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Earnings Call

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Presentation

Operator

Good morning, and welcome to the Cogent Communications Holdings Second Quarter 2023 Earnings Conference Call. As a reminder, this conference call is being recorded and it will be available for replay at www.cogentco.com. A transcript of this conference call will be posted on the same 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 the call over to Mr. Dave Schaeffer, Chairman and Chief Executive Officer of Cogent Communications Holdings. Please go ahead.

David Schaeffer
Founder, Chairman, CEO & President

Thank you, and good morning to everyone. I'm going to start by apologizing for the possible length of this call. There are a number of new topics that we are going to be chatting about. But we will try to be complete in answering everyone's questions.

Welcome to our second quarter 2023 earnings conference call. I'm Dave Schaeffer, Cogent's Chief Executive Officer. With me on this morning's call is Thad Weed, our Chief Financial Officer.

Hopefully, you have had a chance to review our earnings press release and our 10-Q for the quarter. Our press release includes a number of historical quarterly metrics that we present on a consistent basis every quarter. We've included a number of additional metrics this quarter related to our acquisition of Sprint, and we will continue to provide these metrics each quarter going forward. Our press release metrics now include Corporate, NetCentric and Enterprise revenue and customer connections and metrics related to the Sprint network assets.

Now for a few summaries around our results. We closed our acquisition of the Sprint Wireline Business purchased from T-Mobile on May 1, 2023. This transaction significantly expanded our network, our customer base, our employee talent and materially increased the scope and scale of our business.

We now have an annualized revenue run rate in excess of $1 billion. We acquired a number of large enterprise customers, many Fortune 500 companies. Cogent -- the customers are larger than the typical customers and Cogent's corporate customer base. We acquired a significant fiber network of owned assets and owned real estate facilities. We acquired a number of right-of-way agreements and relationships.

It would have been virtually impossible to assemble the set of assets on our own. We hired many valuable experienced employees from the wireline business. The majority of these employees have been with the company for over 22 years. We acquired a network with a current value of over $1 billion for $1.

We received a $700 million cash commitment from T-Mobile to help offset the operating losses of the business that we acquired. $350 million of this will be paid in the first year in monthly installments of $29.2 million per month. In months 13 through 42, we will receive monthly payments of $8.3 million per month or approximately another $350 million.

We're very optimistic about of the cash flow generating capabilities of the combined operation. Our recent analysis shows immediate and substantial cost savings will be achieved in multiple areas. Many of these will exceed our initial expectations from the due diligence that we conducted prior to closing.

Our legacy Cogent business had a very good quarter. Our total Cogent legacy revenues grew by 5.3% sequentially and 9% year-over-year. Cogent's legacy NetCentric revenues grew by 11.1% sequentially and 19.3% year-over-year. Cogent's legacy corporate revenues experienced growth of 0.7% sequentially and 0.6% year-over-year.

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Cogent's legacy EBITDA was a record $61.7 million for the quarter and an EBITDA margin of 38.1%. This is the first time in Cogent's history that its business has achieved EBITDA in excess of $60 million. A sequential EBITDA margin increase in the legacy business was 160 basis points.

Now, for a couple of comments around the transaction and the purchase price. Under the purchase agreement, we paid $1 for the wireline business that we acquired. Under the working capital provisions in the agreement, we paid $61.1 million and were provided $47.1 million in acquired cash, for a total net payment of $14.4 million.

Under the purchase agreement, we also will receive payments from T-Mobile for 50% of the assumed short-term lease liabilities in 4 equal monthly payments at the end of the IP transit service agreement period, this being months 55 through 58. Currently, those payments are estimated to total $57.1 million.

This transaction resulted in a material bargain purchase gain. In connection with the accounting for the acquisition, we recorded a gain on a bargain purchase of $1.2 billion, or approximately $24 per share. Included in the $1.2 billion gain is the discounted present value of the $700 million IP transit services agreement with T-Mobile.

We had initially expected to account for the IP transit services agreement on a straight-line basis as revenue over the contract term. However, in consultation with our auditors and with the Securities and Exchange Commission via a preclearance process, we concluded in conjunction with the SEC in early August, it was determined we should report these as consideration from T-Mobile related to the acquisition, and therefore, not as revenue, resulting in the purchase gain.

The acquired network, including the real estate assets, fiber routes, right-of-way agreements and network equipment was appraised by an independent Big 4 accounting firm at a valuation of approximately $1 billion. The total fair value of the net assets acquired was $569 million. So including the net present value paid to us by T-Mobile under the IP services agreement of $596 million, the $569 million plus $596 million totals approximately a $1.2 billion bargain purchase gain.

Now, for a couple of comments on our anticipated synergies and cost savings. Over the next 3 years, we continue to believe that we will achieve annual cost savings in 3 areas: approximately $180 million annual run rate savings in the optimization of the North American network, a $25 million savings annualized on the Sprint International Wireline network, and an additional $15 million in reduced operation and maintenance expenses for the legacy Cogent network.

We also anticipate achieving additional SG&A savings and other cost and revenue synergies over the next several years. Our recent progress in achieving these cost savings is very encouraging and we intend to surpass the targets that we have laid out.

Now, for a couple of comments on revenue and our new class of customers. Our revenue for the quarter increased by 56.1% to $239.8 million and an increase by 61.5% on a year-over-year basis. Revenue from the Sprint Wireline business was $78 million for the 2-month period from May 1, 2023 till June 30, 2023, the quarter-end.

All amounts related to the wireline business that we disclose on this call are for a 2-month period in the second quarter of 2023. Excluding the $78 million of revenue from the wireline business, our revenues would have increased 5.3% sequentially and 9% year-over-year.

In connection with the Sprint acquisition, we are now reporting revenues for our Enterprise customers. We've classified revenues we acquired from the Sprint Wireline business as 52% Enterprise, 32% Corporate and 16% Netcentric, using definitions that Cogent has historically used. We define Enterprise customers as large corporations, typically Fortune 500 companies with greater than $5 million in annual revenue, running large wide area networks which typically encompass from several dozen to several hundred sites. These enterprise customers typically purchase services in multiple locations on a discrete basis.

Our sales force productivity substantially increased from the 4.0 we reported last quarter, that is installed orders per full-time equivalent, to 9.2 orders per FTE in this quarter. Included in rep productivity for the

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quarter were 9,000 units and $7.3 million of revenue sold to T-Mobile outside of the IP transit agreement under a traditional commercial services contract.

The revenues from these commercial services contracts are in addition to the $700 million IP transit services agreement. Adjusting for these units, our rep productivity would have been approximately 4 orders installed per rep per month, the same as last quarter. Rep productivity includes enterprise customer sales reps that we acquired and are still being trained on Cogent's systems and processes.

Sales force size and composition. In connection with the Sprint acquisition, we hired a total of 942 total employees. Inclusive in this, are 75 quota-bearing sales reps and a total of 114 people in the sales organization. The wireline business included many talented, experienced and dedicated employees. This represents a tremendous asset to the combined company going forward. The average tenure of these wireline employees has been over 22 years.

During the quarter, we increased the number of our sales reps by 85, a 15% sequential increase in our sales force. We ended the quarter with 647 sales reps, 567 full-time equivalent reps, a 5% sequential increase in our full-time equivalent sales reps.

Now, for a comment on the sale of new products, our wavelength and optical transport products. In conjunction with the acquisition of the wireline business, we have expanded our offerings to include optical wavelength services and optical transport over our fiber optic network. We are selling these wavelength services to our existing customers, the acquired customers of Sprint and to new customers.

These customers require dedicated, deterministic optical transport connectivity without a capital expense or ongoing operational expenses in owning and operating a network. Our wavelength revenue for the quarter was $1.6 million and there were 414 discrete wavelengths connected in the quarter at quarter-end.

We have sold these services in 35 discrete locations with shorter provisioning cycles. We have connectivity to approximately 200 locations that still have longer provisioning cycles. Over a 2-year period, we expect to be able to offer wavelengths in over 800 carrier-neutral locations in North America.

Now, for a comment on our expanded footprint. Our Sprint acquisition materially expanded our network footprint. We have added 18,905 route miles of owned intercity fiber, 1,257 route miles of owned metropolitan fiber. We will reconfigure 44 acquired Sprint facilities and add 44 new data centers to our footprint. We have already reconfigured one of those facilities. Our total carrier-neutral footprint is 1,526 facilities and there are 56 Cogent data centers in addition to that.

We have converted one of the legacy Sprint switch sites and we are in the process of completing those additional conversions. We also added approximately 11,400 route miles of intercity IRU fiber and approximately 4,500 route miles of metropolitan IRU fiber to the Cogent network. Some of these are redundant with fiber that we already have and will be eliminated as an area of cost savings.

Now, for a comment on the transition services agreement. On the closing date, we entered into a transition services agreement with T-Mobile for certain services in order to ensure the orderly transition of the wireline business. These transition services are related to information technology support, back office, finance, real estate, facilities management, vendor and supply chain management, including processing of invoices and paying wireline vendors on our behalf as costs, and certain human resources services are [concerned].

