Cogent Communications (Q4 2020 Earnings)
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Corporate Speakers:

- Dave Schaeffer; Cogent Communications Holdings, Inc.; Chairman & CEO
- Sean Wallace; Cogent Communications Holdings, Inc.; CFO

Participants:

- Walter Piecyk; LightShed Partners; Analyst
- Frank Louthan; Raymond James Financial; Analyst
- James Breen; William Blair & Company LLC; Analyst
- Mike Funk; BofA Securities, Inc.; Analyst
- Michael Samora; MoffettNathanson LLC; Analyst
- Unidentified Participant;;
- Unidentified Participant;;
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PRESENTATION

Operator^ Good morning, and welcome to the Cogent Communications Holdings Fourth Quarter 2020 and Full Year 2020 Earnings Conference Call.

(Operator Instructions)

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.

Dave Schaeffer^ Thank you, and good morning to everyone. Welcome to our fourth quarter 2020 and full year 2020 earnings conference call. I'm Dave Schaeffer, Cogent's CEO. And with me on this morning's call is Sean Wallace, our Chief Financial Officer.

We continue to believe in the long-term strength of our business, the growing importance and breadth of our network and the increasing profitability of operations. We remain confident in the importance of our products and services to our client base, which continues to utilize Cogent's Internet services for mission-critical products for their operations.

Fundamentally, the interconnectivity and volume of traffic among businesses, service providers, carriers, data centers, continues to grow at an extremely high rate, and we are

an important part of the infrastructure to facilitate that growth. We believe that our investment in expanding our network to international markets, combined with our leadership and connectivity to carrier-neutral data centers continues to position Cogent uniquely for the globalization in the Internet.

As discussed in previous earnings calls, our churn levels remain within historical averages. In fact, we experienced a modest decline in both our on-net and off-net customer churn during the fourth quarter, which is encouraging considering the environment in which we are operating.

Despite this improvement, we continue to see new and existing corporate customers taking a cautious approach to new configurations and are also continuing a reduction in demand for services to some of their smaller satellite offices. We see these challenges as uncertainties related to incremental sales as a direct result of the COVID-19 pandemic.

Despite the pandemic-related challenges, our fourth quarter revenues grew sequentially by 1.1% to $143.9 million, an increase 2.6% on a year-over-year basis. Our full year 2020 revenue increase by 4% to $568.1 million from full year 2019. On a constant currency basis, we experienced quarterly revenue increase sequentially of 0.7% and achieved a year-over-year quarterly revenue growth rate of 1.2%.

We continue to operate an extremely efficient network, which serves a growing number of markets and buildings and is able to handle a continuous growth in traffic at a fixed cost basis. We experienced year-over-year and sequential growth in our gross profit, gross profit margin, EBITDA and EBITDA margin.

Our gross profit grew by 1.4% sequentially and grew by 5.6% year-over-year. Our gross profit grew by 7% from full year 2019 to full year 2020. Our gross margin percentage improved by 20 basis points sequentially to 62.1% and grew by 180 basis points on a full year-over-year basis. Our gross margin percentage improved by 170 basis points on year-over-year, excuse me, an 180 on a quarterly basis. Our EBITDA quarterly margin increased by 110 basis points from the fourth quarter of 2019 to 38.7%. This is also an increase of 30 basis points sequentially and an increase of 150 basis points for full year 2019.

Our quarterly EBITDA grew by 2% sequentially and grew by 5.6% year-over-year. Our full year 2020 EBITDA was $214 million, an increase of 8.1% from full year 2019. The performance of our existing customer base continue to be strong despite the impact of COVID-19. Customer churn, bad debt and days of sales outstanding and our cash collections all performed within historical norms in the quarter. And as I noted earlier, our churn slightly declined from the third quarter. And additionally, our bad debt improved. We believe these statistics indicate the strong credit quality of our customer base and the fundamental importance of Cogent services to their organizations.

We continue to see positive trends in network traffic. We believe that the growth in network traffic is being driven by a variety of factors, including the continued

internationalization of the Internet, of which we are in an outstanding beneficiary. We continue to see success in distributing streaming products. Consumers are purchasing a greater number of streaming subscriptions than was previously expected. And this is driving a clear increase in demand for bandwidth from streaming operators.

This growth in demand for streaming subscriptions is also requiring our access network customers to increase their capacity purchases from Cogent in order to meet the needs of their end users. Operators and publishers all seem to be enhancing capacity to improve the speed and quality of their services and differentiate their products. All of these factors require more bandwidth.

For the fourth quarter, our traffic was up 14% on a sequential basis. And on a year-over-year basis in the fourth quarter, our traffic was up 41%. And for full year 2020 versus 2019, our traffic increased by 39%. The annual rate of traffic increase, increased from 35% in 2019 to the 39% in 2020. And this increase in volume of traffic on our network actually exceeded the total amount of traffic that Cogent carried only 5 short years ago in 2015.

During the quarter, we returned $34.4 million to our shareholders through our regular quarterly dividend and our dividends for the full year were $129.4 million. During the quarter, we also purchased $4.2 million of common stock as of the end of January 2021. We have a total of $30.4 million still available in our stock buyback program, which is authorized to continue through the end of December 2021. For full year 2020, we purchased $4.5 million of common stock or approximately 79,000 shares of stock.

Our cash held at Cogent Holdings was $94 million at quarter end. This cash is unrestricted and available to be used for dividends and/or stock buybacks. Cash held at our operating companies was $277.3 million, and our total cash on a consolidated basis is $371.3 million at the end of the quarter. Our gross leverage ratio increased from 5.10 to 5.14 last quarter, and our net leverage increased to 3.40 from 3.24.

Our consolidated leverage ratio is calculated under our debt indentures, was 5.06 at quarter's end. The leverage ratio increase is primarily as a result of the $18.9 million increase in the cost of our European-denominated debt due to the U.S. dollar to euro translation. This was more than offset by our increase in consolidated cash flow.

Our Board of Directors, which reflects on our business a strong cash flow generating capabilities and investment opportunities has again decided to increase our quarterly dividend by another $0.025 per share sequentially raising our dividend from $0.73 a share in the third quarter to $0.755 for the fourth quarter. This increase represents the 34th consecutive sequential quarter with which we have increased our regularly quarterly dividend. The dividend is growing at a compounded growth rate of 14.4%.

Now I'd like Sean to spend a moment reading the safe harbor language and giving a little more color on the impact of the pandemic.

Sean Wallace^ Thank you, Dave, and good morning, everyone. This earnings conference call includes forward-looking statements. These forward-looking statements are based upon our current intent, belief and expectations. These forward-looking statements and all other statements that may be made on this call that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to our SEC filings for more information on the factors that could cause actual results to differ. Cogent undertakes no obligation to update or revise our forward-looking statements.

If we use non-GAAP financial measures during this call, you will find these reconciled to the GAAP measurements in our earnings release, which is posted on our website at www.cogentco.com.

