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Earnings Call

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Presentation

Operator

Good morning, and welcome to the Cogent Communications Holdings Fourth Quarter and Full Year 2025 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 Cogent's website when it becomes available. Cogent's summary of financial and operational results attached to its press release can be downloaded from the Cogent website.

I would now like to turn 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. Welcome to our fourth quarter 2025 and Full Year 2025 Conference Call. I'm Dave Schaeffer, Cogent's CEO, and with me on today's call is Tad Weed, our Chief Financial Officer. I'd like to highlight a few key events and significant matters in the quarter. I'd like to be able to go through these metrics to help you understand better, our business.

We are continuing to increase our margins. Our increase in gross margin and EBITDA margins have been driven by cost reductions and a rotation to more profitable on-net products. In the third quarter of 2023, the first full quarter Cogent was combined with Sprint Wireline revenues, our combined revenues by connection type for the third quarter versus this quarter have changed materially. Our on-net revenues were 47% of our revenues in the third quarter of 2023.

Our total -- our net revenues as a percentage of revenues has increased from 47% of revenues in the third quarter of 2023 to 61% of revenues this quarter. Our off-net revenues were 48% of our total revenues in the third quarter of 2023, immediately after the combination of Sprint and Cogent. Our off-net revenues as a percentage of our total revenues have decreased from 48% of revenues down to 39% of total revenues this quarter. And our noncore revenues were 5% of total revenues in the third quarter of 2023. Our noncore revenues as a percentage of our total revenues have decreased to less than 1% of our revenues this quarter.

I'd like to take a moment and outline our progress in our wavelength sales. At year-end, we were offering wavelength services in 1,068 locations, all capable of 10 gigabit, 100 gigabit and 400 gigabit services with provisioning intervals of approximately 30 days. As of today, we have actually increased our service footprint to 1,096 locations. Our wavelength revenue for the quarter was $12.1 million, a 74% year-over-year increase compared to the comparable quarter in 2024. Our sequential wavelength revenue growth accelerated and increased by 19%. That is better than the 12% sequential increase in Q3 over Q2. Our wavelength customers increased by 18% sequentially to 2,064 connections at the end of the quarter.

Our wavelength revenue for the full year 2025, which was the first full year we were selling wavelength services across our footprint, was $38.5 million, an increase of 100% from the 2024 number. Our wavelength customers during that period increased by 85%. As of the end of the quarter, we have sold wavelengths in 518 locations compared to 454 locations at the end of Q3. We continue to anticipate capturing 25% of the highly concentrated wavelength market in North America.

Now for a few comments on margins. Our EBITDA as adjusted for the quarter increased by $3 million to $76.7 million. Our EBITDA as adjusted margins for the quarter increased sequentially by 140 basis points to 31.9%. Our increased margins continue to come from our cost reductions, as well as our product optimization. Our EBITDA as adjusted for the full year 2025 was $55.6 million. Our EBITDA as adjusted, then adding back the payments under the T-Mobile Transit Agreement.

Our decrease in EBITDA as adjusted was as a result of the $104.2 million reduction in our IP Transit payments from T-Mobile and a reduction of $21.4 million for other reimbursable Sprint acquisition costs that we incurred in 2024. There were no Sprint acquisition costs in full year 2025. The $104.2 million reduction in scheduled payments and $21.4 million reduction in these acquisition costs more than offset the organic growth of $70 million in Cogent's EBITDA or EBITDA classic for full year 2025.

Our EBITDA classic for 2025 was $192.8 million. For the full year of 2024, it was $122.8 million. Our EBITDA as adjusted margins were 30% for the full year 2025, down from the 33.6% for the full year 2024 because of the reductions that I just previously mentioned. Our EBITDA classic margins, however, for full year 2025 were 19.8%, up from 11.9% for full year 2024, or an improvement of approximately 840 basis points on a year-over-year basis.

Under our IP Transfer Agreement with T-Mobile, we will continue to receive an additional 23 monthly payments of $8.3 million per month until November of 2027. There are further cash payments related to lease obligations we assumed at closing of at minimum, $28 million. This $28 million payment is to be made by T-Mobile in 4 equal monthly payments from December of 2027 through March of 2028.

Now for a comment on our improvement and leverage. We have refined our capital allocation priorities and strengthened our financial flexibility and accelerated our delevering strategy. Our leverage ratios have improved. Our gross debt leverage as adjusted for amounts due from T-Mobile for the last 12 months EBITDA as adjusted ratio was 7.35% as compared to 7.45% in the previous quarter. Our net debt ratio was 6.64% in Q4 compared to 6.65% in Q3 of 2025.

We believe that the amounts due from T-Mobile under our Transit and Purchase Agreement should be considered and calculated our leverage ratios. We believe that these amounts essentially represent both long-term and short-term cash and are discounted appropriately on our balance sheet. And due to T-Mobile's credit rating and payment history, we are confident that these payments will be -- continue to be made in a timely manner. T-Mobile pays us $25 million a quarter through the fourth quarter of 2027 under this IP Services Agreement. The monthly payments from T-Mobile under the IP Transit Agreement reduces from the balances that are due each month as they are received.

