to experience multiple equipment price increases from vendors due to supply chain constraints so far this year. Our principal payments on capital leases also declined sequentially by 27.7% and were $9.7 million for the quarter.

Debt and debt ratios. Our total gross debt at par, including our $630.2 million of finance IRU leases, and our reduced principal amount of our 2032 notes, which at quarter end was reduced from $600 million to $579.6 million. The total was $2.3 billion at quarter end.

Our net debt, total debt net of our cash, and our $151.5 million amounts due from T-Mobile was $1.8 billion. The principal balance on our 2032 notes again has been reduced further after quarter end and is now $461.2 million from the purchases we made in July.

Our leverage ratio as calculated under our more restrictive unsecured $750 million 2027 notes was 5.94. Our secured leverage ratio under the notes was 3.67. Our fixed coverage ratio was 2.28. The definition of consolidated cash flow under our $600 million 2032 notes indenture includes cash payments under our IP transit service agreement with T-Mobile in the determination of consolidated cash flow under the indenture. And those ratios were as follows.

Our leverage ratio as calculated under the $600 million note indenture was 4.56, secured leverage was 2.81, and fixed coverage was 2.97. Cash and restricted cash. $168 million of the proceeds from the sale of the 10 data centers was considered restricted cash at closing of the terms of our supplemental indenture since that amount was reserved for purchases of our debt obligations at a discount.

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We purchased $20.4 million par value of our 2032 notes in June. As a result, the balance of restricted cash related to the data center sale proceeds was $147.6 million as of June 30. Again, we purchased an additional $118.4 million par value of our 2032 notes in July, so the remaining balance of the restricted cash is $29.2 million as of July 31st.

The cumulative purchases of our 2032 notes were $138.8 million of par value. That was retired for paying $126.2 million at an average price of $90.348 and the cumulative total gain $13.4 million. Lastly, bad debt and days sales. Our DSO improved and was 29 days at quarter end, a 2-day improvement from 31 last quarter, and our bad debt expense was only 0.6% of our revenues for the quarter.

And with that, I will turn the call back over to Dave.

David Schaeffer
Founder, Chairman, CEO & President

Hey, thanks, Tad. I'd like to highlight a couple of strengths around our network, our customer base, and our sales force. We remain direct beneficiaries of increased traffic volumes from over-the-top video, artificial intelligence activity, streaming, and gaming trends. At quarter's end, we were able to sell wave services into 1,137 unique data centers with reduced provisioning windows for approximately 30 days. We sell those waves in 608 of those locations as of today to 546 unique customers. At quarter's end, we were signed for IP services globally in 1,953 data centers. At quarter's end, our IP network remains the most connected in the world with 7,572 networks directly connected. 22 of these networks represent peers, and 7,550 networks are paying Cogent transit customers.

We remained focused on our sales force productivity and continued to manage out underperforming reps. Our sales force turnover was 7.5% a month in the quarter, which is above our historical average of 5.7% per month. At quarter's end, we had a total quota-bearing sales force of 506. 263 of these professionals focus on the NetCentric market, 230 focus on the Corporate market, and 13 focus on the Enterprise market.

We have made significant progress in several areas. We continue to improve our margins, grow our EBITDA due to our diligence and cost reductions, the completion of many of the integration programs that we outlined 3 years ago, focus on selling more profitable on-net services. In the second quarter, 82% of all sales in the quarter were on-net services. And as a result in our revenue base, the percentage of revenues that come from on-net increased sequentially to 64%.

We're actively working on further monetization of the converted Sprint facilities. Our ability to increase EBITDA margins through optimization and asset divestiture will accelerate our delevering and allow us to resume a program of aggressively returning capital to equity holders.

We remain disciplined in our capital investments were focused on expansion projects with the highest return on incremental capital. Our wavelength services are differentiated by the quality, breadth of our footprint, uniqueness of our routes, and efficient provisioning capabilities.

Our on-net services, whether they be wave or IP, are unparalleled in their value to customers. At quarter's end, we're providing services in 1,781 carrier-neutral data centers and 172 Cogent data centers. This footprint in aggregate reaches facilities with approximately 17 gigawatts of installed power.

The Cogent data centers that we operate have a total of 155 megawatts of installed and available power and over 1.5 million square feet. The proceeds that we have been able to garner from these data center sales have allowed us to reduce leverage and has allowed us to add resources to the marketing of the remaining facilities.
We are in the process of completing the refinancing of our 2027 notes, which we anticipate will complete in the third quarter of this year. We offer superior products, unparalleled quality, broad footprint into traffic locations with expedited provisioning, and disruptive pricing. In summary, we continue to gain market share by the value we deliver our customers. With that, I'd like to open the floor for questions.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Gregory Williams with TD Cowen.