An update on COVID-19. Like many other companies, Cogent continues to be impacted by the COVID-19 pandemic and the accompanying responses by governments around the world. Virtually our entire workforce continues to work remotely. I want to thank the entire Cogent workforce and in particular, our IT department for their continued hard work during these very challenging times. I also want to thank our field engineers, contractors, billing and collection staff and other Cogent employees who continue to work on the front lines, installing our new customers and maintaining and upgrading our network so that we can continue to serve our customers.

The ultimate impact of the pandemic on Cogent is unknown and a significant amount of uncertainty and volatility remains. We do not know the scope and duration of the pandemic, what actions governments may take in the future in response to the pandemic and how the pandemic will impact the economies of the world. While most Cogent employees are working remotely, we have no assurance that this will be sufficient to protect our workforce and our key employees. Moreover, our results of operations may be adversely affected in the future as the pandemic and the related government restrictions continue.

We may see slowdowns in new customer orders, find it difficult to collect from customers who are experiencing financial distress, encounter difficulties accessing the buildings and locations where we install new customers and serve existing customers or have difficulties procuring, shipping or installing equipment on our network. We may also find that our corporate customers, our largest customer base, which is served primarily in our on-net multi-tenant office buildings may be adversely affected by falling demand for commercial office space in central business districts. Companies located in these buildings may elect not to return to their office space, either on a temporary or even on a permanent basis.

We have also seen customer additions of satellite office locations decline as customers either disconnect certain offices or elect not to purchase direct Internet access or virtual private network connections for smaller offices. The global economic impact of the COVID-19 pandemic may have prolonged effects that impact our business well into the future. These and other risks are described in more detail in our annual report on Form

10-K for 2020 that will be filed shortly after this call, and in our quarterly reports on Form 10-Q for the quarters ended September 30, 2020, June 30, 2020, and March 31, 2020.

Throughout this discussion, we will highlight several operational statistics. I will review in greater detail certain operational highlights and trends. Following our remarks, we'll open up for Q&A.

Now I'd like to turn it over back to Dave.

Dave Schaeffer^ Great. Thanks, Sean. Hopefully, you've had a chance to review our earnings press release. Earnings press release includes a number of historical metrics, which we report consistently. Our targeted long-term EBITDA annual margin expansion guidance is for an improvement of approximately 200 basis points per year. Our targeted multiyear constant currency long-term revenue growth is for approximately 10% growth per year. Our revenue and EBITDA guidance targets are intended to be multiyear goals and are not intended to be either quarterly or annual specific guidance.

Our Corporate business, which represents 65% of our revenues, declined on a year-over-year basis by 3.1% from the fourth quarter of 2019. And sequentially, from the third quarter of 2020, it declined by 2.1%. An increase in the USF tax rate at a $200,000 positive impact on our quarterly sequential revenues. And for full year 2020 over 2019, it had a negative impact of $200,000. USF tax rates change quarterly and cannot be predicted, and we are expecting additional volatility in those rates as the government reconfigures its broadband rural strategy.

Our NetCentric business, which represents 35% of our revenues, had a strong quarter with growth accelerating on a quarter-over-quarter basis to 7.7%, and it grew for the fourth quarter of 2020 versus the fourth quarter of 2019 by 15.3%. Volatility in foreign exchange rates impacts our NetCentric business.

On a constant currency basis, our NetCentric business grew in the fourth quarter of 2020 over the fourth quarter of 2019 by 10.9%, and it grew by 6.4% from the previous quarter and grew for the full year 2020 over 2019 by 6.2%.

Sean will now give you some additional color on some of our operational statistics.

Sean Wallace^ Thanks, Dave, and again, good morning to everybody. Let's talk about how we analyze our revenues, corporate and NetCentric revenue and customer connections. We analyze our revenues based upon network type, 3 types: on-net, off-net and noncore. And we also analyze our revenues based upon customer type.

We classify all of our customers into 2 types: NetCentric customers and Corporate customers. Our Corporate customers buy bandwidth from us in large multi-tenant office buildings or in carrier-neutral data centers. These customers are typically professional service firms, financial service firms and educational institutions located in multi-tenant

office buildings or connecting to our network through our CNDC footprint. Our NetCentric customers buy significant amounts of bandwidth from us in carrier-neutral data centers and include streaming companies and content distribution service providers as well as access networks who serve the consumers of content.

Revenue and customer connections by customer type. Revenue from our corporate customers for the quarter fell sequentially by 2.1% to $93.7 million and fell year-over-year by 3.1%. Revenue from our corporate customers was $383.4 million for full year 2020, an increase of 2.6% over full year Q1 2019. We believe that the growth rate of our Corporate revenues was directly impacted by reduced building occupancy in central business districts of major cities as a result of the COVID-19 pandemic. While we continue to have significant dialogue with our existing and potential customers, some customers are delaying the upgrade of services or purchases of new services due to the uncertainty regarding COVID-19 mostly in off-net office buildings.

Recently, Corporate customers are reducing their aggregate number of locations, and this has resulted in lower sales to satellite offices. The slowdown in sales combined with normal historical levels of churn has contributed to a modest reduction in Corporate revenue for the period.

On a positive note, most of this churn in our Corporate base is derived from our older 100 megabits virtual private network and direct Internet access products. And we continue to see very low levels of churn and stronger sales for our larger 1 gigabit per second product. Existing Corporate customers continue to upgrade and new Corporate customers prefer the ability to increase their capacity by 10 times with only a modest pricing premium.

The higher USF rate, which only applies to Corporate VPN connections increased Corporate revenues by $0.2 million for the quarter, while the continuing trend of lower local loop pricing contributed to the reduction in our off-net Corporate revenue as we continue to pass on these savings to new off-net customers. We had 47,175 Corporate customer connections on our network at year-end, which was a decline of 1.1% versus the third quarter and a decrease of 2.7% from the fourth quarter of 2019.

As Dave mentioned earlier, continued growth in international traffic and streaming services helped our NetCentric business accelerate growth in our second quarter and indeed, for the entire second half. Quarterly revenue from our NetCentric customers increased sequentially by 7.7% to $52 million and increased year-over-year by an impressive 15.3%. Revenue from our NetCentric customers was $184.7 million for the full year 2020, an increase of 7.1% over full year 2019.

We had 42,425 NetCentric customer connections on our network at year-end, an increase of 11.5% over the fourth quarter of 2019. Our NetCentric business benefited from continued strong demand for our larger 10 gigabits per second and even our 100 gigabits per second ports. Our NetCentric revenue growth experiences significantly more volatility than our Corporate revenues due to the impact of foreign exchange, larger

customer size and certain seasonal factors, primarily related to usage. While traffic grew in our network by 14% sequentially and by 41% year-over-year, primarily a result of increased NetCentric traffic. This increase in traffic did not create an equivalent increase in revenues as volume discounts and traffic mix, particularly rated to some of our largest customers, partially offset this traffic growth.