Now for a couple of comments on our improved IPv4 leasing activity. Our IPv4 leasing revenue increased 44% year-over-year to $64.5 million for full year 2025. We are currently leasing 15.3 million addresses at year-end. This is an increase of 2.2 million incremental addresses or 17% on a year-over-year basis. We have titled to 37.8 million IPv4 addresses.

Our capital expenditures for the last half of 2025, once our data center modernization program had been completed, was $73.3 million as compared to $114.3 million for the first half of 2025. This $41 million decrease was due to the completion of a significant amount of reconfiguration work in our Sprint acquired facilities. We have converted these facilities into data centers in the first 6 months of 2025, as well as the last 6 months of 2024. We have converted a total of 125 facilities. At year-end, we are providing facilities in -- providing services in 1,715 carrier-neutral data centers as well as the 187 Cogent data centers. The Cogent data centers have an aggregate capacity of 213 megawatts of installed and available power.

Now as many of you know, we have intended to monetize and sell 24 of these facilities that we view as surplus. We acquired these facilities through the acquisition of Sprint, and we intend to monetize them through either outright sale or leasing on a wholesale basis. The nonbinding letter of intent we mentioned on our last call was not finalized due to a change in the original terms, not in price, but a requirement by the purchaser for Cogent to provide a portion of the purchase price in terms of owner financing, which we found unacceptable. We reverted to some of our backup agreements and are in active discussions with multiple parties for multiple offers across a broad set of these data centers. We do expect several of these to result in multisite acquisition offers.

Now for a moment about our leverage and balance sheet strategy. Our 2027 June unsecured notes of $750 million are still roughly 18 months from maturity, but we have begun receiving proposals to refinance these notes. We intend to complete a refinancing transaction for new secured notes of $750 million as soon as the make whole period expires in June of this year.

Now for our long-term goals. We anticipate our revenue growth to continue to improve and be in the 6% to 8% range. We expect our rate of EBITDA margin to actually moderate to the roughly 200 basis points a year that we will be able to deliver over a multiyear period. The nearly 800 basis points that we delivered this year was due to some extraordinary cost savings. And while we will continue to deliver these results, we do expect the rate of margin expansion to moderate. Our revenue and EBITDA guidance are meant to be multiyear goals and not intended to either be quarterly or even annual guidance.

Now I'd like to turn the call over to Tad to provide some further detail and provide our safe harbor language. Tad will also give a further breakout of the trends in the revenues acquired from the Sprint base versus the Cogent classic base since our acquisition in 2023. I know this has been an area of focus of investors, and we have been able to disaggregate those revenues and now present them and with clear trends and metrics.

With that, we'll then open the call up for questions and answers. Tad?

Thaddeus G. Weed
VP, CFO & Treasurer

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

If we use non-GAAP financial measures during this call, you will find these reconciled to the corresponding GAAP measurement in our earnings releases that are posted on our website at cogentco.com.

Some overall comments on results and revenues. Our total revenue for the quarter was $240.5 million and $975.8 million for the year. Our total revenue for the quarter declined sequentially by $1.4 million or by 0.6%. This was an improvement from the $4.3 million or 1.7% sequential quarterly revenue decline that we experienced last quarter. While our sequential revenue declined within our fourth quarter, our total revenue increased each month in the quarter. Our total monthly revenue increased from September to October, increased from October to November, and excluding the change in USF revenues, increased from November to December. This month-to-month total revenue increase continued from December 2025 to January 2026.

There was a negative FX impact on our quarter sequentially revenues of $0.2 million. So for the quarter, we experienced a $2.2 million sequential decline in off-net revenues -- our on-net revenues, including on-net weight revenues, increased by $0.9 million or 0.6%, and our noncore revenues decreased by $0.2 million, and now those revenues have declined to only $1.2 million. Sequential wavelength revenue growth, which is on-net, accelerated to 18.8% from 12.4% last quarter and increased sequentially by $1.9 million.

Gross margin. Our gross margin for the quarter increased sequentially by $1.6 million to $112.5 million. Our gross margin increased sequentially by 100 basis points to 46.8% from continued cost reduction and product optimization, including our focus on our on-net products. Our gross margin for full year 2025 increased by $46.7 million to $442.7 million. And our gross margin for full year 2025 increased by 720 basis points from 38.2% last year to 45.4% for full year 2025.

EBITDA. Our EBITDA, not including payments under the IP Transit Agreement for the quarter, increased sequentially by $3 million to $51.7 million, and our EBITDA margin increased by 130 basis points to 21.5%. Our EBITDA for the full year not including the IP transit agreement or Sprint acquisition costs increased by $70 million to $192.8 million from $122.8 million for full year 2024. And the EBITDA margin for this year increased by 790 basis points from 11.9% to 19.8% for full year 2025.