Gregory Bradford Williams
TD Cowen, Research Division

First one's just on waves. Your peers over the last two weeks noted some strong wave numbers. Your numbers came in a touch light to the estimates, mine and the Street's, I think. And I realize you don't provide the backlog KPIs, but any help on backlog direction would be helpful. As we're wondering here, is this still about customer service delaying or not accepting orders? And you reiterated the 25% share in the long term. Like what needs to happen? You're a far cry from that number as you think about the timing of that target now.

Second question is on EBITDA. It grew quarter-over-quarter as messaged, but it barely did so. Any one-time cost you mentioned headcount reduction, how much was that and is that in your EBITDA, and are we fully done with the cost takeout progress? Essentially, we're just trying to figure out what the EBITDA cadence looks like for the balance of the year?

David Schaeffer
Founder, Chairman, CEO & President

Yes, sure. Thanks for the questions, Greg. With regard to wave sales, our demand remains strong. We continue to add to our backlog. You are correct, we are no longer disclosing that backlog specifically. We also are encouraged by the fact that customers that have used our services are now coming back and asking to increase the capacity on those wavelengths and helping us push ARPU up.

We have been frustrated by the fact that many customers struggle to have the ability to use the waves that they've ordered, whether it be equipment deliveries, power constraints, or data center space and cooling availability, or even data center completion. So because of the surge in demand for computing, the entire supply chain is adjusting, and that has impacted our customers. It has not to date slowed our ability to provision, but it has increased our capital.

And you know, the fact that we were able to have a meaningful reduction in our capital spending sequentially and expect that number to continue to improve is because of our efficiency in deploying that capital. In terms of wavelength market share, we are at only 3% of the North American long-haul market today.

We remain encouraged by the breadth of customer base that we have. 546 unique companies using our wavelengths, getting comfortable with Cogent, and the fact that we've now delivered those into more than half of our wave-enabled footprint, 608 out of the 1,137 wave-enabled locations. I think we expect our rate of wave installs to accelerate. But I do think it will be several years till we get to that 25% market share. I'm going to now pivot over to the EBITDA progression.

And while we experienced a significant revenue decline of $3.6 million sequentially, our EBITDA did grow by nearly $1 million on a sequential basis. Embedded in those costs and retarding our rate of margin expansion were some of the expenses that we have incurred in the quarter as we have wound down many of the integration projects.

Just to remind investors, when we initially acquired Sprint, we had targeted $220 million of targeted direct cost savings and we had incurred a monthly integration expense of about $5 million a month. We updated those numbers and as recently as last earnings call, we had taken that $220 million number to $240 million, and we had indicated that of that $240 million, there was less than $20 million of the annualized run rate remaining. We have brought that number down.

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There is still a small stub of remaining costs, but the vast majority of the $240 million in cost savings have been achieved. We also commented over the last 3 years on the decline in our spending on integration projects. That monthly spend of $5 million a month had declined to about $3 million a month at the end of Q1. We accelerated that decline in large part through the optimization of our workforce.

While we had been gradually reducing our workforce, that rate of reduction accelerated in the quarter, and we reduced our workforce by about 6%. There will be further reductions in the third quarter, but at a more moderate rate. The cost of these reductions, severance, benefits, payments, and the fact that many of these employees did continue to work at least partially in the quarter did impact the rate of margin expansion.

I do believe that over the next several quarters, we will return to a more accelerated rate of margin expansion through the combination of continued on-net sales and the continued discipline around taking out those integration expenses. As we had outlined previously, going back to September of 2022 when the deal was announced, that we anticipated all of those integration costs to be gone by the end of 2026, year-end. We will probably be in a position to beat that, but we have materially reduced those expenses, and therefore we'll see uplift in both the third and fourth quarter from that.

Gregory Bradford Williams
TD Cowen, Research Division

A quick follow-up. You mentioned that CapEx was down and you expect that number to continue to come down. Is that a quarter-over-quarter or near-term target? Is that sort of a longer-term view?

David Schaeffer
Founder, Chairman, CEO & President

So it was both on a year-over-year basis and sequentially that capital declined. We would expect a further decline on both a sequential and year-over-year basis in the third quarter. As I commented extensively on the last call, it has been difficult for us to give exact CapEx guidance because of the pacing of equipment price increases. We had experienced five increases from one vendor in the first 5 months of the year.

Fortunately, in the next 3 months, we've only experienced one increase, and they were relatively equal size. Our other primary vendor has had three increases, and we do believe that that rate of price increase is moderating, and we do expect our total CapEx spend to continue to moderate.