Revenue and customer connections by network type. Our on-net revenue was $107.1 million for the quarter, a sequential quarterly increase of 1.9% and a year-over-year increase of 4.3%. Our on-net revenue was $419.5 million for full year 2020, an increase of 5.7% for full year 2019. Our on-net customer connections increased by 1.3% sequentially and increased by 3.7% year-over-year. We ended the quarter with 77,305 on-net customer connections on our network in our 2,914 total on-net multi-tenant office and carrier-neutral data center buildings.

Our off-net revenue was $36.7 million for the quarter, a sequential quarterly decrease of 1.1% and a year-over-year decrease of 2.2%. Our off-net revenue was $148.1 million for full year 2020, a decrease of 0.5% over full year 2019. When we sell new off-net circuits, we incorporate the cost of savings from the lower local loop prices into our pricing and the introduction of these customers into our base lowers our overall off-net ARPU.

Our off-net customer connections increased sequentially by 1% and increased by 2.7% year-over-year. We ended the year serving 11,970 off-net customer connections in over 7,270 off-net buildings. These off-net buildings are primarily in North America.

Pricing per megabit. Consistent with the historical trends, our average price per megabit of both our installed customer base and new customer contracts decreased for the quarter. The average price per megabit for our installed base declined sequentially by 8.8% to $0.41. And declined by 29.4% for the fourth quarter of 2019. The average price per megabit for our new customer contracts for the fourth quarter was unchanged at $0.19 from the third quarter and declined by 31.8% from the fourth quarter of 2019. As we continue to succeed in selling larger 10 gigabits per second and 100 gigabits per second connections to customers. This change in our connection mix will have the effect of lowering our price per megabit at a greater rate than our changes in price per connection.

ARPU. Our on-net ARPU increased and our off-net ARPU decreased sequentially and decreased year-over-year. The year-over-year and sequential increases in our on-net ARPU reflects the growing importance and change in our mix of our larger bandwidth products for the Corporate and NetCentric markets. During 2020, our 1 gigabit product surpassed our Fast Ethernet, which is 100 megabit product, as our most popular product in terms of count and in terms of revenues, and its continued growth is contributing to a higher on-net ARPU.

Another product that is contributing to our higher on-net ARPU is our 100 gigabit product, which is sold primarily to our NetCentric customers. The growth in units and the size of their prospective ARPUs is having a positive impact on our on-net ARPU. Our on-net ARPU, which includes both Corporate and NetCentric customers, was $465 for

the quarter, an increase of 1% from last quarter and an increase of 0.8% from the fourth quarter of 2019.

Our off-net ARPU, which is predominantly comprised of Corporate customers was $1,026 for the quarter, a decrease of 1.6% from last quarter and a decrease of 4.8% from the fourth quarter of 2019. We expect that our off-net ARPU will continue to decline as we take advantage of volume and time-based discounts in order to lower the cost of our local route loops. These reductions in costs are passed on to our Corporate customers and are making us more competitive in this market.

Churn rates. Our sequential quarterly on-net and off-net connection churn rates both improved. Our on-net unit churn rate was 1% for this quarter, a decrease from 1.1% last quarter. Our off-net unit churn rate was 1.4% for this quarter, a decrease from 1.5% last quarter.

NetCentric Mac orders. In order to reduce our customer turnover, we employ a dedicated sales group, which works primarily to retain customers who have indicated that they are considering terminating their service with us. We may offer pricing discounts to these customers owner to induce them to purchase additional services and/or to extend the term of their contract with us. Due to the commodity nature of NetCentric customer services, the vast majority of our move, add or change orders are related to our NetCentric customers. During the quarter, certain of our NetCentric customers took advantage of our volume and contract term discounts and entered into long-term contracts with us for over 2,400 customer connections, increasing their total revenue commitment to Cogent by over $23 million.

Let's talk about EBITDA. Our EBITDA is reconciled to our cash flow from operations in all of our quarterly earnings press releases. Seasonal factors that typically impact our SG&A expenses include the resetting of payroll taxes in the United States at the beginning of each year, annual cost of living or CPI increases, seasonal vacation periods, the timing and level of our audit and tax services, our annual sales meeting costs and our benefit plan annual cost increases.

Our EBITDA improved sequentially by $1.1 million, primarily a result of a $2 million increase in our on-net revenue. Our quarterly EBITDA increased by 2% sequentially to $55.7 million. Our quarterly EBITDA increased year-over-year by $3 million or by 5.6%. Our quarterly EBITDA margin increased by 30 basis points sequentially to 38.7%, an increase over -- year-over-year by 110 basis points. Our full year 2020 EBITDA increased by 8.1% to $214 million. Our full year EBITDA margin increased by 150 basis points to 37.7%.

Earnings per share. Our basic and diluted loss per share was $0.14 for the quarter compared to a loss per share of $0.11 last quarter. Our income per share was $0.16 for Quarter 4 2019. Unrealized gains and losses on the translation of our 2024-euro notes into U.S. dollars are the primary contributor to the variability in our net income and

consequently, our income or loss per share. In particular, last quarter and this quarter, euro continued to appreciate versus the U.S. dollar.

Foreign currency impact. Our revenue earned outside the United States is reported in U.S. dollars and was approximately 24% of our total quarterly revenues. Approximately 18% of our revenues this quarter were based in Europe, and about 6% of our revenues related to our Canadian, Mexican, Asia Pacific, South American and African operations. We have not hedged our foreign currency obligations, including our payments on our euro notes.

Continued volatility in foreign currency exchange rates can materially impact our quarterly revenue results and our overall financial results. The foreign exchange impact on our reported quarterly sequential revenue was a positive $0.6 million and the year-over-year foreign exchange impact on our reported quarterly revenue was a positive $1.9 million.

Our quarterly revenue growth rate on a constant currency basis was 0.7% sequentially and 1.2% year-over-year. The foreign exchange impact on our reported annual revenue was a positive $1.5 million and our annual revenue growth rate on a constant currency basis was 3.7%. Variability in foreign exchange rates primarily impacts our NetCentric revenues.

The average euro to USD rate so far this quarter is 1.21, and the average Canadian dollar exchange rate is 0.79. Should these average foreign exchange rates remain at the current average levels for the remainder of our first quarter of 2021, we estimate that the FX conversion impact on our sequential quarterly revenues for our first quarter would be a positive $0.6 million and the year-over-year FX conversion impact on our quarterly revenues would be a positive $2.7 million.

Customer concentration. We believe that our revenues and customer base is not highly concentrated. Our top 25 customers represented less than 5.5% of our revenues, both this quarter and for the full year.

Capital expenditures. Our quarterly capital expenditures increased by $2.6 million sequentially and increased by $6 million year-over-year. Our capital expenditures were $15.9 million this quarter compared to $9.9 million for Quarter 4 '19 and $13.3 million for third quarter 2020. Our full year 2020 capital expenditures were $56 million, an increase of 19.2% from $47 million of capital expenditures from last year. This increase reflects our network expansion activities to support our growing addressable market. We anticipate a reduction in our capital expenditures for fiscal '21.