We are providing services under a reverse transition services agreement to T-Mobile that include information technology and network support, finance and back-office and other wireless business support.

During the quarter, we recorded $118.8 million due to T-Mobile under the transition services agreement. These are primarily expenses related to the reimbursement of vendor invoices made on T-Mobile's behalf for the benefit of Cogent. We recorded approximately $7 million due from T-Mobile under the reverse transition services agreement.

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The amounts billed under the TSA and reverse TSA are due in 30 days from receipt of invoice. As of June 30, 2023, under these agreements, we owed T-Mobile $118.8 million and T-Mobile owed us $7 million.

For a comment on our dividend and return of capital program. During the quarter, we returned $44.9 million to our shareholders through our regular quarterly dividend program. Our Board of Directors, which routinely reflects on our business and recognized the strong cash flow generating capabilities and investment opportunities, inclusive of the Sprint acquisition, decided to increase our dividend by another $0.01 per share this quarter sequentially, raising our quarterly dividend from $0.935 per share to $0.945 per share. This increase represents the 44th consecutive sequential increase in our regular quarterly dividend, which is now growing at an annualized rate of 4.4%.

A comment against expectations. Now that we are a combined company with the Sprint Wireline business, we anticipate long-term annual revenue growth rates of 5% to 7% for the combined business and we expect EBITDA margin expansion to be approximately 100 basis points annually.

Our revenue and EBITDA guidance targets are intended to be multi-year and should not be used as specific quarterly or annual guidance.

Now, I'd like to turn the call over to Thad Weed, our CFO, to read the safe harbor language and provide some additional operating and specific metrics to our performance in the quarter. Following our remarks, we will open the floor for questions. Thad?

Thaddeus G. Weed
CFO & Treasurer

Yes. Thank you, Dave, and good morning to everyone. This earnings conference call includes forward-looking statements and 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 measurement in our earnings releases that are posted on our website at cogentco.com.

Some comments on revenue by Corporate, NetCentric and now wavelength and noncore. We analyze our revenues based upon network connection type, which is on-net, off-net, wavelength services and noncore services. We also analyze our revenues based upon customer type. And as Dave mentioned, we now classify all of our customers into 3 types: NetCentric, Corporate and Enterprise customers.

Our Corporate customers buy bandwidth from us in large multi-tenant office buildings or in carrier-neutral data centers. And these customers are typically professional services firms, financial services firms and educational institutions located in multi-tenant office buildings who are connecting to our network through our data center footprint.

Our NetCentric customers buy significant amounts of bandwidth from us in carrier-neutral data centers and include streaming companies, content distribution service providers as well as access networks who serve consumer and business customers.

Our Enterprise customers generally purchase our services on a price per location basis and are typically larger than our legacy Cogent customer base.

On revenue classifications -- reclassifications. In connection with the Sprint acquisition, we reclassified a small portion of legacy Cogent revenue to Enterprise revenue and Enterprise customer connections. We classified 300,000 of legacy monthly recurring revenue to Enterprise revenue and 387 legacy Cogent customer connections to Enterprise customer connections.

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Corporate business. Our Corporate business continues to be influenced by real estate activity in central business districts. Two key statistics, including the level of card swipes in buildings and leasing activity indicate that year-to-date the real estate market and leasing activity in central business districts where we operate has seen some improvement but has not returned to pre-pandemic levels in most geographic regions. We continue to remain cautious in our outlook for our Corporate revenues given the uncertain economic environment and other challenges from the pandemic.

Our Corporate business represented 46.3% of our revenues this quarter and our quarterly Corporate revenue increased year-over-year by 30.2% to $111 million from the second quarter of last year and was a sequential increase of almost 30%. We have 61,284 Corporate customer connections on our network at quarter-end, and that was a sequential increase of 37.5% and a year-over-year increase of 35.9%.

Corporate customer connections from the wireline business were 17,571 at quarter-end. Corporate revenue from the wireline business was $25.2 million. Legacy corporate customer connections decreased by 1.1% sequentially and by 2% year-over-year. Legacy [Technical Difficulty] revenue increased modestly by 0.1% sequentially and by 0.6% year-over-year.

For the quarter, the sequential impact of USF on our revenues, which some is included in the wireline business, was a positive $6.8 million and a positive year-over-year impact of $7.6 million. The USF taxes related to the wireline business was $7 million for the 2-month period in this quarter.

On NetCentric. Our NetCentric business continues to benefit from continued growth in video traffic and streaming. For the quarter, our network traffic growth accelerated and was up 4% sequentially and up 21% year-over-year. Our NetCentric business represented 36.5% of our revenues this quarter and grew sequentially by 28.9% to $87.6 million. That was a 38.4% year-over-year growth.

We had 66,711 NetCentric customer connections on our network at the end of the quarter, an increase of 26.2% sequentially and year-over-year 31.6%. NetCentric customer connections from the wireline business were 5,607 at quarter-end and the related revenue was $12.1 million.

Legacy Cogent NetCentric connections increased by 15.6% sequentially and by 20.6% year-over-year. Our legacy Cogent NetCentric revenue increased sequentially by 11.1% and by 19.3% year-over-year.

Our Enterprise business was 17.2% of our revenues this quarter and we had 22,435 Enterprise customer connections on our network at quarter-end. Enterprise revenue from the wireline business was $40.7 million and Enterprise customer connections were 23,034.

Revenue and connections by network type. Our on-net revenue was $127.7 million for the quarter, which was a 9.9% sequential increase and 14% year-over-year. On-net customer connections was 92,846 at quarter-end. On-net revenue from the wireline business included 2,546 on-net customer connections and $4.1 million.

Our legacy Cogent on-net revenue increased sequentially by 6.4% and by 10.3% year-over-year. We serve our on-net customers in 3,227 total on-net multi-tenant office and carrier-neutral data center buildings. We continue to succeed in selling larger 100 gigabit connections and 400 gigabit connections in selective locations, which has the impact of increasing our on-net ARPU, which again occurred this quarter.

Our off-net revenue was at $102 million for the quarter. That was a sequential increase of 173.5% and a year-over-year increase of 181.1%. Off-net customer connections were 38,762 at quarter-end. Off-net revenue from the wireline business included 24,243 off-net customer connections at quarter-end and was $63.9 million.

Our legacy Cogent off-net revenue increased sequentially by 2.1% and by 4.9% year-over-year. Including the new off-net locations from the wireline business, we now serve off-net customers in over 28,000 off-net buildings and these off-net buildings are primarily located in North America.

Wavelength revenue was $1.6 million for the quarter and 414 customer connections. Wavelength revenue from the wireline business was 404 customer connections and $1.6 million.

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Lastly, noncore revenue. Our noncore revenue was $8.6 million for the quarter and 19,408 customer connections. Noncore revenue from the wireline business totaled 19,021 customer connections and was $8.4 million.

Comments on pricing. The average price per megabit for our installed base increased sequentially by 12.3% to $0.28 and declined year-over-year, but by only 4.6%. The average price per megabit for our new customer contracts for the quarter was $0.10, which was the same price per megabit for new customer contracts as last quarter and a year-over-year price decline of 31%.

Selling larger connections results in a change in our connection mix and can have the effect of lowering our average price per megabit at a greater rate than changes in our ARPU.

With respect to ARPU, our on-net and off-net ARPUs for the quarter both increased. Our on-net ARPU increased sequentially by 3.5% from 467 to 483, and our off-net ARPU increased sequentially by 42.2% from 910 to 1,294, primarily from the pricing impact of these off-net customers we acquired in the wireline business.

Churn. Our sequential churn rates for our on-net and off-net customer connections for the combined business increased from the impact of the wireline business. Our legacy Cogent churn rates were relatively stable. Our on-net unit churn rate was 1.4% for the quarter compared to 1% last quarter, and off-net was 1.6%, also 1% last quarter.

On EBITDA and EBITDA margin. We reconcile our EBITDA to our cash flow from operations in each of our quarterly earnings press releases and now incorporate a component from our cash flow statement. We incurred $0.7 million of Sprint acquisition costs during the quarter.

Our EBITDA for the quarter, including Sprint acquisition costs and not including any payments from the IP transit services agreement decreased sequentially by $31.9 million and by $34.3 million year-over-year.

Our EBITDA margin decreased to 10.1%. Our EBITDA for the wireline business by itself for the 2 months was negative $37.6 million. Excluding the negative impact of the wireline business, our EBITDA would have been $61.7 million for the quarter. So the Cogent legacy business EBITDA, which was a 10% sequential increase and a 6% year-over-year increase, and that margin would have been 38.1%.

Now, EBITDA as adjusted. Our EBITDA as adjusted, as in the past few quarters, includes an add-back for Sprint acquisition costs and now includes cash payments received under the $700 million IP transit services agreement we have with T-Mobile. We billed for 2 months during the quarter, so $58.3 million under the IP transit services agreement during the quarter. And only one cash payment was due, so we collected cash of $29.2 million during the quarter.