Operator

Your next question comes from the line of Chris Schoell with UBS. Please go ahead.

Christopher Joseph Schoell
UBS Investment Bank, Research Division

Dave, just to follow up on the status of those 14 Sprint data center sites that have been converted, do you envision selling those 14 as a block or as a piecemeal approach more likely based on the interest you're seeing so far, and any color you can give on the number or types of buyers expressing interest at this stage and what the timeline looks like from here?

David Schaeffer
Founder, Chairman, CEO & President

Yes, sure, Chris. I think it's most likely that they will be sold in chunks. We do have numerous both operators and private equity looking at these facilities. We currently have signed letters of intent from purchasers that we have not accepted, that we have validated their creditworthiness, and those are for four facilities: two letters of intent, one for three, one for one facility. And you know, we are also in discussion for many of the remaining 10 facilities, but we do not today possess letters of intent. The letters of intent that we have, Cogent found unacceptable in terms of price based on the characteristics of these facilities, and we are in the process in negotiation.

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That is not a guarantee we'll get a deal done with those counterparties, but we remain optimistic. I think for the other 10 facilities, the counterparties are still being vetted, and we also do not yet have a firm offer from them, in some cases verbal indications of interest, but I think it's our intention to only announce once we have something that we feel will absolutely close.

And we're encouraged by I Squared's progress and their professionalism in moving from letter of intent to contract to closing.

Christopher Joseph Schoell
UBS Investment Bank, Research Division

If I can just follow up on the 10 sites you did sell, can you just remind us how much expense should drop out in 3Q for those assets, and is it fair most of that spend is in COGS?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so the expense associated with those facilities on an annual basis was about $7 million. So we would anticipate just under $2 million of direct expense comes out. Offsetting that is we remain a tenant in a small footprint in those facilities for a few hundred thousand dollars of expense for space and power for our equipment that we intend, just as we're in other data centers, to continue to operate.

And in addition to those savings, we also will be receiving payments from I Squared for providing transition services to them that will be recognized either as an offset to cost or revenue.

Operator

Your next question comes from the line of Michael Funk with Bank of America. Please go ahead.

Michael J. Funk
BofA Securities, Research Division

So I want to get back to wavelengths, Dave. We really have not seen acceleration in connections a lot of us had anticipated. So, can you maybe just talk a little bit about the conversion of some of that backlog, and what the impediments have been? And then on the sale or potential sales or remaining Sprint data centers, love to get your thoughts on how we should think about valuation, based on the location, quality, tenants, whether that would be comparable to valuation the data centers already sold, the tenant you closed on?

David Schaeffer
Founder, Chairman, CEO & President

Yes, sure. Two very good questions, Michael. So first of all, on wavelengths, you know, the constraints I think have fallen into two primary categories. One, customers not being able to accept the wavelengths because of constraints that they are facing. You know, existing data center occupancy is at a record high. Many data centers do not have surplus power available so the customer can't put the equipment in to accept the wavelength. There can be other supply chain constraints around, you know, whether it be servers, routers, switches, pluggable optics, all of these components that allow the customer to use the wavelength that we deliver have elongated delivery times.

I think secondly, and we commented on this several quarters ago and have talked about repeatedly, customers, I think still are amazed at our ability to provision as compared to others. I know the question and comment came up about others reporting quote-unquote strong wavelength sales. To the best of my knowledge, none of our competitors give the level of granularity on wavelength sales that we disclose: the number of wavelengths, the ARPU, and they oftentimes do not break wavelength revenue out as a separate line item.

So, it's one thing to qualitatively say things are great. That's another to be very granular and specific. I'm not saying that in a defensive way, but I do think our transparency on this has allowed investors more clarity and more granularity than our competitors.

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We today have equipment and are able to continue to deploy wavelengths. We have had to make decisions around, is the customer who has an order really going to take the wavelength? And then, two, prioritize some equipment and resources to customers that already are using wavelengths and are upgrading. I think we did better than the headline number, demonstrates in the quarter with the re-provisioning of 77 wavelengths on top of the 182 that we deployed. These are still relatively small numbers.

We have a strong year-over-year growth rate, at over 60%, a strong sequential growth rate of 10%. These are, I think, admirable, but we need to continue to grow the base. We do believe that the demand is real, the customer base is broad, the footprint we have is the footprint that customers want.

There's been conversations around Cogent's willingness to go either into proprietary single-tenant data centers or to corporate sites. We do accommodate waves to those locations. We have provisioned them, but we do so in a different manner. We usually look for the single tenant at that data center to provide dark fiber extensions back to a carrier-neutral, where we then interconnect and hand the wavelength off.