Finance leases and finance lease payments. Our finance lease IRU obligations are for long-term dark fiber leases and typically have initial terms of 15 to 20 years or longer. And often include multiple renewal options after the initial term. Our finance lease IRU fiber lease obligations totaled $219.1 million at 12/31/2020. At year-end, we had IRU contracts with a total of 269 different dark fiber suppliers.

Our finance lease principal payments were $4.6 million for the quarter, primarily due to purchases of dark fiber in international markets compared to $2.1 million for the fourth quarter of 2019 and $9.5 million for the third quarter of 2020. Our finance lease principal payments for full year 2020 increased by $14.9 million year-over-year and were $24.0 million compared to $9.1 million last year. Our finance lease principal payments combined with our capital expenditures were $20.1 million this quarter compared to $22.8 million last quarter and were $12 million for the fourth quarter of 2019.

Cash and operating cash flow. As of December 31, 2020, our cash and cash equivalents totaled $371.3 million. For the quarter, our cash decreased by $22 million from an increase in our capital expenditures, and increased payments on our capital lease obligations and an increase in our quarterly dividend payments. Our quarterly cash flow from operations increased sequentially by 13.9% to $37.6 million, primarily due to a $4.5 million increase in working capital. Our quarterly cash flow from operations decreased by $8.5 million year-over-year. Our cash flow from operations was $37.6 million for the quarter compared to $46.1 million for the fourth quarter of 2019, and $33 million for the third quarter of 2020.

Debt and debt ratios. Our total gross debt at par including our finance lease IRU obligations, was $1.1 billion at December 31, 2020, and our net debt was $729.8 million. Our total gross debt to trailing last 12 months EBITDA as adjusted, ratio was 5.14 at December 31, 2020, and our net debt ratio was 3.40. Our consolidated leverage ratio, as calculated under our debt indenture agreements was 5.06 at December 31, 2020.

Our 350 million-euro notes are reported in U.S. dollars and converted to U.S. dollars at each month end using the month end euro to U.S. dollar exchange rate. The unrealized foreign exchange unrealized loss in our euro notes was $19.2 million this quarter or $0.42 per share compared to an unrealized loss of $17.3 million last quarter and an unrealized loss of $4.1 million for the fourth quarter of 2019.

Bad debt and days sales outstanding. Our bad debt expense as a percentage of our revenues improved sequentially and improved year-over-year. Our bad debt expense was 0.5% of our revenues for the quarter, an improvement from 0.6% of our revenues for the third quarter of 2020 and 0.8% in Quarter 4 2019. Our bad debt expense was 0.7% of revenues for full year 2020, and an improvement from 0.8% of our revenues last year.

Our days sales outstanding, or DSO, for worldwide accounts receivable was 24 days for the quarter, a slight increase of 2 days from last quarter. I want to thank and recognize our worldwide billing and collections team members for continuing to do a fantastic job in serving our customers and collecting from our customers during very challenging times.

I will now turn the call back over to Dave.

Dave Schaeffer^ Thanks again, Sean. I'd like to highlight a few of the strengths of our network, our customer base and our sales force. Cogent's network operates in 47 countries globally. As we introduce our services in new markets, we believe that the breadth of our network, the size of our sales force and the competitive pricing that we offer are a catalyst for growing demand of bandwidth in these markets. We also believe that our continued success in Asia, South America and Africa indicates that we can profitably extend our network and our business model to additional countries and even continents.

We have over 976 million square feet of multi-tenant and office space in North America on our network. We operate 54 Cogent-owned data centers was 606,000 square feet of raised floor space, which is operating at approximately 33% capacity. Our network consists of over 37,500 metro fiber miles and over 58,200 intercity route miles of fiber. As I stated earlier, we saw an acceleration in revenue growth in our NetCentric business in the second half of 2020, and mid-teens double-digit growth on a year-over-year basis for the fourth quarter 2020.

I'd like to highlight some of the important trends and statistics that we believe reflects the growing strength of our business as we've developed the most interconnected, highest capacity Internet global backbone. At year-end 2020, we connected to more than 1,250 carrier-neutral data centers, more than any other carrier in the world as measured by independent third parties. This breadth of coverage enables our NetCentric customers to better optimize their network and reduce latency. We expect that we will widen our lead in this market as we project that we will connect to an additional 100 carrier-neutral data centers per year over the next several years based on construction pipelines.

At year-end 2020, we directly connected to over 7,330 access networks, which represents a 4.8% increase from the 6,954 connected networks a year earlier. This collection of telephone companies, cable companies, Internet service providers and mobile operators provides us access to the majority of the world's broadband and mobile user subscribers. This large collection of end users uniquely positions Cogent as the go-to network for new applications and content providers.

At year-end 2020, we had a sales force of 236 million professionals solely focused on our NetCentric market. We believe that this group of professionals is the largest and most sophisticated sales teams focusing on this industry segment. As we have demonstrated, there is continued growth in demand for 10 gigabit and 100 gigabit ports in this market segment.

And finally, I'd like to highlight some important trends in our NetCentric traffic growth. In addition to our traffic growing between 30% and 40% per year over the past few years, our share of traffic that originates and terminates on our network has increased over the past 2 years from just over 50% of traffic to over 67% of traffic.

From this traffic trend, we draw 2 strong conclusions. One, it indicates we have a very balanced network and where services share content from around the world with access

networks that represent the majority of the world's end user subscribers. Secondly, the increasing amount of client's traffic that remains on our network materially enhances the speed and reliability of our service. This also results in increasing profitability as we get compensated in these instances by both customers being paid by both sides for the same traffic. We believe that our net traffic growth as well as the increasing reach of our network allows us to increase the profitability of Cogent.

On the Corporate side, despite our customers' caution related to COVID-19, we are seeing some attractive long-term trends and our customer base. This year, for the first time, our 1 gigabit product surpassed our 100 megabit product for a number of connections and revenues on a full year basis. As working from home environments become more established as part of people's work schedules, we believe that our Corporate customers will continue to look to upgrade their internet access to larger connections. As employees remain outside of their main offices, corporations will require high capacity circuits for both inside and outside employees.

Cogent's robust bidirectional, fully symmetric 1 gigabit product has a significant advantage over most of our competitors and provides a key differentiation in symmetric traffic versus asymmetric downstream services that our competitors offer.

Now for a few comments around our sales force. We experienced some improvements in our sales force productivity as a result of our continuing training effort and our acceleration in managing out underperforming sales reps. As a result, on a sequential basis, our sales force headcount did decline slightly to 569 reps and our full-time equivalent reps declined to 542 at year-end. Year-over-year, however, our sales force increased by 21 reps or 4%, and our full-time equivalent sales reps grew by 40 or 8% on a year-over-year basis. Our sales force turnover was 6.9% per month for the fourth quarter, an increase from the 4.6% per month we experienced in third quarter 2020, primarily as a result of our more disciplined approach to managing out underperformers.