Our EBITDA as adjusted for the Sprint cost and the IP transit services agreement, adding that, was $54.1 million for the quarter, which was a 22.5% EBITDA as adjusted margin. In subsequent quarters, 3 monthly payments under the IP transit services agreement will be included in our EBITDA as adjusted, and that will be a total of $87.6 million for the 3 payments.

If we had both of the payments, $29.2 million payments included in the EBITDA as adjusted for the quarter, our margin would have been about 35%. All amounts billed under the IP transit services agreement have been paid on time.

Some comments on foreign currency. Our revenue earned outside of the United States is reported in U.S. dollars and was about 18% of our revenues this quarter. About 11% of our revenues were based in Europe and 6% of our revenues were related to our Canadian, Mexican, Oceanic, South American and African operations. Sprint's Internet -- the wireline business international revenue was only about 3% of total wireline revenues.

The average euro to U.S. dollar rate, the average for this quarter so far is $1.11 and the average Canadian dollar exchange rate is about $0.76. If these averages continue for the remainder of the third quarter, we estimate that our positive FX impact on sequential revenues will be about $0.5 million and year-over-year a positive $2.3 million.

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Customer connections. We believe that our revenue and customer base -- or concentration rather. We believe that our revenue and customer base is not very highly concentrated, but it is more concentrated after the wireline business acquisition. Including that impact, our top 25 customers represented approximately 18% of our revenues this quarter. We acquired a number of larger enterprise customers with the wireline business.

On CapEx. Our quarterly CapEx was $37.4 million. Supply chain uncertainty caused us to shift our typical purchasing schedule for network equipment. These anticipatory investments are designed to ensure that we have satisfactory inventory levels of network equipment to accommodate our growth plans, including the conversion of data centers to Cogent data centers and including new wavelength product offerings from the Sprint acquisition and the interconnection of our 2 networks together in multiple locations and to meet customer needs.

Finance, leases and lease payments. Our finance lease IRU obligations are for long-term dark fiber leases and typically have terms of 15 to 20 years or longer on initial term and often include multiple renewal options after the initial term. Our IRU finance lease obligations totaled $331.5 million at quarter-end. There were no finance lease obligations acquired in the wireline business.

We have a very diverse set of IRU suppliers and have IRU contracts with over 320 different dark fiber suppliers. We acquired relationships with several new suppliers of dark fiber with the wireline business, and all of those IRU leases were treated as operating leases.

Fiber and network. In connection with our Sprint acquisition, we acquired numerous right-of-way agreements across the United States. These right-of-way agreements represent a significant acquired asset and would be extremely difficult to obtain on their own. We also acquired 482 technical buildings. One of those technical buildings has been converted to a Cogent data center and we will convert another 44 buildings to Cogent data centers.

We acquired a significant amount of owned dark fiber and significantly expanded our network. We acquired 19,135 intercity route miles of owned dark fiber, 1,259 metro route miles of owned dark fiber. So our network now consists of following with respect to fiber: 72,694 leased intercity route miles of dark fiber, and that's 11,376 from Sprint and 61,318 legacy Cogent intercity route miles; 22,556 leased metro route miles of dark fiber, that's 4,527 Sprint metro route miles; and 18,029 legacy Cogent metro route miles.

240,000 and 430 leased intercity fiber miles of dark fiber. This includes 122,648 Sprint intercity fiber miles and 117,782 legacy Cogent intercity fiber miles. Lastly, 74,577 leased metro fiber miles, dark fiber, and that's 32,346 from Sprint and 42,231 legacy Cogent metro fiber miles. It's a lot of miles.

Cash and operating cash flow. At quarter-end, our cash and cash equivalents and restricted cash totaled $244 million. Our $51.6 million of restricted cash is tied to the estimated fair value of our interest rate swap agreement at quarter-end. Our operating cash flow was $82.7 million for the quarter, 130% increase sequentially and a year-over-year increase of 140%, including net cash provided by operating activities with the amount due to T-Mobile under the TSA of $118.8 million.

Some comments on debt and our debt ratios. Our total gross debt at par, including our finance lease IRU obligations -- again, none finance lease obligations acquired with the wireline business -- the total was $1.3 billion at quarter-end and our net debt was $1 billion. Our total gross debt to trailing last [12] months EBITDA as adjusted was 5.63 at quarter-end and net debt ratio was 4.56.

Our consolidated leverage ratio as calculated under our note indentures, which is slightly different -- interest income is essentially counted under that calculation -- it was 5.3 for the quarter, which was a decline from 5.42. And our secured leverage ratio as calculated under the note indentures was 3.45, an improvement from 3.5.

On our swap agreement and in restricted cash. We are party to an interest rate swap agreement that modifies our fixed interest rate obligation associated with our $500 million 2026 notes to a variable interest rate obligation based on the secured overnight financing rate for the remaining term of our '26 notes. We record the estimated fair value of the swap agreement at each reporting period and we incur corresponding noncash gains and losses due to changes in market interest rates.

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At quarter-end, the fair value of the swap agreement increased by $1.3 million from last quarter to a liability of $51.6 million. We are required to maintain a restricted cash balance with the counterparty equal to this liability.

On bad debt and day sales outstanding. Our day sales outstanding for worldwide accounts receivable was 24 days. Most of the customers of the wireline business are billed in advance. However, they are billed in several billing cycles during the month. All legacy Cogent customers are billed monthly in advance. In the third quarter, we will be converting the billing of the wireline business customers to the Cogent billing platform and under the Cogent legacy billing cycle.

And at this point, I should mention that this will be the last quarter we will be speaking of the wireline business separately. It will be a total combined operation in the third quarter. And we won't be speaking about legacy Cogent and wireline business separately. It will be all combined.

Our bad debt expense was 2% of our revenues for the quarter. Net bad debt expense related to the wireline business was $3 million. And we were required under U.S. GAAP and the accounting rules to record accounts receivable at their book value absent any reserves. We had to re-establish those reserves, which was an unusual charge for bad debt related to the wireline business of $3 million for the quarter. If you exclude that impact, our bad debt expense would have been 1.1% of revenues, which is consistent with our historical trends.

Finally, I want to recognize and thank our worldwide billing and collection team members, including our new billing and collection employees from the wireline business for doing a fantastic job in serving our legacy Cogent customers and our new Sprint wireline customers and collecting from them. They are doing an amazing job.

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

David Schaeffer
Founder, Chairman, CEO & President

Thanks, Thad. I'd like to highlight a couple of strengths about our network, our customer base and our sales force.

Now for some NetCentric details. We continue to experience significant growth in our legacy NetCentric business. We are direct beneficiaries of the continued acceleration in over-the-top video and streaming, particularly in international markets.

At quarter's end, there were 1,526 carrier-neutral data centers and 56 Cogent-owned data centers directly connected to our network for a grand total of 1,582 data centers. This is more than any other carrier as measured by independent third-party research. The breadth of this coverage allows us to enable our NetCentric customers to better optimize their networks and reduce latency in connecting to their customers.

We expect to continue to widen our lead in this market and project to add an additional 100 carrier-neutral data centers per year to our footprint over the next several years. We also expect to convert an additional 44 of the Sprint technical spaces into Cogent data centers. To date, we have converted one of these facilities.

As of today, we are selling wavelengths with a rapid provisioning cycle in 35 carrier-neutral data centers. And with an extended provisioning cycle, we can sell wavelengths in over 200 carrier-neutral facilities. By the end of 2024, we anticipate being able to sell wavelengths in 800 or more U.S. carrier-neutral data centers with continued reduced provisioning intervals. We have significantly expanded our network footprint with owned fiber and additional IRUs as well as right-of-way agreements.

At quarter's end, we are directly connected to 7,891 unique networks. This collection of ISPs, telephone companies, cable companies, mobile operators and other carriers give us direct access to the vast majority of the world's broadband subscriber base and mobile phone users.

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At quarter's end, we had a sales force of 259 professionals solely focused on the NetCentric market.
We believe this group of professionals is one of the largest, most sophisticated sales teams focusing on this market segment and the industry. The sales force will be primarily responsible for the sale of our wavelength products that we continue to expand availability of.

Now, for a couple of corporate observations. We are seeing positive trends in our corporate business. Our corporate customers are continuing to aggressively integrate new applications and become part of a world in which working includes the use of video conferencing. This usage of video connectivity requires higher capacity connections, both inside and outside of their premises.

Our aggressive push to lower bandwidth costs, provide greater coverage has begun to boost the corporate demand for our products, which are typically bidirectional symmetric 1 gig and 10 gigabit interfaces.

Corporate customers are increasingly buying connections in carrier-neutral data centers for redundancy to support their ad-hoc VPNs to support remote workers.

Now, for a comment on our sales force. We remain focused on growing our sales force and sales force productivity. We continue to improve our training programs and manage out underperformers. On a sequential basis, our total number of sales force reps increased by 85 to 647. Our sales force turnover rate was approximately 5.6% per month for the quarter, down from a peak of 8.7% per month during the pandemic and slightly below our historical average of 5.7%.