This allows us to minimize our capital exposure, yet still meet the requirements of the customer. That is primarily the hyperscalers. And then for large enterprises, where we have sold a handful of waves, they are typically buying them in single-tenant office buildings. And there we use a combination of dark fiber tails and local providers to interconnect because we cannot justify the deployment of capital for that single-tenant opportunity.

I'm going to now pivot over to your question around the complexion of the unsold data centers, both in terms of quality and anticipated price. The facilities that we have sold are, I think comparable to the facilities that we have to sell. There is clearly a divergence in scale from the largest of the remaining 14 being our Fort Worth facility with 14 megawatts and the smallest of the remaining to be sold, having just less than 1 megawatt in Pearl City, Hawaii. I think some of the remaining sites have incremental power available above and beyond what we have today provisioned.

We've got written confirmation from utilities that there is extra power, and we place some value, not the same value as fully provisioned power, but that is part of the back-and-forth on our negotiations with the potential buyers. The geographic footprint remains diverse, and I do believe that most of the remaining facilities will eventually transact. It's really only been a few quarters since these facilities were fully converted. And I think there are probably some private equity investors waiting to see kind of I Squared's business strategy and potentially replicate it.

So I think over the next several quarters we will be able to transact or more. The final point is based on Cogent's North American NOL inventory, I think it may be optimal for us not to transact in North America until early next year when we will have some additional NOL capacity to offset taxes.

Michael J. Funk
BofA Securities, Research Division

Understood. Just really quickly, can you remind us please the total megawatts in the 14 remaining facilities?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so the price per megawatt that we transacted with I Squared was approximately $4.2 million a megawatt, and that inventory was 55 megawatts, roughly, and then the remaining footprint is about 55 megawatts.

Operator

Your next question comes from the line of Walter Piecyk with LightShed. Please go ahead.

Walter Paul Piecyk
LightShed Partners, LLC

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Dave, I want to go back to the first question. You gave a very comprehensive answer, but I just want to dissect it a little bit to understand it. On SG&A specifically, as it relates to synergies and then ongoing integration expenses. I know in Q1 you have your typical sales meeting. So I thought with, you know, with basically the ongoing synergy stuff, you might see a decline in Q2 that didn't happen.

But I think you said in that first answer that's because of ongoing integration expenses. I know you were talking a little bit more about gross margin, but I guess if we could just focus on SG&A, should that SG&A or is there more room for that SG&A to decline on an absolute basis as we conclude the rest of the year?

David Schaeffer
Founder, Chairman, CEO & President

The answer directly to your question is yes, it will decline sequentially into the third quarter and the fourth quarter. Embedded in that SG&A number, in addition to the sales meeting in the first quarter and the increase in employee load due to FICA matches, which do max out and typically go down. But in addition, in the second quarter, we had an accelerated rate at which we ended integration projects. There are still some ongoing, but at a much reduced rate.

And we took out 6% of our sales force. Rather than many companies which put out a press release of what they're intending to do, and then the expenses follow, we took a slightly different approach and took those employees out on a very tactical basis that were related to many of these integration projects. There were severance costs. Those terminations did not all occur early in the quarter, and we would expect to see a flow-through in SG&A improvement in both Q3 and Q4.

Walter Paul Piecyk
LightShed Partners, LLC

Yes, that makes sense. And then on the IP addresses, growth seems to have stalled out a bit. So I guess it goes back to the age-old question. Kind of given the debt leverage, I know you just kind of detailed what you hope for in the data centers, but like, why not just sell these things now? It doesn't seem like it's providing any actual -- at least on a sequential basis, right? And maybe things will kick back in the second half of the year, but I guess, just why not sell these IP addresses? I know the prices are down, but it's not like you're seeing good lease revenue growth, and it obviously could help with the debt leverage?

David Schaeffer
Founder, Chairman, CEO & President

And listen, we are very focused on reducing our leverage. We understand that as a result of the Sprint acquisition, our leverage increased, and there are really three major tools that we have to improve that leverage. The sale of assets is one of those. The growth in more profitable business is more impactful. And then finally, the reduction in costs. We look at the IP addresses and we have leased out approximately 15.2 million of the total 37.8 million that we have.

On a year-over-year basis, the revenues associated with IP address leasing grew 18.1%. That's a pretty healthy growth rate. Yes, on a sequential basis it only grew at 0.5%. We will focus on growing those revenues. I don't believe in today's market we will maximize value by selling them. I do believe we maximize value to Michael's question around -- the remaining 10 data centers and generating meaningful proceeds to delever. So I actually view our path to delevering as working.