For the year, our monthly sales rep turnover averaged 5%, which is directly in line with our long-term historical averages. These factors resulted in a rebound in our sales productivity to 4.2 million installed orders per full-time equivalent rep per month, a 14% increase over the third quarter of 2020, where we experienced 3.7 orders installed per full-time equivalent rep per month.

Overall, we believe our sales force has accomplished a great deal over the past few quarters. This is included the adaptation to a new CRM system, the transition to working from home. And despite these challenges, our sales team in the fourth quarter had the best quarter of the year. I want to thank our entire sales force and our entire Cogent support team all they have done, and we look forward to improved performance in 2021.

Our customer churn, bad debt and day sales outstanding were all within historic norms. Our bad debt expense showed improvement on an annual and sequential basis, and our customer churn improved. We believe these statistics represent the strong credit quality of our customer base and the importance of Cogent services to those customers.

So in summary, Cogent is the low-cost provider of Internet access and transit services that is unmatched in the industry. Demonstrating this low-cost position since 2016, we have lowered our cost of goods sold per byte transmitted at a compounded rate of 22.5%. Our business remains completely focused on the Internet, IP connectivity and data center colocations, all of which are a necessary utility to our customers.

The new Internet architecture, the reliability and symmetry of our services allows dedicated Internet access services to be a mission-critical component for Corporate IT departments. We remain optimistic about our unique position in serving small and medium-sized businesses. Located in the central business districts of Major North American cities. We are in 1,792 multi-tenant office buildings.

Despite the recent drop in new tenancy rates in these major cities, we were beginning to see landlords aggressively lower rents in our footprint, shorten lease terms and provide new tenants with improvements and additional inducements. All designed to keep the occupancy rates of the Class A buildings we serve elevated. As COVID vaccines increase, there's a growing likelihood that our tenants will begin to return to our multi-tenant office footprint. We believe that our corporate business can resume its long-term historical average growth rates. Our targeted multiyear constant currency revenue growth for the entire business is 10% and our long-term expectations are that EBITDA margins will expand at 200 basis points a year.

Our Board of Directors has approved our 34th consecutive sequential increase in our regular quarterly dividend of $0.025 a share to $0.755 and this represents a 14.4% compounded annual growth rate and our dividend. Our consistent dividend increases demonstrate our continued optimism regarding the increasing cash flow production capabilities of our business. We believe that this will drive the management team to be highly disciplined around capital allocation, top line growth and managing operating expenses.

We did purchase $4.2 million of stock in the quarter. As of the end of January, we had $30.4 million remaining in our buyback program through 2021. We hope everyone remains safe and healthy during these challenging times. We value the safety of our team and hope they are all taking the necessary precautions as we begin to look forward to returning to the office.

Our long-term growth and profitability targets remain intact. And we are committing to increasing the amount of capital we returned to our shareholders on a regular basis.

With that, I'd like to open the floor for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

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

Walter Piecyk^ I just want to go back to the same -- basically the same 2 questions I've been asking for the last couple of quarters, which is on the Corporate side, when do you expect to return to growth? Obviously, this is the first decline. I think my model only goes back to 2009. I haven't seen a decline in Corporate revenue growth. I think I somewhere in those comments, you said something about big being better, and that's optimistic. But at the end of the day, if you're declining in Corporate, that's obviously not good. So can you give us a sense of when that can return to growth.

And then much more importantly, I mean, last call, we talked about 3.5x leverage being at the top end of the range. And that if you had to hit that leverage that you'd have to reconsider your capital return policy. I don't -- I think on the call, again, somewhere in those lengthy comments, you mentioned a 3.4x leverage. I think I calculated at 3.2x. But in any event, it looks like it's heading towards 3.5x fairly quickly. So can you give us some sense on what that means for the dividend and why you're buying stock back if your leverage is hitting the top end of the range?

Dave Schaeffer^ Yes, sure, Walt. Thanks for both questions. First of all, with regard to our Corporate business, we actually did have Corporate revenue declines in 2008 and early 2009 on a quarterly basis and the great financial recession. Those declines lasted a couple of quarters and then quickly reverted back to growth. And our Corporate business has averaged about 11.3% growth compounded over a 16-year period organically.

We think we still have a large addressable market ahead of us. We are only about 25% penetrated in our footprint. We see customers continuing to increase the size of their connections and need the type of service that Cogent offers. The pandemic impact has been both more severe and longer-lasting on the Corporate base than the great financial recession of 2008, 2009 but we are seeing signs of improvement. Our sales force productivity is increasing. We are seeing the need for more of the 1 gigabit services.

The downside has been that Corporate customers who have multiple locations are leaving those secondary locations vacant at this time. That means they do not need dedicated Internet access or VPN services for those locations. You saw that in the absolute decline in the off-net portion of our business, but we are seeing increased activity from Corporate customers as they expect to return to the office over the next 6 to 9 months.

We are getting encouraging news on vaccinations, and many companies are going through the planning processes to start to welcome those employees back to the office. We believe that our Corporate business has troughed. We have seen improvements throughout the quarter in funnel and customer engagement activities with Corporate customers. And we think we will see a steady improvement as employees return to the office, albeit probably in a slightly different manner than they were in the office prepandemic.

As I commented in the call, we're seeing landlords take very aggressive actions to make sure that their buildings remain full. They are lowering rents, they are increasing tenant inducements. We have not seen the vacancy rates and our footprint materially spiked up.

Now to your question on leverage. Most of the increase in leverage was a result of the nearly $19 million noncash increase in the U.S. dollar reported value of our 350 million euro notes. We are naturally hedged on that because about 24% of our revenues come from outside of the U.S. with 18% of them being in Europe.

We also anticipate that our cash interest expense will decline as we look to refinance our USD 445 million secured notes, which are currently at 5 and 3 eights it appears we will be able to refinance those at a lower interest rate, reducing cash interest expense.

Finally, to the aggregate coverage ratio. Not only did the FX translation of the euro notes impact that. As we mentioned 2 calls ago, the change in accounting that had us capitalize the maintenance expense and increase our capital lease application also had an impact on leverage. This, again, was noncash, was an accounting change.

And then finally, as we've commented multiple times, the Board has a guidance range, but it will evaluate that range and adjust appropriately to remind investors, our initial leverage target was 2.5x. We're under that. And when we bridge that, the Board decided to increase that to a range of 2.5x to 3.5x. While it is not a guarantee that we will adjust it once we hit 3.5x, if we ever hit 3.5x on a net basis, it is something the Board will look at. It is weighed against the relative cost of debt versus equity.

And that really addresses the final part of your question. Why did we buy back stock? It was simple arithmetic. The yield on our stock was substantially higher than our incremental cost of debt capital. So if we can rent capital less expensively and retire permanent capital, it makes economic sense. We have taken a very balanced approach to returning capital to investors returning nearly $900 million to investors over the past decade, and we are committed to growing that return on capital. As we commented, we've returned nearly $135 million equity last year.