So in summary, we are extremely optimistic about our unique position in serving small- and medium-sized businesses in the central business districts of major North American cities with 1,844 multi-tenant office buildings and over 1 billion square feet of rentable office space on-net. We are excited about the addition of our large enterprise customers to our customer base. And we are very optimistic about our ability to sell optical transport services or wavelengths, adding that product to our portfolio and expanding our network capabilities and expanding the Cogent-owned data center footprint.

Currently, key indicators for office activity, including workforce re-entry, leasing activity still remain below pandemic levels in many parts of the country. But in many regions, we are seeing a return to pre-pandemic activity levels and pre-pandemic sales efficacy.

We are encouraged to see that an increasing number of tenants are requiring employees to spend more time in the office. We also note that many corporates are downsizing their office requirements, ultimately resulting in our ability to have a larger addressable market as we will have more discrete tenants per building, increasing our corporate opportunity.

Under our indenture agreements, including the $250 million general basket, the cumulative amount of cash we have available at the holding company for dividends and buybacks actually exceeds cash on hand.

We are diligently working to integrate the Sprint wireline assets. We remain encouraged and optimistic about our ability to take costs out of these assets and achieve the annual cost savings and cash flow generation that we project.

Over the next 3 years, we intend to achieve annual savings of approximately $180 million on the North American Sprint network, $25 million on the international Sprint network and a $50 million savings on the legacy Cogent network. We also anticipate additional SG&A savings through headcount optimization as well as system and office efficiencies. These revenue synergies should manifest themselves over the next several years.
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 Phil Cusick with JPMorgan.

Philip A. Cusick
JPMorgan Chase & Co, Research Division

Dave, maybe we could start with NetCentric. And just maybe go through again what the organic growth is in NetCentric this quarter, both year-over-year and sequentially. And help us think about size of customers committing and things like that, that's going to drive revenue growth in that segment going forward?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So as we mentioned in the call, we saw an acceleration sequentially both in traffic growth as well as a year-over-year improvement in traffic growth. We have seen strong demand organically from customers outside of the U.S. as well as having 2 additional benefits in this quarter. That being the benefit of selling NetCentric services to T-Mobile outside of the transit agreement.

These were primarily colocation services and VPN services. And we ended up acquiring a customer base of off-net and on-net Layer 2 services with T-Mobile. The traffic growth was approximately 11.1% -- or excuse me, revenue growth of 11.1% and that was from the legacy Cogent business and 19.3%.

Even if you netted out the additional services that we sold T-Mobile, the growth in that business was similar to Q2 of '22, both on a sequential and year-over-year basis.

Philip A. Cusick
JPMorgan Chase & Co, Research Division

That's helpful. And how do you think about the -- obviously, there's going to be another month of movement in this quarter. But the organic go-forward growth in that business, is that a sustained double-digit sort of annualized growth from here once everything is through, given all these other opportunities?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So you are correct, Phil. We clearly will have an additional benefit in the third quarter, because we will recognize a full 3 months of the commercial services that we are selling T-Mobile. Some of those services will wean away by design. But we think there's a very long tail to our ability to provide some of those non-transit services to T-Mobile.

Independent of that phenomena, we also believe the underlying strength in the organic business, which has been about a 10% or 11% revenue growth rate year-over-year, continued in this quarter and will continue going forward.

We're very encouraged by strong demand in international markets. To remind investors, our NetCentric business over an 18-year history has averaged about 9% growth. We went into the pandemic growing substantially below that trend line at about 3% year-over-year growth.

Growth skyrocketed at the beginning of the pandemic, all the way up to 26% year-over-year. It has slowly reverted closer to the average, but remains above that long-term average. As I said, we're growing about 11% now year-over-year and we believe that NetCentric revenues for the combined company will continue to grow in low double digits for the foreseeable future.

Philip A. Cusick
JPMorgan Chase & Co, Research Division

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If I could follow up on -- one more. Any change in the size of customers buying? Last quarter, it was a lot of larger. This quarter, any shift there?

David Schaeffer
Founder, Chairman, CEO & President

We continue to actually see some strong demand from some of our large hyperscalers. As Thad mentioned, our average new sale remained flat at about $0.10 per megabit. Actually, our installed base went up on a per megabit basis to $0.28 in part because of the acquired T-Mobile customer base.

I think the big change in buying patterns we've seen actually over the last couple of quarters has been a shift towards people buying for a new application, that being artificial intelligence and the collection of data. So what we have seen is some customers who had traditionally had traffic very asymmetrically skewed in the outbound direction, now collecting a significant amount of data in the return path. And that has driven more growth from some of the larger software and hyperscale companies that I think are using that data to build their large language models and create generative artificial intelligence applications. We think we're only at the beginning of that trend. And that is an encouraging tailwind for the entire NetCentric business.

Now, some of our smaller customers may catch up and start also exhibiting those types of patterns. Most of our growth in small customers has really been in international markets from more regional access networks who have really seen an acceleration in streaming video much as we did here in the U.S. and Western Europe maybe 18 months ago. So there is a lag.

So you've got really 2 different things going on. The large customers are increasingly pulling information as opposed to pushing for their AI applications, and the smaller international customers are accelerating the pull of content.

Operator

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

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

Just want to be clear, can you walk us through kind of what the run rate cash payments will be from T-Mobile going forward in each full quarter? Just to be clear, you're going to be recognizing EBITDA, the cash payments adding back, not the straight-line recognition that you previously thought that you would be able to recognize.

David Schaeffer
Founder, Chairman, CEO & President

Yes. Sure, Frank. So for the first 12 months of the agreement, we will recognize $29.2 million a month or $87.6 million a quarter. This quarter, we recognized only one payment, even though we had billed for 2. We are recognizing that on a cash basis.

When we consulted both with the SEC and with our auditors, Ernst & Young, we concluded in alignment with T-Mobile that this should be a bargain purchase transaction. Even though we are providing the IP transit services and they do meet many of the criteria associated under 606 for revenue recognition,

If they were treated as revenue, we would have recognized that revenue on a straight-line basis because it is a unified contract. The cash payment stream will actually step down in month 13 to $8.3 million a month and continue for the next 42 months. So we will recognize $24.9 million a quarter on a cash basis after the first 12-month period.

The reason for the change in accounting treatment was that T-Mobile made the decision to treat this as a bargain purchase. At that point, we had a customer saying that they were viewing this as a transactional cost and not as a services agreement.

Thaddeus G. Weed

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CFO & Treasurer

David, I'll just correct one thing. T-Mobile didn't treat it as a bargain purchase. That's our side...

David Schaeffer
Founder, Chairman, CEO & President

That's our side of it. Correct.

Thaddeus G. Weed
CFO & Treasurer

They treated it at the end of '22 as a loss on disposition of a business. That was their side. So in terms of kind of matching the account we had the bargain purchase gain. Sorry to interrupt. But let me made that clear.

David Schaeffer
Founder, Chairman, CEO & President

That's why you're the accountant, Thad. But we will recognize that and add the cash back each quarter because it is cash and we are reconciling that to our cash flow statement. Was that helpful, Frank?

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

Yes. No, that's great. And then on the customer size, I think you gave kind of the breakdown. What is the largest customer as a percentage of revenue? And is that a legacy Sprint or a legacy Cogent customer? And then what's the largest Sprint customer as a percentage of revenue? And what's kind of been the trend with that revenue?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So our largest customer is now a legacy Sprint corporate customer. They are as a percentage of total revenues about 4% of revenues. And we did acquire a number of large portion kind of 500 companies, the largest of which, I think, buy services from Cogent in approximately 1,600 locations around the world.

Operator

Your next question comes from the line of Greg Williams with TD Cowen.

Gregory Bradford Williams
TD Cowen, Research Division

First question, can you provide some nice insight on your Q&A here on the NetCentric business ex-Sprint in terms of customers' connection and organic revenue growth? Can you do the same on corporate? How much did the reclass [Audio Gap] some of the Sprint customers in revenue, impacting what was the true organic growth on the legacy Cogent corporate business?

Second question is just -- on the waves business, when does that really start to ramp to the 800 data centers and get those 259 sales folks up to speed? And what's sort of the opportunity next year and the year after? You have big ambitions there.

And just lastly, if I could sneak in a housekeeping question. So if T-Mobile only paid 1 month to you guys, are we going to see 4 months of payments next quarter? Or is it typically going to be in arrears and it should be 3 months next quarter?

David Schaeffer
Founder, Chairman, CEO & President

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I'll take the easy one first. We'll get 3 months next quarter. They pay us typically on the second or third of the month after we invoice them. And as Thad indicated, they had been extremely prompt in making those payments on time.

Now, let me take your first 2 questions on the corporate side. Organically, Cogent grew sequentially 0.1% year-over-year, 6%...

Thaddeus G. Weed
CFO & Treasurer

0.6%.

David Schaeffer
Founder, Chairman, CEO & President

0.6% -- excuse me, 0.6%, so just under 1%. And that was independent of any customers that were reclassed from the Sprint acquisition. And as Thad said, going forward, we will treat all customers by type equally. So they'll either be corporate, NetCentric or enterprise, independent of whether they were organically sold by Cogent or acquired.