We are basically 6.2x levered today. And that is a material improvement. I think that rate of improvement will accelerate due to further sales and growth in our EBITDA. You know, as these integration programs complete, definitely by year-end, but are substantially complete now, that flows through. And the fact that 82% of our incremental sales in the quarter were on-net, it allowed us a nearly 1% improvement in the entire installed base.

We are definitely not back to where Cogent was pre-Sprint, which was 76% on-net and enjoying 40% margins without a subsidy payment from T-Mobile. We are keenly aware of the fact that those subsidy payments from T-Mobile will end in about 2 years or less than 2 years. And we need to be able to grow EBITDA. And I think the IP address incremental leasing from this point will be a tool in helping us do that.

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Walter Paul Piecyk
LightShed Partners, LLC

I hope to see that. And just one last one, Dave, if you don't mind. With the EBITDA declining this quarter, like at a time when you're trying to do the refi, what should we expect in terms of what that rate would look like so we can kind of factor that into our cash burn analysis?

David Schaeffer
Founder, Chairman, CEO & President

So as I said, our EBITDA actually sequentially improved quarter-over-quarter.

Walter Paul Piecyk
LightShed Partners, LLC

It always does in Q2 because of the reduction in expenses.

David Schaeffer
Founder, Chairman, CEO & President

Right. But we did have these extraordinary expenses that were unique to this quarter with a six-month...

Walter Paul Piecyk
LightShed Partners, LLC

It declined year-over-year. I'm just questioning how that impacts the refi and what rate you might get?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so we have taken a number of steps to improve our financeability and cost of capital. One of those was the entry into the supplemental indenture and the expansion of our secured capacity. So we are going to be replacing the unsecured notes with secured. That typically lowers your cost of capital. Offsetting that is the fact that our current secured debt is trading at a discount. Witness the fact that we bought it back for $0.902 on the dollar, resulting in a $13.4 million gain in the quarter.

I think that's an indicative cost of capital, so the yield to worst on those notes is about 8.8%, 8.9%. We are working with bankers to determine the optimal enhancements to our notes to potentially lower that cost of capital. I think it's premature for me to announce a rate. Ultimately, the market will set that. And then the final point is since those 2032 notes were issued, treasury rates on the comparable benchmark are up nearly a full percentage point. So it is absolutely reasonable that we're going to be paying more for our capital, but I'm not in a position today to give you a rate other than to look at where the current secureds trade.

Operator

Your next question comes from the line of Nick Del Deo with MoffettNathanson. Please go ahead.

Nicholas Ralph Del Deo
MoffettNathanson LLC

First, Dave, on the sales force, it looks like a lot of the headcount reductions you had in the quarter were affected the sales force. Sales productivity went up, so I assume that was concentrated in lower-performing salespeople. But I guess prospectively, you know, as you're looking to obviously grow your revenues, how do you think about the current size and composition of the sales force relative to what you need?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so roughly about 40% of the headcount reduction was salespeople. We have been very disciplined about managing out underperformers, and we had some remaining former Sprint salespeople who were

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here primarily to transition and maintain the relationship with those remaining Sprint customers. We took a much more disciplined approach to managing those individuals out. They were underperforming.

They had been given, I guess, a pass on our normal discipline mechanisms and turnover rules, and we implemented those more evenly in the quarter. I think in terms of the size of the sales force, it is probably -- needs to be about where it is today. Like one of my board members always jokes, you know, Stalin quote there, "Fewer Russians after World War II, but better Russians." I'm not sure I'm ready to go there with my sales force.

But, you know, the idea that we need to maintain productivity, you know, a metric that we look at probably even more important than the productivity is our cost per dollar of revenue acquisition. Ever since the Sprint acquisition, that number had gone up. It is materially coming down with this emphasis on productivity and on-net services. I'm not in a position to give you an exact headcount number, but I think it's probably in the 500 range feels about right.

So our Corporate market is clearly growing slower than it historically had and has never fully recovered from the pandemic. And I don't see it probably recovering at this point. I think it's time to stop talking about the pandemic. Whereas with the added ability to sell wavelengths almost exclusively through the NetCentric sales team, you know, less than 5% of wavelength sales have been to Enterprise and about 10% to Corporate.

It's not zero, but it is a very small base. It's mostly NetCentric customers. That's where we need to allocate more resources, so I do think you'll see a continued shift. Most of the sales force turnover has been on the Corporate side.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay, okay, that's helpful, thank you. One other question, thinking about waves. Seems like everybody across the connectivity space is talking about a step up in demand from neoclouds that really exploded on the scene in the past couple years. So I guess, how would you characterize the demand that you're seeing from that vertical? And what are you doing to make sure that your sales force is in front of those customers, many of which are newer, to educate about your services and be able to capitalize on that opportunity?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so we actually have a focused neocloud effort. We've identified those accounts. We've allocated them to more experienced reps. We have had great success with all of the household names, and I think we will increase our percentage of their purchases as we demonstrate the ability to provision and the ability of the service to deliver high reliability after it's provisioned.