Walter Piecyk^ Okay. Even if you adjusted for the $19 million, your leverage still went up, and it's on a trajectory to hit 3.5%. So basically, what you're saying, it sounds like is that the Board had a range even if it hits the range, they're just going to subjectively keep approving dividend increases and share repurchases and the share repurchases effectively accelerate your path to hitting that top end of the range, which obviously is not at top end of the range then?

Dave Schaeffer^ So it will be measured each quarter by the Board, which will look at a number of factors, the cost of debt capital, the availability of that capital as well as the growth rate in the business and the growth rate in EBITDA and the capital intensity of the business. If the Board is comfortable that the growth in free cash flow of the business is sufficient to allow us to return the capital at an increasing amount to shareholders they

will most likely make those adjustments. But there is no commitment, we're going to look at all of those factors each quarter.

Walter Piecyk^ Understood. Dave, can you just also go back, just 1 follow-up on your first response in terms of claiming that -- or saying that the Corporate business had troughed. Does that mean that we return to sequential growth? And then more importantly, the Corporate, as you recall, was a steady 2% sequential grower for years. That's what made the business so attractive. So when can we really get back to that type of nice 2% sequential growth in the Corporate business? Is this a 2021 event? Is it a '22 event? What's your outlook on that?

Dave Schaeffer^ I see improvement, but I also do not see improvement in the first quarter of 2021 to a 2% sequential rate. We will do better than we did in fourth quarter. We do not give specific quarterly or annual guidance, but we are seeing an improvement. And ultimately, the growth in that business is highly dependent on the return to the central business districts of employees. It appears that with nearly 1.7 million vaccinations being done daily, that companies are beginning the process of planning for employees to be back in the office late summer, early fall. I think until we reach that level of normality, the Corporate business, while improving, will not return to that 2% growth rate.

Operator^ Our next question comes from the line of Frank Louthan with Raymond James.

Frank Louthan^ Great. Can you quantify the impact to EBITDA with the sales force growth? And then you mentioned lower churn on the 1 gig product. What percentage of your Corporate customers are on that product versus your legacy products?

Dave Schaeffer^ So today, over half of our Corporate customers are on the 1-gig product versus the 100 megabit. And then secondly, what we have seen are most of the churn being from 2 product segments, 100 megabit DIA and 100 megabit VPLS, VPS. Those are the products that have had the most significant churn. And when we look at the locations where that churn is occurring, it really falls into 2 categories: one, secondary offices of larger organizations that remain unoccupied. Secondly, if it is a primary location, the size of those tenants is substantially smaller than our average customer. So it's smaller customers in secondary locations that are accounting for the churn and what is churning are the smaller products.

Now with regard to the EBITDA portion of the question and sales force. There, we have seen a consistent improvement in EBITDA. We were up 150 basis points year-over-year, our full-time equivalent sales force growth year-over-year was 8% and on a gross basis was 4%, meaning we were managing out some underperformers more quickly. But our EBITDA margin improvement is coming primarily from the operating leverage of the business. As Sean mentioned, revenues were up $2 billion, EBITDA of $1.1 million kind of back in the envelope, showing a 55% contribution margin. It's actually even a little

better than that as we've been averaging over the past couple of years. EBITDA contribution margins of about 62%.

As we have guided to this multiyear 10% top line growth and 200 basis points of margin expansion. We were able to achieve a 150 basis points of EBITDA margin expansion on a growth rate that was slightly less than half of our targeted growth rate at 4%. Now some of that was benefited by the fact that our on-net sales improved relative to our off-net. The mix of NetCentric versus Corporate actually helps in that area because in our NetCentric business over 90% of sales are on-net, whereas in Corporate only 60% of sales are on-net. So there is some mix benefit here that is allowing us to do better in the short term.

But we do expect, over time, our mix of Corporate and NetCentric on-net and off-net to be within historic ranges and allow us to deliver that 200 basis points even with and 8% growth in the sales force.

Frank Louthan^ So you don't see any near-term uptick in costs before those salespeople become more productive? And you don't see any material degradation to the off-net revenue as we kind of go through these trends? Or is there a bottom of revenue or a percentage of off-net revenue, do you think that this is going to hit as these trends kind of continue with these smaller offices if they choose to close them and et cetera.

Dave Schaeffer^ So first of all, for our sales force efficacy, tenure is the greatest indicator of how efficient the sales force is. Our sales force efficiency improved 14% sequentially from 3.7 to 4.2. Our average sales force tenure increased to over 29 months. Now we did increase turnover, but most of that turnover were newer reps that actually had never set foot in a Cogent office and we're being trained remotely. We have put systems and tools in place to quickly detect those underperforming reps and managing out of the business more quickly.

While we hope every sales wrap succeeds, we understand how difficult it is to work in a remote environment and be solely a telemarketer. So I think there's a fair amount of improvement still as the average of the sales force productivity today is below the long-term averages. Remember, 4.2 is still below our historical average of just around 5 orders installed per rep per month.

Now to your off-net question, that's really dependent on the locations. Our off-net sales are tied to on-net. As companies think about those secondary offices, we'll see a rebound in off-net business. Over the long run, our unit growth and on-net and off-net have been highly correlated, almost identical. Now we do see steeper ARPU declines off-net because of lower costs. But that trend will continue. But I do think total Corporate business should end up improving.

Operator^ Your next question comes from the line of James Breen with William Blair.

James Breen^ Just a couple. On -- you gave a statistic about customer concentration, which is good. It doesn't seem like you have any extremely large customers. Given some of the contracts that you renegotiated or extended in the fourth quarter, as we look through '21, should we see sort of a greater translation between traffic and revenue growth given some of the projects in place. And then just a second question, Dave, just wondering from a high level, with California looking to pass the net neutrality rules and the Democrats back in charge of the FCC. Any impact on the business there from where we were 4 years ago now when net neutrality sort of went by the way side.

Dave Schaeffer^ Yes. Let me take the contract one first. Our customer base is actually improving. It's becoming more diversified. We're seeing more streaming publishers, which helps us diversify our content base, and we are seeing a greater percent of traffic saying on-net and going to a greater number of access networks. Historically, the price per megabit has declined at about 23% year-over-year. We're pretty much on that historical trend line. And traffic has generally grown in the low 30s. We're above that trend line today. We were obviously very encouraged by the 15% year-over-year fourth quarter growth in NetCentric revenue. Some of that was helped by foreign exchange because half of that business is outside of the U.S.

But I think throughout the year, we expect to see this broader base of customers allow us to drive better-than-average NetCentric revenue growth. Again, to remind investors, while there is a lot of volatility in our NetCentric business, the 16-year average growth rate has been 9%. We're above that for actually the first time in about 7 years. And that actually is a good segue to your second question around net neutrality.

If you remember, one of the major impediments to our NetCentric business was an attempt by many last mile access networks to impede streaming applications to protect their linear video products. We have been a strong proponent of neutrality. We actually had the opportunity to testify in front of the California State Senate. We actually had a fairly lengthy affidavit as part of the court ruling in California that came out 2 days ago, reaffirming California is right to enforce net neutrality.