We had customers moving in the other direction as well as we took a small number of Cogent customers and reclassed them as enterprise. And this would give us, I think, a good baseline. So we can report consistently going forward. But that sequential growth rate and year-over-year growth rate in the corporate business is an improvement from last quarter and indicates the last 4 quarters' trend line of slow but fairly consistent improvement in the corporate business.

Now, for the wavelength question. All 259 of our NetCentric reps as well as our enterprise and our corporate national account managers can sell wavelengths. The vast majority of the wavelength market is NetCentric type customers.

The Cogent sales force has been engaged with existing wavelength customers, existing NetCentric transit customers and wavelength opportunities that we have not had a previous commercial relationship with.

I would say that our sales force has already engaged with the vast majority, probably 95% of the potential market and discussing the wavelength opportunity. The challenge for us is to get the Sprint network connected to enough locations where that demand can be fulfilled.

And then, secondly, to streamline the provisioning of wavelength services. There are 2 dimensions to that. In terms of connectivity, we're over 1/4 of the way through our goal. We today have 777 U.S. carrier-neutral data centers on-net. That number is growing. We'll have north of 800 by year-end U.S. carrier neutrals and that number will continue to grow. Of those, we have 35 of those where we have sold wavelengths and can provision in an acceptable period, but not our ultimate target.

So when we look at Sprint and looked at their test sales of Waves, they had averaged about 142 days in provisioning a wavelength. In the 2 months that we have operated the business, we installed only 10 incremental wavelengths. Now some of the 404 that we acquired were actually sold by Cogent during the period where we were a reseller of Sprint wavelengths, but they actually provisioned very late in the process. That's why the run rate is actually slightly higher than the run rate we had announced when we acquired the business.

For the wavelengths that we installed, we averaged 62 days, so a substantial improvement, but still not to our 17-day goal for a contractual minimum. And what we are looking to do is mirror our 9-day average transit port install window.

We will be able to do that by the end of '24 in all 800 U.S. carrier-neutral facilities. So again, there's, 2 different things happening. One, we've got to go from 200 to a total of 800 facilities. We will report on that number every quarter. We expect to have that relatively linearly ramp over the next 5 quarters to give us that full footprint.

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And then, secondly, we need to reduce the provisioning time. And to do that, it means staging transponder shelves in those locations and deploying OADMs in locations that will facilitate this rapid provisioning. We are in the process of doing that. That process will be complete for the combined network by the end of 2024.

So we anticipate the wavelength revenue to relatively linearly increase over a 7-year period from what is today about a $10 million run rate to a $700 million run rate. Putting our run rate, not our trailing performance, but our run rate on a monthly basis by 1 year from closing May of 2024 at about $80 million, meaning, we will be selling about call it, $6.5 million a month in wavelengths and then growing that number pretty consistently.

At the beginning, we have a lot of pent-up demand that we can't fulfill. We were using those expressions of demand to help us prioritize the equipping of those 200 facilities. We are resource constrained. We can't turn them all on, on day 1 as there are a number of foundational steps that needed to be made.

But we're very comfortable that we will have the footprint in place to hit our wavelength goals. And the demand base has actually been better than what we had anticipated.

Thanks, Greg. Thanks for hosting me. And by the way, I heard one of our wavelength competitors at your conference indicate they were going to have wavelengths available on a daily basis. The only way you can do that is pre-provision.

Operator

Your next question comes from the line of Walter Piecyk with LightShed Partners.

Walter Paul Piecyk
LightShed Partners, LLC

Dave, I want to go back to corporate. I think - I think you mentioned maybe twice on this call that it was up sequentially. I just want to make sure that we're talking apples-to-apples, because when -- if I took the number pulled out, I think it's 12.9% for the Sprint contribution.

Obviously, you didn't look at noncore and took out USF. It looks like it was down like 3.7% sequentially, the corporate business for a true legacy organic number. So I'm guessing my math is wrong. And I'm just hoping you can give me -- if we're not looking at the benefit that you had from USF and we strip out Sprint, did it grow sequentially?

David Schaeffer
Founder, Chairman, CEO & President

It did grow sequentially. The USF benefit was actually very minimal. Most of that benefit came from the increase in USF or the Sprint customers. And again, to remind you, corporate includes both core and noncore products. So I'm not trying to be coy here. But every product or every service gets 4 classifications. It gets on-net versus off. It gets customer type, which is corporate, NetCentric and now enterprise.

It gets geographic, which is U.S. and rest of the world. And then, finally, it gets product. And the products include Internet access, VPN services, colocation, now wavelengths and then, finally, noncore services. When you look at the organic Cogent revenues for corporate customers, they grew sequentially 0.1% -- 0.7% and 0.6% year-over-year.

Walter Paul Piecyk
LightShed Partners, LLC

So what was specifically the USF contribution from Sprint? Because I know last quarter was $4.2 million. So what's the comparable for the legacy business on USF?

Thaddeus G. Weed
CFO & Treasurer

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Sprint USF contribution was about $7 million. It was the majority of any change in U.S.

David Schaeffer
Founder, Chairman, CEO & President

Yes, the actual rate was flat.

Walter Paul Piecyk
LightShed Partners, LLC

So then -- which goes to the next question. Dave, you haven't grown corporate sequentially since I think it's like September of '20. That was a long run that's now finally inverted the opposite way.

Can you speak to the issues on why that happened? I know I have friends or companies that there's obviously a bit of a crackdown finally maybe going into Labor Day. This is -- maybe this is finally the Labor Day that your prediction will hit in terms of getting people back in the office.

I mean can you just speak to the issues on why corporate has finally inverted positive? And then how you expect on a sequential basis, things to kind of play out over the course of the end of the year and into early '24.

David Schaeffer
Founder, Chairman, CEO & President

Yes. So I do believe that many companies are taking a more proactive approach on getting employees into the office, at least on a part-time basis. Secondly, we have seen market-by-market, a great deal of differences. And I think there is a trend that when we've seen markets like South Florida, Texas, Phoenix, kind of performed as if there was no pandemic.

We think that kind of improvement will continue to spread to other markets. Now if we looked at our worst-performing markets, San Francisco, it's almost like there's been no recovery from COVID.

So it is -- very geographically unequal. However, what we saw happened starting in South Florida has now spread into Texas and Arizona, in the markets like Atlanta, are improving. They're not still quite to pre-pandemic levels, but we're tracking this on a market-by-market basis.

I think the second thing that's happening is companies can only procrastinate so long in making decisions as they need to deploy new tools and modernized. And I think the 3-year hiatus in decision-making is starting to wane. And we appear to see improved sales efficacy and improved funnels in markets where we hadn't seen that maybe 6 or 9 months ago.

So again, you don't know until the customer actually signs the order. But it does appear that we're getting a lot more corporate activity and we are on a path to recovery, but again, it depends of 1% growth year-over-year, is not the 11% that we've historically worked.

Walter Paul Piecyk
LightShed Partners, LLC

At least it's not negative, though, Dave. So that was a good trend to finally break. I think, I guess, my final question is more kind of a disclosure question, which is on a prior call, you kind of contested some deregulatory terms I had for Sprint's business that you purchased.

But I mean you didn't pay anything, you paid $1 for it. So I don't think there's any question that this is maybe not a highly valued business. And yet corporate historically has been that kind of a workhorse engine until we had this kind of COVID multiyear COVID dip.

So why wouldn't you provide investors and now that it's finally inverted positive, why wouldn't you provide this kind of legacy stat going forward to get -- to have people say, okay, let's look at -- they bought this -- they bought this business. This not highly valued business for nothing, right? You're not getting able to print the revenue. Let's put it in a side bucket and see what expenses Dave can squeeze out of it and maybe get some revenue synergies.

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But then look at the core thing that really what drives your ability to grow the dividend and see how that's returning to growth. I don't understand why you wouldn't mask that stuff together unless like other companies do that to hide a bad story, like if this is now a good story; why not present that to investors going forward?

David Schaeffer
Founder, Chairman, CEO & President

Well, first of all, I think we actually have multiple good stories to tell. So let me kind of disaggregate your question and statement.

Let's start with the asset that we bought. We bought 2 different things. We bought a physical network. We actually hired a third party, KPMG, to come in and evaluate that. Arms like we had no previous relationship; never used them as an auditor or for tax work.

It just said, coming into an appraisal on this asset. They realized that that asset was worth $1 billion. We paid $1 for it. But it's an asset that T-Mobile had no use for. It was a fiber optic network and a series of switch sites that were not strategic to their business.

So they view them as a liability. They had to pay taxes on them. They were literally sitting empty, much like an office building that would have no tenants in it. And we saw value in that and said, we can repurpose that and create a growth business and selling high-capacity optical transport services and by selling colocation in that footprint.

We are in the process of making that conversion practical. We're connecting it to the rest of the world. We're putting in the correct transponder equipment and OADMs to be able to provision wavelengths quickly. And we've actually -- I wish I could tell you it was so smart that I would have known the AI tailwind for optical transport and colocation was coming.