I'm always reluctant to mention names that sometimes can offend customers. But the companies that are rumored to be going public, those that are public are already today Cogent wave customers. I encourage investors to do channel checks and reach out to customers. I can't disclose your name. You know the customer can clearly give an opinion on Cogent.

What I will say though is most of the AI spend is announced, but not yet deployed. So even though probably $1 trillion of capital has been deployed in AI infrastructure, only a small percentage of that trillion is actually in production being used for LLM creation or inference. There's an expectation that over the next 4 years there'll be a total of $7 trillion invested. But it's a little bit like a jigsaw puzzle where all the pieces need to come together before it's complete.

And for many of these neoclouds, they are either waiting on GPUs, they are waiting on data center capacity, they are waiting on power. There could be rare cases, I know of one specific case of a large data center in North Dakota that's relatively proximate to our network where the neocloud is desperate to get wavelengths because they have power, but unfortunately there's no fiber today constructed between

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where their data center is constructed and the nearest network, turns out to be Cogent, to get them back to major markets.

So, I would expect in that case, that last mile, and it's a lot more than a mile, is probably going to take a lot longer than 3 or 4 months to permit it and construct. We are not going to do that. It will get done, and that backlog of waves will then be available. But they've already told us how many they need. We beefed up our network to deliver that. I mean, that's just an anecdotal example.

Operator

Your next question comes from the line of Frank Louthan with Raymond James. Please go ahead.

Robert Palmisano
Raymond James & Associates, Inc., Research Division

Dave, this is Rob on for Frank. So, you know, obviously, you know, you were just talking about the wave business. You spoke to it a bit here, you know, earlier remarks, what are some things that you think you can do in order to drive more sales there as it definitely appears the market is rising, and then, what do you need to do to improve the legacy business from here?

David Schaeffer
Founder, Chairman, CEO & President

Yes. Hey, thanks for both questions, Rob. So, you know, I think first of all, the best way to win any business, legacy or wave, is provide the best value in the market. Now, as I've commented before, value can mean price, it can mean location, it can mean speed to install, it can mean reliability. And your reputation is built order by order. In many ways, one of the most encouraging numbers in what we reported is the fact that 77 existing wavelengths in the quarter were upgraded to larger capacity. That kind of demonstrates as someone who dipped their toe in the water with Cogent now is feeling comfortable to upgrade and take more locations. We do have the broadest footprint. We have the ability to provision quickly.

And because of our network architecture, we have greater reliability. 90% of Cogent's routes are unique to Cogent. We do know that for the areas of Sprint where they did not have fiber and we have used leased fiber, the fiber often comes from our wavelength competitors and the reliability on those leased routes is far below the reliability quality we deliver on our own routes.

So I think it's just proving out all of those components. And again, while we're extremely transparent and granular, I would encourage you to talk to the couple of major competitors that we have for wavelengths and really find out if the wave demand that they are talking about is actually producing revenue today the wavelength that they're producing revenue today as opposed to wave demand that's effectively in the funnel. I totally concur that that wave demand is there. It's the question of converting it quickly enough, and because Cogent is a new entrant, it's very visible. We've gone from not even being considered on a third-party ranking service to now being in the second tier of providers.

Our expectation is in the next year or so we'll break into that top tier, and eventually we'll be 1 of the 2 or 3 major nationwide wave providers. For the Cogent legacy services, I think there's three answers to the question. For off-net services, there is a proliferation of fiber, which is allowing us to serve those locations, but we're going to do it with profit discipline and it is not our primary focus, but there are more locations. Cogent has never sold off-net services on non-fiber infrastructure.

We did inherit some from Sprint and then rapidly decommissioned as much of that as our contracts allowed. For our on-net footprint for Corporate users, I will fully acknowledge that while the market has improved from the depth of vacancies at the pandemic, the office market across North America is still far weaker than it was pre-pandemic, and number of work days in the office remain at about 60% of pre-pandemic levels. So, while I think we are growing market share in our on-net footprint, we understand that that footprint has these structural constraints.

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And then to that final point on that market segment, we don't intend to build into smaller or less traffic-rich locations. And then finally, on our NetCentric business, which is by far and away the biggest part of our legacy business, it's about 46% of our total revenues and it's 98% of our traffic. There we continue to gain market share with 1,953 on-net data centers. That, I think, is a testament to the breadth of our network. 308 markets, 58 countries.