And we believe that the current administration will probably reverse the attempt to negate that neutrality that was implemented several years ago, never successfully. And as consumers become more accustomed to consuming video via streaming, I think it becomes harder and harder for last-mile network to either constrict traffic or even put usage caps in place. And we saw that recently, we're one major provider in the Northeast had attempted to implement usage caps and then under consumer pressure was forced to reverse that position.

We want our access network customers to make money. We do not want them to exploit their monopoly position and in some way, hurt end user consumers. We sell bandwidth to companies that allow us to get to more than 50% of the world's access network customers. Over 3 million customers globally have upstream connectivity to Cogent.

James Breen^ And I guess just one follow-up on the balance sheet side, in conjunction with Walt's question around leverage. I think you've said recently in a couple of conferences that you believe sort of the business has troughed from a revenue perspective through the fourth quarter into the first quarter. So as things marginally improve, maybe over the next couple of quarters and then a little bit more in the back half, hopefully, is it likely -- or is it reasonable to assume that the sort of net leverage ratios, while they may tick up a little bit from here, we'll tick up at a lower rate based on an improvement in the top line and EBITDA growth?

Dave Schaeffer^ I say it's right, Jim. And ING is looking at our balance sheet and the cost of capital, figuring out how we can optimize it. 2, we understand the importance of the dividend and the growth in dividend. And something that I think is lost to investors was the fact that over 63% of this dividend is treated as a return of capital and therefore, is completely tax-deferred for the investor. We look at all of these factors when we decide to add leverage and increase the rate of growth in the dividend. We did that a couple of quarters ago. We're very comfortable with our rate of dividend expansion going forward and think that we will be within the leverage guidance ranges that we are comfortable with.

Operator^ Your next question comes from the line of Mike Funk with Bank of America.

Mike Funk^ A couple if I could. So first, commercial real estate brokers, 1 of lead ones, now expect business were back to about 85% occupancy post pandemic. So wondering how that expects the Corporate business with having 15% fewer people in the office at most even after reopening. Then maybe the NetCentric piece, you could add some more detail around regional trends that you've seen as regions have opened up and then shut back down. Presuming as there's shutdown, you're seeing better traffic trends, more home schooling, more over-the-top video, just to give us a sense of how that might trend during the year as things open back up?

Dave Schaeffer^ Yes. So let me touch on the real estate one first. We sell our corporate connection on a fixed basis. That means you pay the same thing, whether you have 1 user or 50 users in the office. Secondly, as long as your employee base remains the same, whether they're in the office or at home, you need the bandwidth because most of our Corporate customers use their firewall to concentrate those remote work from home employees and the need for symmetric bandwidth is greater than it had been prepandemic.

Also, I think as some businesses rank their footprint, that could be a positive for Cogent in that the size of the building is fixed, but if the for pate per average tenant shrinks, there will be more tenants in the building and, therefore, more addressable market for Cogent.

Finally, I think the types of buildings that we have chosen tend to be the least susceptible to vacancy. If you look at any of the major brokerage reports, and I know you cover that sector, they predict much higher vacancy in the B and C buildings than in the A buildings. Now rents will fall, tenant concessions will increase. Typically, lease terms

will shorten. These are all bad for landlords. And as a landlord, I understand that. But at the same time, it's better to have the ability to keep your building full, than if you're in a suburban office park, where vacancy is going up. Sean?

Sean Wallace^ I would just add a little bit more color on that. We've spent a bunch of time with commercial brokers. It is very clear that the net absorption rates are down they're mostly down in New York and San Francisco. When you parse back in the Sunbelt, it's pretty good. So it's a much lower rate. It's much more concentrated in New York and San Francisco.

The second piece is we have seen demonstrable proof that, as David points out, the landlords and Class A buildings are aggressively reducing rental rates, increasing their tenant investments and reducing terms. They are already aggressively trying to figure out how to fill these buildings as we've been signaling. And as those buildings hopefully get filled up as we begin to see people returning, that will be an opportunity for us.

Dave Schaeffer^ And then let me touch on your NetCentric growth by region. The biggest trend that we have experienced over the past couple of years is an acceleration in the internationalization of the Internet. The rest of the world has caught up to the U.S. in terms of Internet usage, they're not there yet, but they are growing rapidly. We are seeing an increase in demand from those international markets. It's why our footprint has expanded so aggressively.

Now with regard to the pandemic, particularly in Europe in the first wave of lockdowns, we saw a request by governments for degradation of streaming bit rates. In this wave of lockdowns, it's a bit different. We haven't seen that type of intentional quality degradation. Secondly, the lockdowns have taken a different form, and they're typically now not in the form of a lockdown, but rather an extended curfew, which does mean that people are home earlier in the evening. And as we commented earlier, post pandemic, we have seen peak usage periods broaden out quite a bit. So prepandemic, 7 to 10 p.m. was peak usage, post pandemic, we've seen that window go from 3:00 in the afternoon, local time to nearly midnight. And that broadening of the base is part of what's contributing to the increase in bit volume growth.

Mike Funk^ I guess asked a different way, Dave, I mean, how do you anticipate track to being impacted in 2021 as people return to work, maybe moving back that peak rate to more of a normal time zone. And then as kids move back into school and aren't streaming other classroom activity. How do you expect that to impact the traffic growth in '21?

Dave Schaeffer^ Yes. The user-generated video is de minimis compared to professional video. So -- and the bit quality is lower and the upstream capabilities of their broadband connections tend to be the limiting factor. I think that the transition to over-the-top versus linear was accelerated by the pandemic, but we will not revert back. I also think that many customers are now electing to pick 2, 3 or even 4 concurrent streaming packages. And I think the growth in traffic will continue at historic rates.

Sean Wallace^ Yes. I'd add a little bit in March, a little color. In March, a lot of the record days we saw were during the weekday, which reflected Dave's point about work from home environment in that whole change. As we've been seeing in November, December and January, the record days are on the weekend, which reflect people watching more TV, and it is clearly the number of streaming services. Disney+ is something at $95 million. Some suggests this is going to triple. This is clearly professional videos, not people work from home is increasing the traffic on our network. So we're very encouraged by it being over-the-top growth, not people work from home as much as driving the traffic on our network.

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

Michael Samora^ This is Michael Samora on for Nick. Could you give us some more detail regarding what you're seeing in the corporate customers from a speed upgrade perspective? You noted that your 1 gig product surpassed your 100 MEG product in 2020, could you share with us the rate at which customers are upgrading, whether they're signing contract extensions when they upgrade and so on?

Dave Schaeffer^ Yes. Sure, Michael. So a couple of points. First of all, the average new contract for corporate customers is 3 years. That's up substantially from say, 5 years ago. So they are taking longer term commitments. Secondly, our typical corporate customer does not even use the 100 met connection to full peak utilization. However, they want to have that surge capacity available to them and the typical $200 a month premium for that product over the 100 meg is a de minimis cost. So they're taking that as an insurance policy.