But the reality is there's been a huge uptick in the short term for demand for both of those services, because of the need for high compute and high data transfer that is not easily done on the Internet. So we were at the right place.

Walter Paul Piecyk
LightShed Partners, LLC

David, let me just interrupt you, though. I mean, I respect the fact that you can argue that T-Mobile sold $1 billion asset right before it was going to take off because of AI. I certainly appreciate that.

But even if that's true as a narrative, then, why not put that in a separate bucket and show what you did with this business you bought and then continue to show how the legacy business is doing rather than mashing them all together.

David Schaeffer
Founder, Chairman, CEO & President

And I'm going to get there and answer the rest of your question. So the second part of your question is we acquired a customer base that had a bunch of unprofitable services associated with them.

When we looked at this business, initially, it was burning $300 million of EBITDA and $30 million of CapEx, nearly $1 million a day. That had nothing to do with the network. These were the services. The network was virtually follows sitting there, empty.

To give you a sense, the data center or the switch sites that we acquired have 22,500 racks of dead equipment that hasn't been in service for at least a decade sitting in them. We have to clear that stuff out. But on the business we bought, we knew we needed an additional stream of revenue to at least give us the time to end-of-life products and to move that traffic on-net and fix it.

We convinced T-Mobile to buy $700 million on transit services from us with the payment stream that we disclosed in order to mitigate the burn in the operating business.

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The third point is we acquired a customer base. We were actually told that that customer base was enterprise. We only saw 5 of the 1,396 customer names prior to closing. That's fair. That's the way the FTC wants things in non-consummated transactions.

Once we unmasked those customers, we quickly realized there were some corporate and there were some NetCentric customers in there and we classified them appropriately. We also said we should go the other way and maybe there are some Cogent corporate customers that really fit the definition of enterprise.

We've true that up. We went through a customer-by-customer port-by-port reconciliation for the 151,000 customer connections and made that true up. Now to your final point, which is why do you not report this as 2 separate businesses. The way we are going to get savings is put all of the traffic on one network, converged the products, converge the billing systems, the sales organization.

There are not people that work for Sprint and people that work for Cogent. They all work for one company. As Thad said, we are collapsing 20 billing cycles to 2 to mirror Cogent. We're doing that by pushing those customers into Cogent's systems.

We're not going to operate 2 separate databases, 2 separate networks, 2 separate customer bases. It will be impossible to disaggregate. Now what we will report consistently, which will actually be a headwind to our growth is we will report all corporate customers.

In that, we've got legacy Sprint corporate customers, which have had a higher churn rate than legacy Cogent corporate customers. We understand that we're signing up for a greater headwind. But it makes absolute sense to treat these all the same since they're buying the same products. They're going to be paying the same thing and they're going to be riding the same network.

It would be misleading to try to say that we've run 2 separate businesses. We're going to run one network, one customer base, one set of products.

Thaddeus G. Weed
CFO & Treasurer

Well, just real quick, I did want to give you the actual USF numbers before close you. So Sprint was $7 million of the USF sequentially, and total USF went up $6.8 million. So Cogent Classic USF was down $200,000 sequentially.

Walter Paul Piecyk
LightShed Partners, LLC

Is there a mix of corporate and enterprise in that or is that just -- you just given that of course the total number?

Thaddeus G. Weed
CFO & Treasurer

The total number.

Operator

Your next question comes from the line of David Barden with Bank of America.

David William Barden
BofA Securities, Research Division

Thanks for all the detail, Dave, as always. We spend a lot of time kind of noodling on the wavelengths and the lit services and some of the cost savings opportunities. I think something you kind of have referenced today. These 40 technical facilities, one of which you converted into a Cogent data center.

Could you elaborate a little bit on this opportunity? Is this purely a way to expand your reach with a more on-net approach to some of these products we've already talked about? Or is there an actual distinct data center strategy where you're going to be putting x capital to work per technical facility to generate x

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megawatts of capacity that could generate y incremental dollars of revenue. Could you just share with us a little bit your thinking there?

David Schaeffer
Founder, Chairman, CEO & President

Yes. Thanks, David, for the question. And the only thing I'm going to dispute is the need to spend incremental capital to do this. So Sprint built a fiber optic network that terminated in tandem switch sites. These switch sites were designed to allow connectivity to black fibers. This was designed back in the '80s and early '90s.

That network carried exclusively voice traffic until the late '90s and then carried some proprietary data on a little bit of Internet traffic. That network is virtually empty today. Almost no traffic on it and it terminates in these former switch sites.

There are 482 technically technical buildings owned fee simple. There's actually 1.6 million square feet in those facilities. In addition to that, there's nearly 300,000 feet of leased technical space that we will be exiting as part of our cost savings initiatives.

And that project is well underway as we can exit those leases. That is a big part of the way we can save that $180 million run rate in North America, the $25 million internationally. But for the own facilities, we look at the largest of those.

There were 45 of them that comprised 1.3 million square feet and already have 160 megawatts of power to those facilities. That are today generating no revenue sitting empty with no connectivity to the rest of the world other than to the Sprint backbone and to ILEC in their territory for TDM interfaces, which are no longer applicable. So we are doing 4 things.

One, we are physically connecting those networks to our metro footprint. We have 2 reasons to do that. We want to make the data center marketable; two, we need to extend the Sprint network into carrier-neutral data centers so we can sell wavelengths.

The second thing we're doing is cleaning these facilities out. It's like your addict that's full of old things that you forgot about. And you go buy something new. You got to have a place to put it. You go up there and clean the old chunk out. In our case, we want to turn these into data centers and those 22,500 racks are in the way. They need to come out and we're going to do that housecleaning, and that's well underway.

The third thing that we need to do is go into these facilities and convert the power plants. Telephone central offices, and that's what these were a negative 48-volt power plants. Data centers run a positive 120 AC, not DC. You put an inverter in a relatively modest capital expense to invert that power and turn it into AC. We're doing that at all of these facilities.

The final thing we're doing is taking the active network equipment that we will need to operate and put it in one small cage in the corner. Popped in the corners, what our program is called. And as a result, we will have completely empty marketable 160 megawatts of power and 1.3 million square feet of space spread across 45 incremental facilities. That's additive to the 55 facilities that Cogent operated pre-acquisition with 70 megawatts of power.

We are going to take those data centers and do 2 things. We're going to take 1 data hall and turned it into a Cogent data center, meaning retail sales, 1 or 2 racks at a time. But there are typically 3 or 4 independent data halls in each of these facilities. Those will be sold or leased to either other data center operators on a wholesale basis or perhaps hyperscalers or AI companies to put equipment in to do compute.

That is a very large incremental opportunity. In our business case going forward, we did not anticipate the accelerated demand for Edge computing and for AI compute capacity. We were assuming that we would only derive a similar revenue mix from legacy Cogent products, which is about 3% of revenues.

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So if you looked at Cogent Classic, about $20 million a year is coming from our colocation business. We kind of assumed another 3% or so of the Sprint revenues could come from colocation, so another $15 million to $20 million.

I think our thinking has changed. And we do think there is a significant incremental opportunity to monetize that in place 160 megawatts of power. We will do that over the next year. It is going to take us at least a year to get these things to be commercially viable.

But the demand set that we've seen from some of our larger customers encourages us that I think we'll do a lot better than 3% of revenues with this golden opportunity. And we think there may be another $30 million or $40 million of incremental revenue that's not today baked into our forecast.

Operator

Your next question comes from the line of Brett Feldman with Goldman Sachs.

Brett Joseph Feldman
Goldman Sachs Group, Inc., Research Division

Dave, 2 questions, if you don't mind. You talked about this target of getting to $700 million of wavelength revenues over a multiyear period. I think that's higher than what you would discuss before. So correct me if I'm wrong, but I'm just curious what give you some confidence in that outlook?

And then, obviously the business has positioned to deliver, going forward, you'll have clearly above your current target range. How are you thinking about your current comfort level with operating closer to the higher end or the lower end of that range?

And then, how does your trajectory of delivering ultimately factor into evolution in capital return. Meaning, when you start raising the dividend at a faster pace or how would to think about buyback as an alternative?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So let's start with the wavelength market. We took the initial view that the market was going to be static at a $2 billion scale. There had been independent third-party studies that indicate that market is going to grow at about 7% a year.

We have said that we will get to 25% market share over a seven-year period. The $700 million number just represents the same 25% market share of a slightly larger market, would appears to be driving the growth in that market, seems to be these AI applications for large data replication that do not sit well on the public Internet.

Let's be very clear, a wavelength is less flexible and higher cost per bit than using the public Internet. The public Internet is the majority of traffic in the world and it's where the majority of growth is coming from. But there now is a new driver for this premium service of wavelengths. And we feel uniquely positioned to be able to capture that.

And we think our growth is going to be relatively linear. We're going to get to a 25% market share. And right now, we believe that market appears to be growing, and that's a positive for us.

Now to the leverage question.

Brett Joseph Feldman
Goldman Sachs Group, Inc., Research Division

Sorry, if you don't mind if you don't mind, just a follow-up on the wave question before we get to leverage. Can you just give us your update? How are you pricing in the wave market right now? How much of the discount? You talked about how has the premium price market.