And the fact that traffic grew sequentially 3% and year-over-year traffic accelerated to 16% is a demonstration of we're gaining share in the IP transit market and expect that to continue to grow, and considering we're already the largest player in that market, I think it's impressive that we're gaining share. If you compare our traffic growth numbers to either Cisco Visual Networking Index or OpenVault Data, reliable third parties, we're growing substantially faster, almost double the rate of the market. We're the biggest player in the market. And considering we're the biggest player in the market, I think that's still a testament to our ability to have market share to gain.

Operator

Your next question comes from the line of Ana Goshko with Bank of America. Please go ahead.

Anastazia Goshko
BofA Securities, Research Division

I know this call is going long, so I'll try to just have some quick ones for you. So first of all, the proceeds from the data center sales on a net basis, I think was $224 million. And it looks like you spent $125 million to buy back the bonds at a discount, which is a good thing. But it leaves about $100 million simple math. So on that remaining $100 million of proceeds, are you going to go and try to buy back more of the existing secured at a discount? Or can you take that money and just repay the 27s, that's going to reduce the total amount of refi that you need to do? That's my first question.

David Schaeffer
Founder, Chairman, CEO & President

Yes, and first of all, in many ways, Ana, you can ask as many as you want, because your question may be the most important to our investors on this call. So I think we are expecting to try to raise less than the $750 million and use some of the proceeds to do that. We may be in the market to buy back some of the 27s while their discount is not as pronounced as it is on the 32s. I believe we have met our contractual obligation under the supplemental indenture to the holders of the 32s. We may also buy some additional 32s, but I think our primary objective over the next couple of weeks is to try to shrink the size of the new offering.

Because to Walt's question, we understand it's going to cost us more and, the kind of time value of the incremental payment versus where we capture an immediate benefit kind of washes out. So there's not really, I think, a big cash savings doing one over the other. I think secondly to Michael's question earlier, we're also going to think about these additional proceeds.

And I think we've demonstrated to the debt markets, we are extremely committed to delevering and we intend to use more proceeds to reduce debt.

Anastazia Goshko
BofA Securities, Research Division

Okay, so that was my second, thank you. So that was my second question. So the data centers that are still being marketed, those are technically outside the restricted group for the debt. So I guess one, are you committing to use those sales proceeds to repay debt in the future? And then, you addressed or mentioned that you're in discussion with potential underwriters about enhancements to what the new bond will be. So is that part of the enhancements that you're discussing? Is the commitment of future data center sale proceeds to the data group?

David Schaeffer
Founder, Chairman, CEO & President

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Yes, I'll actually kind of answer those together, even though they were two questions. So you are absolutely correct that the data centers and the burn associated with them sit outside of the borrower group. So our intention when we created this structure at the acquisition of Sprint was not to take collateral away from the current bondholders at the time, but rather to shield them from the carry cost of those data centers and be forced to use restricted payments capacity out of the borrower group to fund that burn.

I think that strategy was bondholder-friendly, and for the more sophisticated bondholders, I think they understand that. I think then secondly, our willingness to go ahead and voluntarily contribute the proceeds into the borrower group. And remember, we contributed 100% of the net proceeds into the borrower group. While they're not all guaranteed to buy back debt, it definitely reduces net leverage at the borrowing group, and we've already spent, publicly disclosed, more than half, and it is our intention to use most, if not all, of that to just reduce gross debt as well as net at the borrower group.

In terms of the other data centers, we are definitely receptive to contributing those proceeds into the borrower group. To be candid, we have ample RP capacity to cover the burn. And since we have dramatically reduced our dividend expense, we have a great deal of flexibility. And that is something that ultimately will be part of the discussion between the underwriters. And while the underwriters are intermediaries, ultimately, it's the holders. And if new bondholders felt that it was additive to make that affirmative commitment, it is absolutely something that the company will consider.

Anastazia Goshko
BofA Securities, Research Division

Okay. And then just finally, I think a bigger picture question for the whole structure. So CapEx was still more elevated this quarter. I think you already asked and addressed that. But you're not generating positive free cash flow. So obviously anyone buying kind of a new credit or a new piece of debt is going to want to see that there's positive free cash flow to be able to service the debt. So could you just give us kind of the plan for getting to kind of sustained positive free cash flow?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so I think it comes down to four inputs. First, our ability to grow desirable revenues. To our ability to continue to expand margins. I believe it is almost unprecedented. I have not seen an example ever of a public company that had 12 consecutive quarters of revenue decline and sequentially in 11 of those 12 quarters grew its EBITDA on an absolute basis in face of those declines. Now the tools we had to use were mostly cost savings. We were helped in this effort by the transition and subsidy payments from T-Mobile, and we understand that in 2 years, those payments go away. And since we're not issuing a 2-year debt instrument, we need to be able to show that there is a path to free cash flow without those payments.