What has hurt us on the Corporate side has really been the secondary locations where customers are either allowing circuits to turn off at end of term or not willing to buy new ones and not buying VPN services. We, again, view that as a transitory trend until employees start to go back to those offices. I think those secondary location purchases will remain anemic. But then as employees first go back to the primary office, even maybe with Michael's comment at 85%, those connections will be 1 gig a bit, and then we'll start to see some return to the secondary amuses.

Sean Wallace^ Yes. And I'd add a little bit on color. It's a little bit of a matrix. We have -- we sell a VPN and the DIA service we sell a fan season at in a gigabit. And if you look at those -- that 2 Xtwo matrix. The VPN is clearly as we flagged for quite a while, and the satellite office is flat to down. What's happening on the DIA basis is that the FE customers, which used to be the majority of those connections in DIA have now fallen we are now close to, as we mentioned, more than 50% of our DIA connections are GigE. So EFI is trailing off. It's a mix issue and GigE is growing, and we are getting close to an inflection point where the FE customer base is going to be smaller and smaller and the gig will continue to grow. Our existing customers and new customers love the idea of getting 10x the speed for a small premium price.

Operator^ Your next question comes from the line of Brandon Nista with KeyBanc Capital Markets.

Unidentified Participant^ This is [Evan] on for Brandon. How are you guys doing edge computing as an opportunity for your business? And are you guys seeing any other new graphic types other than video or any kind of new applications surrounding data?

Dave Schaeffer^ I think the key trend for company is to take more and more of their computing and move it off-site. This is the migration to a cloud, whether private or public. Secondly, virtually all of the software in almost every vertical is now offered as a SaaS product versus a license product. Meaning you need connectivity to that software rather than having it on-premise. And I think those trends, coupled with the work from home flexibility that the pandemic has generated are all causing corporate IT departments to reevaluate their infrastructure and increase the amount of bandwidth that they are looking to purchase. These are all positives for us.

Operator^ Our next question comes from the line of [Michael Banner] with [TLS Capital].

Unidentified Participant^ Dave and Sean, you and Cogent communications are probably one of the most accessible and open book management teams have come across in my career of over 30 years in the business. To understand your business is not straightforward. And would you be kind enough to just help us understand that mix change and the mix change I'm referring to, as you, Dave, spelled out in terms of net centric volume being 90% of sales, and corporate being 60% on net.

That mix change, what is the effect of that change on your cash flow? Because clearly, the market is not clear how and why the Board of Directors continues to be so specific as it relates to growth in the dividends versus the leverage. Because it appears to me between the traffic growth and the mix change, your cash flow should be quite strong. But please explain a little bit more if you can.

Dave Schaeffer^ Yes, absolutely, Michael. So thanks for the question. First of all, when we sell to a corporate customer we will typically sell them the primary location, and then they will buy secondary locations at an ARPU that's about double. But the gross margin on the on-net sale is 100%, the gross margin on the off-net sale is only 50%, so much lower contribution. As we have seen the secondary location sales Kal off, in fact, go negative. That has a positive effect on margins.

Secondly, as we've seen the acceleration in our NetCentric business, in the 1,252 data centers around the world that where we're connected to. That is purely on net. The only case where we sell NetCentric off-net is typically to a subsea landing station that will not allow us access so with 90% of NetCentric being on net carrying 100% gross margin, that is additive to margin expansion. So it is the reason why, even with our top line growth, at about half of our long-term average, we still delivered 150 basis points of EBITDA margin expansion.

Sean Wallace^ I would just repeat one of the things that Dave talked about in our discussion earlier, is that we're seeing 2 trends. One, traffic growth is accelerating, particularly did that in the second half. But also -- and this is a subtle point is that the amount of traffic that is remaining on network has gone from 50% to 2/3. And that means that the content providers, the streamers are meeting directly with the access networks. That's great for them because it provides reliability and lower latency. But for us, we're basically getting paid for setting the same traffic twice.

And in terms of your suggestion on profitability, hopefully, as we gain more and more of that NetCentric traffic in that market, and it remains on-net on both sides, we will increase our profitability. And I have to spend that much money on the network.

Operator^ Your next question comes from the line of Phil Cusick with JPMorgan.

Unidentified Participant^ Dave, this is Amir for Phil. Could you go into the on-net versus off-net performance, specifically within the corporate segment? Could you expand specifically on like the growth for off-net and on net for the corporate segment and what we should expect in the first half of this year and the second half?

Dave Schaeffer^ Yes, sure. So let's, first of all, start with the entire corporate business. Year-over-year, it was down 3.1%, sequentially, 2.1%. And for full year, it was up about 2.6%. The off-net component was down both sequentially and year-over-year. The off-net is always a branch location, but also a portion of that off-net for that Corporate business, secondary location is on-net. So what we are seeing is 2 key trends. One, we're not selling just secondary offices, but we do think that is going to reverse over the next several quarters as people return to offices for all the discussion we had previously.

Secondly, we sell VPNs. VPNs are a replacement for MPLS. The MPLS market peaked in North America at about $45 billion, about 4 years ago. Today, it's about $32 billion. Companies are weaning off of that, looking to use either SD-WAN or VPLS but with those secondary offices shuttered, basically, they're putting those programs on hold. They're doing nothing. So we're selling much less off-net for either DIA or VPNS.

As companies come back to the office, 3 things will happen: we'll see a reacceleration of primary office sales as people reevaluate their needs in those offices; two, we'll see a reacceleration in the examination of secondary offices. While some of those offices may never return, as I commented on the last earnings call, if the office is in the same MSA as the primary office, it's most likely never going to be reopened as they will go to a flexible work schedule and there'll be some work from home allow. But if it's in a different metropolitan market, that's not an option. So those offices will be open.

And then third, those companies that are frustrated with MPLS and are looking to migrate to 1 of the newer technologies of VPLS or an SD-WAN solution, we'll begin to implement that. So we actually think as companies return to the office, we will actually see an acceleration and decision-making among corporate customers.

Sean Wallace^ And I would just add to Dave's comments. We're -- we have a little disclosure of that in the 10-K, we'll even see tomorrow, but we've positioned ourselves for that. We reintegrated a new CRM system in the summer. It's rolled out a database that enables us to send out leads systematically to our fantastic sales force. We have created relationships with carriers that give us access to go to 4 million buildings off-net. And we're optimistic that we'll be able to take our sales force using the systematic nature of our CRM system and these relationships to increase the amount of gigabit Ethernet off-net. Indeed, this last quarter, despite all the challenges in corporate side, we did have growth in the DIA business off net in the fourth quarter.

Dave Schaeffer^ I know the call went long. I want to thank everyone. I think hopefully, we've answered all the questions. Sean and myself will be available if people need to chat with us. And again, I want to thank the entire Cogent team for their great efforts in a tough environment. I want to thank our customers for their faith and Cogent and our ability to grow with those customers. I want to thank investors for their attention.

So take care, everyone, and please stay safe.

Operator^ This concludes today's conference call. You may now disconnect.