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But are you coming in saying, well, it's not premium price if you buy with Cogent because you have such a low cost base?

David Schaeffer
Founder, Chairman, CEO & President

So we have 4 distinct levers to pull in winning business. I think the most important is the uniqueness of the routes. They weren't available in the market before and people want routes that we have for diversity.

Secondly, it will be the ubiquity of the number of data centers that we are offering services. Part of Cogent's strategy is to go wide and have the ability to provision quickly transit and now wavelengths in every data center where there is demand.

The third thing that we have is the ability to offer an end-to-end solution. In many situations today, a customer has to buy a metro wave from one vendor and an intercity wave from a different vendor. We will have a holistic NN solution with seamless provisioning.

And then the fourth thing, which is critical, is to being able to actually deliver what you sell. And what we have heard consistently from the marketplace is that many of our competitors fail to deliver or don't deliver in a timely manner.

It is critical that we replicate our service delivery quality for wavelengths as we have delivered on transit. Now with those 4 advantages, we will use price. My goal is not to destroy the market, but it is to capture market quickly.

We will discount. But we have an established brand. We have an established sales force. And because of that, I don't think we will need to be as aggressive as we were in the transit market. We will, if necessary, go there because as Walt said, I got a network for a buck. That's great.

But I don't want to sell it cheaper than I have to. But if it takes price to clear the market, we'll use it. And we feel very comfortable that our market share targets and revenue scale are definitely achievable.

Now, I'll switch to your leverage question. Arithmetically, we are going to delever very rapidly, because of the payments from T-Mobile and the ramping of this incremental high-margin revenue stream. The cost of capital is higher today than it was 2 or 3 years ago. We could not replicate our debt at its current levels today.

Now rates may come back down, windows to refinance will open. But I think in the short term, we are committed to bringing leverage down. We also don't want to hoard cash. We don't want an inefficient balance sheet. So we will opportunistically get when it makes sense.

And we intend to maintain that leverage within the range that we've laid out, a 2.5 to 3.5x net leverage target. We're above that now. We're going to come down and be in that range.

But then what we do with that extra capital is going to be market-driven. We are committed to not hoarding capital. We are committed to doing no bad M&A. Hopefully this transaction shows investors the discipline that we have applied to 825 targets and how we view them when we do M&A.

There's no deal worse than a bad deal. And we're not going to do a bad deal. So that means we're going to have extra cash. And it probably means we'll be raising the rate of dividend growth when appropriate or we will supplement it with buybacks.

But the commitment our Board has made and we're making is we are going to return the capital. We're going to look to make sure shareholders are rewarded for being with Cogent.

Operator

Your next question comes from the line of Tim Horan with Oppenheimer & Company.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

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You guys have got a major improvement in NetCentric pricing. Do you think that's sustainable? And what do you think is driving that? And then I just had some basic questions on the go-forward guide.

David Schaeffer
Founder, Chairman, CEO & President

Yes. So in terms of NetCentric pricing, there are really 4 factors that weigh into that pricing. How much a customer buys, how long they buy for and in what geography they are buying? You layer on top of that existing customers that tend to look to extend their commitments each and every quarter.

And we typically see about 2,500 customer connections a quarter that end up doing a reprice and extend this quarter was no different. So I think when we layer those overall pricing disciplines on to our customer base, we are going to see a slight moderation in the rate of price decline for NetCentric.

More of the growth is coming from international markets; more of the growth is coming from smaller customers in general. We are seeing, however, large customers also having this new use case that they didn't have before and driving some growth.

When we kind of layer that together, the 23% long-term decline in price per megabit is probably moderating a little bit, maybe reducing down to a 20% rate of decline. But the price of transit is going to continue to come down for 2 reasons. The market is sufficiently competitive. We are not a monopolist, I wish we were, but we're not.

And then, secondly, that the underlying technologies to produce routed bit miles continue to improve at pretty consistent rates. Whether it'd be optically interfaced routing improving at about a 40% per year CAGR or wave division multiplexing, improving at about an 80% compounded improvement, those underlying trends are going to continue.

So I think it would be naive to think that NetCentric prices will ever plateau. But I think the rate of decline will moderate.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

So if the rate of decline is 500 basis point improvement, but you're seeing a lot of improvement from geographic diversification from customer diversification and now new use cases. So it will look better than the 20% decline for a while because of these.

David Schaeffer
Founder, Chairman, CEO & President

That's right, Tim. That's exactly right.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

And then on the -- just on the guide. The guidance for the 6% revenue growth long term and 100 basis points improvement. Can you just give us the base that that's awful. And I guess related to this, can you give us some sense of what the revenue and EBITDA are going to look like for the third quarter?

I know you don't give guidance. But we have a ton of moving parts here and both up related.

David Schaeffer
Founder, Chairman, CEO & President

Well, this is a much longer call than I think most people would like. But I think it is critical for foundational reasons to give all of this background. So to be clear, the revenue guidance is a range of 5% to 7%. You pick the midpoint of that over the next multi-year period.

The base that is off of is the combined revenue of the company. And within that base, there are multiple components. There are noncore revenues that we want to go away and go down. There are corporate

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and NetCentric revenues to Walt's question about reporting that are now combined. There are enterprise customers that are combined. And then there is the new product of wavelengths that will be reported independently.

The wavelengths, like any other on-net product carry the absolute highest incremental margin. We also have T-Mobile as a customer above and beyond their transit purchase from us for other services that we know will decline over time as they wean their wireless networks dependence on the transport network that we acquired.

These were intermeshed assets. When we put all of those pieces together, we will be building off of a revenue base of about $1.1 billion or $1.2 billion a year, growing at 5% to 7%. When we look at the mix of products that we will have on-net and off-net, we will be able to deliver about 100 basis points a year of margin expansion in the third quarter, because we will have 3 payments from T-Mobile, not one.

And in Q2, we had 2 months of expense and only 1 month of payment from T-Mobile. In Q3, we'll have reduced expense and 3 months. We should have margins in inclusive of the T-Mobile transit payment in the mid-30s.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

And so the 100 basis points guide is that of that mid-30s range?

David Schaeffer
Founder, Chairman, CEO & President

It is, but remember, over a multiyear period, that T-Mobile payment for the $700 million transit agreement is going to step down.

Timothy Kelly Horan
Oppenheimer & Co. Inc., Research Division

But I mean, so I mean 10 years from now, the goal would be 45% of that 35%, roughly, extremely?

David Schaeffer
Founder, Chairman, CEO & President

Yes, I think that's a fair way to think about it, Tim.

Operator

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

Nicholas Ralph Del Deo
MoffettNathanson LLC

I just want to confirm that the revenue from the commercial agreement with T-Mobile is being allocated entirely to NetCentric?

David Schaeffer
Founder, Chairman, CEO & President

Yes. It is entirely NetCentric. It is predominantly on-net. There is a small component of it that is off-net and it is for 2 primary services layer to VPN services and colocation.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. I think you said earlier -- I forget who asked the question. But I think you said that if you deducted the commercial agreement from the NetCentric results in Q2, you got growth rates that were similar to Q2 of a year ago.

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When I adjust for it, I get numbers that are slightly up sequentially. I just want to confirm what you said because I'm trying to figure out how to allocate these changes appropriately.

David Schaeffer
Founder, Chairman, CEO & President

Yes, I think that's right, Nick. So last year, in Q2 of '22, I think our sequential NetCentric growth was roughly 0.3%. It tends to be not the biggest traffic growth quarter, because of the heavily dependence on students and feedback that people start to go outside more.

So I think it clearly was much better sequentially because of the sale to T-Mobile of these non-transit services predominantly on-net. And they are counted us et cetera.

Nicholas Ralph Del Deo
MoffettNathanson LLC

And then second, just thinking about EBITDA. Can you talk a bit about costs that may have weighed on the bottom line, this quarter that are deal related that you're not specifically breaking out?

Like I remember in his remarks, and I think in the Q, you mentioned some bad debt expense for Sprint. It seems like it's sort of a onetime initial thing. But I'm wondering is there severance or termination costs, you're not breaking out over time, other inefficiencies, stuff like that that we should consider when looking at the bottom line results.

David Schaeffer
Founder, Chairman, CEO & President

Yes. So Thad did mention the need to re-establish a bad debt reserve for the acquired business because there wasn't one previously in our accounting. And that was a $3 million SG&A hit that was one-time to this quarter.

We also have the inefficiencies of processing payments through T-Mobile under the transition services agreement. The $118 million that we have to send them is primarily for them to send to vendors. And while those payments are handled remotely, we will not have the ability to be as disciplined as I think we are in terms of auditing them and being very aggressive with our vendors.

We fully intend to bring that in-house quickly. As it turns out, we were expecting to transition the IS infrastructure from T-Mobile to Cogent and run it in parallel for a year. We have been unable to do that due to some of the security concerns that T-Mobile is dealing with.

So we have accelerated our time line to move all of the customers, all of the network tools and monitoring into Cogent's Systems in the third quarter. So by year-end, the legacy Sprint and T-Mobile systems, the roughly 220 software tools that they use will only be for archival purposes.