Inclusive of those payments, we are okay on cash flow, but not including them, it is challenging. So we do need to continue to grow EBITDA. Third, to kind of Walt's question around sales and trying to raise money, we are absolutely committed to that again.

That is temporary. It is helpful. We have already demonstrated that we are going to take our leverage down. But, I don't think we can asset sell our way to perpetual cash flow growth. And then finally, we need to not only generate free cash, and CapEx reduction is part of that story.

We've had both year-over-year and sequential reductions. We are in a challenging environment around price increases for equipment and it's unprecedented, but I do think we have some levers to pull to continue to be very capital disciplined. And again, I think our capital intensity per dollar of incremental revenue remains probably the best in the telecom industry. And I know that's a very bold statement to make, but I think if you look at Cogent's ROIC, since it went public in 2005, we've had an ROIC that's been substantially above our incremental cost of capital for that entire period.

We understand that not including the subsidies from T-Mobile, that looked bad after the acquisition. We have worked diligently to spend that capital. You know, we took heat, for example, in spending $100

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million on the 125 Sprint facilities of which 24 were earmarked for sale. We obviously got way more than that back by selling just 10 of them.

So, we're going to continue to be very capital focused. And I do think that will help us lower our cash burn and become cash flow positive more quickly. I know it was a long-winded answer to your question, but I get it. Free cash flow is what investors care about.

Operator

Your next question comes from the line of Michael Rollins with Citi. Please go ahead.

Michael Ian Rollins
Citigroup Inc., Research Division

Curious to go back to your comments about the network traffic growth, the acceleration to 16%. I'm curious if you could talk more about the significance of that between what you're seeing coming out of the corporate building portfolio or the multi-tenant buildings relative to data centers and what that means for the future, Q times Q math, to try to grow that transit revenue for Cogent on an annual basis?

David Schaeffer
Founder, Chairman, CEO & President

Yes, so two parts to the answer, Mike. First, our Corporate business in the multi-tenant office on-net buildings and off-net and the Enterprise business is irrelevant to our total traffic. It's only a couple percent of Cogent's traffic. 97%, 98% of our traffic comes from data centers, from NetCentric customers. Our end-user footprint is just not big enough relative to the size of our transit footprint. Now, within our transit customer base, we have about 7,500 access networks. We have about 6,000 content-generating businesses that drive that traffic growth and that 16% year-over-year. What we are seeing are two key things happening. Total traffic growth accelerating. But actually on a bit transferred basis, it's accelerating even faster.

So we bill our services on a peak utilization, either 90th or 95th percentile. So we throw out either 36 or 72 hours of peak traffic and bill on that variable. And we only bill on the high of the directions, meaning in or out. For our access network customers, it's mostly in. For our content producers, it's mostly out.

Three-quarters of all Cogent's traffic remains completely on our network. And if traffic patterns were not shifting, then the kind of difference between average and peak would not be relevant. But what is happening with the deployment of genic AI is we are seeing a market shift and end-user traffic becoming materially more symmetric. The result of that is for our access networks, they're generating more bits that they are sending us, where previously they had sent us very low volumes. It may not immediately result in an increase in revenue, but over time it will.

And then conversely, for the content providers who are providing inference, they are now receiving a lot of bits that they historically had not received, and those also do not immediately generate more revenue. But I do believe that as the internet reverts back to a more symmetric network, which was what it was at its inception, we will see a meaningful correlation between traffic growth and revenue growth.

Finally, the rate of price decline is moderating, and it is moderating in part because of the equipment constraints of the entire industry. And we are very fortunate in that we are only about 27% utilized in our IP network and have substantial inventory to sell without incremental capital where many of our competitors don't have that volume of inventory, have to go out and deploy capital, and in many cases, they can't even get the equipment if they want to deploy the capital. So I think it's all a good setup for us increasing our market share in that market.

Operator

And that concludes our question and answer session. I would like to hand it back to Mr. Dave Schaeffer for closing remarks.

David Schaeffer

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Founder, Chairman, CEO & President

I want to thank everyone. I know today's call went a bit long, but I think these were extremely important topics for us to cover. I really appreciate investors' time and attention, and we'll be available at a few conferences to continue these discussions over the next week or so. Take care all. We'll talk soon. Bye-bye.

Operator

Thank you. And this concludes today's conference. Thank you all for joining. You may now disconnect.

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