With that, we absolutely expect to get some additional benefits and cost savings that we have not fully quantified that we just said they are probably better than our models project.

We also, in terms of headcount, when we start looking at this business, there were almost 1,800 employees when we signed our purchase agreement last September, there were 1,320 employees. We ended up acquiring 942 of those employees.

We understand that we will probably have some more headcount that doesn't fit well in the Cogent model. As part of our total agreement with T-Mobile had the ability to pay severance to those employees and have that severance funded by T-Mobile. So we don't anticipate that being an additional drag.

And we do expect that there will be both through realignment retirements, as Thad said, the average employee has been here 22 years. We'll probably see another 100 to 150 people on the operations side eventually exit the combined company, resulting an additional incremental SG&A savings.

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We have office consolidations underway that are part and parcel of those savings numbers. So I think there are some additional SG&A benefits that are not fully baked into our model. We kind of focused on the network first.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. And just to be clear, with respect to severance from an accounting perspective, is that reported on a gross basis when you get reimbursed by T-Mobile or is it reported on a net basis? How should we think about that?

Thaddeus G. Weed
CFO & Treasurer

The entire cost of the severance would not hit our P&L since it's reimbursed by T-Mobile. So it would be our cash out the door when it's paid and then billed to them on the next month, and then we would be reimbursed.

So when you see the amount due from T-Mobile under the RTSA, a lot of that will increase in -- after June because of severance amounts that were paid. But we have no P&L impact on that.

David Schaeffer
Founder, Chairman, CEO & President

We can't report that as revenue.

Thaddeus G. Weed
CFO & Treasurer

It's not revenue and it's not expense. It's just a cash transaction.

Nicholas Ralph Del Deo
MoffettNathanson LLC

And last, just kind of quickly, sorry for dragging this out. What was behind the decision to treat the transit payments in EBITDA or rather to include them based on when they're paid rather than when they're billed or accrued?

David Schaeffer
Founder, Chairman, CEO & President

We had to reconcile to the cash flow statement and you can't reconcile accruals to that. EBITDA is a non-GAAP measure. We felt that it was critical that investors understood this money was coming in and how it impacted our ability to pay our bills and meet the cash burn of the acquired operating business. And it made the most sense to reconcile it to the cash flow statement.

And as such, you can only recognize it as you received it, not as you bill it.

Operator

Our next question comes from the line of Brandon Nispel with KeyBanc.

Evan Lewis Young
KeyBanc Capital Markets Inc., Research Division

It's Evan on for Brandon. I guess first question, with the 100 basis point margin expansion. Is that based off of the mid-30s that we're at from 2Q, just trying to gauge where we're going to end up for the EBITDA at the end of the year.

And I was just wondering if you guys have had any more learnings about dark fiber. It seems like you were still not quite sure what the market was looking like or what the demand would be like. So just wondering if there's been any developments with that.

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David Schaeffer
Founder, Chairman, CEO & President

Evan, I'll take those in reverse order. So we are absolutely committed to monetizing the assets we have, and that includes selling dark fiber. We need to better understand the inventory and the demand set on a route-by-route basis.

We have had a number of requests for dark fiber. We are not in a position to start selling that because we don't have a complete enough view of the demand set. The pricing we could achieve and the overall inventory that we have. We will be in a position probably in about a year to really consider those dark fiber sales.

They are not based baked into our model at all. There's nothing in there. So it is, again, something that is 100% margin and completely additive. But we want to be, I think, thoughtful before we sell that long-term asset or lease it on a long-term basis.

To your question around margins, the overall trend is to see 100 basis points a year of margin expansion over, say, the next decade or so. The inclusion of the payments from T-Mobile are in that, but we also know those payments will be stepping down.

So I think you need to look at it on a long-term basis rather than try to use that 100 basis points and divide it into a 25 basis point improvement every quarter sequentially.

As I said, over a 10-year period in answering Tim's question, we will achieve those types of goals. But there's going to be a lot of moving parts here, whether it'd be these incremental sales and margin opportunities that we've discussed; whether it'd be incremental savings and also the decline in both commercial services to T-Mobile as well as ultimately the sun-setting of their transit payment to us. So really think of these as long term. You're not going to trick us in to give you a year-end EBITDA number.

Operator

And your final question comes from the line of Michael Rollins of Citigroup.

Michael Ian Rollins
Citigroup Inc., Research Division

Two more, if I could. First, when you look at the contracts of the acquired customer relationships, what's the pacing that you'll be able to manage each of these relationships over to either push them into a product menu that's good for Cogent or ask the customer to consider alternatives, given the direction of focus for Cogent and the acquired assets?

And then the second question would be on just CapEx. If you can give us an update of how to think about the heritage pacing of CapEx through the rest of this year and next year as well as the opportunities to invest that capital you're describing to do the integration and augment the assets that you purchased to enable all the new products and services that you want to offer.

David Schaeffer
Founder, Chairman, CEO & President

Yes. Thanks for sticking around. So all Mike asked the question. And let's start with the customer contracts. Probably the longest duration customer contracts that we acquired from Sprint run through the end of 2026. I would say the average remaining term on the contract is about 18 months.

The contracts though are very custom; very, bespoke, and they fall into 2 primary categories. One is for the services as they exist today. The second is for incremental services going forward. And virtually all of these customers are continuing to do moves, adds and changes, so therefore, incremental services.

So each time one of those requests for new services are originated, we have the opportunity to have a discussion about modernizing the products.

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Finally, these customers have been notified by T-Mobile as part of the purchase process and have been reminded by Cogent about sun-setting certain products and end of lifing them. Those are those 19,000 noncore products in the $8.4 million of revenue in the quarter that came from those noncore products.

We will continue to manage those out. There have been some customers said, please give us a little more time and we've addressed those on a customer-by-customer basis. For the moves, adds and changes, there are 3 changes that customers are being informed of.

One, our desire only to sell services delivered over fiber. So therefore, we are sun-setting local access loops that are delivered over copper, coax, wireless or satellite. And we're not religious about this in the sense that, yes, we'll accommodate a customer if there's no other alternative in a short term. But long term, we are looking for quality of service purposes and scalability only to use fiber.

The second big change is international sales in countries that we are not licensed. So we today have licenses in 55 countries were operational and 54 of those 55, and we serve customers that are based in about 180 countries. The method that Sprint used to procure loops in those non-licensed markets is not something we are comfortable with.

I don't believe it technically fits in what the country is trying to do in its licensing regime. So for that reason, we have altered the way in which those customers can buy services in those non-licensed markets.

These are places like Yemen, Uruguay, even China, where it is very difficult for a U.S.-based company to get a license. There are only 2 countries in the world where customers have to have a license to buy. There are 200 countries where service providers have to have a license to sell.

So what we are acquiring is for some of those exotic locations that we will purchase on behalf of the customer, that tail circuit, but they will get 2 bills, one for Cogent, for the port in a country world license. And the second will be a loop from that provider in that country where they are in direct contracts.

So that will be a difference for those services in those markets. And the final change, which is a little different than we had anticipated when we first looked at the asset and even at closing, is our ability to support NPLS over a longer time frame.

We firmly believe that the customers should migrate to a VPLS platform and we are encouraging them to do that. But when talking to customers, what we have found is there is a huge desire for them not to have to go through that forklift upgrade for -- like I said, one customer had 1,600 sites.

So we came up with a technological way using equipment that we have pulled out of the Cogent network. We have nearly 3,000 routers sitting on the shelves that we viewed as obsolete that can support MPLS. So a very positive message we've delivered to our customers is our willingness to support those MPLS circuits for up to a decade.

That has been very well received by those customers. And the majority of the pain is coming in these noncore products. So we actually think there will be more ability for us to retain and even grow some incremental business from those customers than we had initially expected.

Now, to your CapEx question, there are 4 buckets of CapEx. There is the Cogent core $35 million of maintenance CapEx, there's about $30 million of Cogent expansion CapEx. There is about $30 million of maintenance CapEx inside of the acquired business of Sprint. And then finally, we had a $50 million number for integration CapEx.

We've spent a little over $30 million of that. There's, about $20 million more to spend. We don't anticipate that changing. So I think on a run rate basis, investors should expect roughly a $95 million to $100 million combined CapEx number, maybe slightly elevated for the remainder of this year due to the completion of those integration projects. But I think that run rate should be pretty good going forward.

Operator

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There are no further questions at this time. I will turn the call back to Mr. Dave Schaeffer for closing remarks.

David Schaeffer
Founder, Chairman, CEO & President

Well, thank you all very much. Hopefully, this was not too confusing. We tried to be as transparent and consistent as possible. I want to thank everyone for their patience for being on this call.

And if you had to predict, the one surprise I didn't hear anyone asked is how we reported $24 of EPS in a quarter. But I can assure you we won't repeat that again next quarter. Take care, everyone, stay well and we're available to answer follow-on questions. Thanks.

Operator
This concludes today's conference call. Thank you for joining. You may now disconnect your lines.

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