We analyze and classify our revenues into 4 network connection types and 3 customer types. Our 4 network connection types are on-net, off-net, wavelength and noncore. And our 3 customer types are NetCentric customers, corporate customers and enterprise customers. Dave mentioned we'll provide some information on Sprint Wireline acquired revenue and Cogent classic revenue. We have been hesitant to separately disclose our revenue performance related to our acquired Sprint Wireline business and our

Cogent classic business once the operations have been fully integrated. However, we believe that the following analysis will be beneficial in understanding some of the changes in our total combined revenues.

The substantial changes in the acquired Sprint Wireline revenue base have masked the underlying performance of our legacy Cogent classic business. So in May 2023, when we closed the transaction, the Sprint Wireline revenue base had a run rate of $39.4 million per month or $118 million per quarter. This acquired revenue base has decreased from that $118 million per quarter at the acquisition date to down to $43 million for this quarter. That's a $75 million quarterly revenue decline related to the Sprint Wireline revenue base or a 64% decline since the deal closed.

At deal closing, our Cogent classic revenue run rate was $155 million per quarter. This quarterly revenue base has increased by 27% or by $42 million from that $155 million prior to close to $197 million for this quarter, the fourth quarter of 2025. Additionally, our Cogent classic revenues increased sequentially by 1.5% from the third quarter of this year, increased year-over-year by 3.1% from the fourth quarter of 2024 and increased by 2.3% for full year 2025 over full year 2024. Our consolidated revenue declines have been largely attributed to the reduction in the acquired corporate and enterprise revenues from Sprint.

At closing, the Sprint Wireline revenues represented a total of 42% of our total revenues, and that percentage has materially dropped from 42% down to only 18% of our total revenue at year-end. Our total corporate business was 42.7% of our revenues this quarter and 43.9% for the year. Our quarterly corporate revenues decreased by 9.1% year-over-year and sequentially by 2.3%. For the year, our total corporate revenues declined by 9.7%.

At the closing of our acquisition of Sprint Wireline in May 2023, the Sprint Wireline corporate revenues were 30% of our total revenues. Those Sprint Wireline acquired corporate customers now represent only 10% of our total corporate revenues. The Sprint Wireline acquired corporate revenue base has decreased from a run rate of $13 million per month or $39 million per quarter at closing to a run rate of $2.7 million per month or $8.1 million per quarter at year-end 2025.

The same analysis for NetCentric. Our total NetCentric business continues to increase and benefit from the growth in video traffic, activity related to artificial intelligence, streaming, IPv4 leasing and wavelength sales. Our NetCentric business was 43% of our revenues this quarter and 40.3% for the year. Our quarterly NetCentric revenues increased by 10.4% year-over-year and sequentially by 3.1%. For the year, our total NetCentric revenues increased by 6.8%.

At the closing of our acquisition of Sprint Wireline, the Sprint Wireline NetCentric customers represented 20% of our total NetCentric revenues. Those Sprint Wireline acquired NetCentric customers now are representing only 7% of our total NetCentric revenues this quarter. The Sprint Wireline acquired NetCentric customer revenue base has decreased from a run rate of $6 million per month or $18 million per quarter at closing to a current run rate of $2.9 million per month or $8.7 million per quarter at year-end 2025.

Lastly, the enterprise business. Our total enterprise business was 14.3% of our revenues this quarter and 15.8% of our revenues for the year. Our quarterly enterprise revenue decreased by 24.7% year-over-year and sequentially by 5.8% primarily due to reduction in the acquired noncore enterprise and off-net low-margin enterprise revenues. For the year, total enterprise revenues declined by 20.3%.

At the closing of our acquisition, the Sprint Wireline enterprise customers represented virtually 100% of our enterprise revenues, as this was a new line of customer for Cogent. The Sprint Wireline acquired enterprise revenue base has decreased from a run rate of $20 million per month or $60 million per quarter at closing to a current run rate of $8.8 million per month or $26.4 million per quarter at year-end 2025. These substantial changes in the acquired Wireline revenue base have masked the underlying performance of our legacy Cogent classic business.

Analysis on revenue by customer connection network type. On-net revenue. We serve our on-net customers in 3,579 total on-net buildings. For the year, we increased our on-net buildings by a total of 126 on-net buildings, similar to prior years. Our total on-net revenue, including on-net wave revenues, was $146.4 million for the quarter, a year-over-year increase of 7.8% and a sequential increase of 0.6%. Our total on-net revenues, including on-net wavelength revenues, increased as a percentage of our total revenue by 400 basis points to 58.4% for this year from 54.4% for full year 2024.

Off-net revenue. Our low-margin off-net revenue was $92.9 million for the quarter. That was a year-over-year decrease of 17.9% and a sequential decrease of 2.3%. Our off-net revenue results are impacted by the migration of certain off-net customers to on-net and the continued grooming and termination of acquired low-margin off-net contracts. Our total off-net revenues decreased to 40.7% of our revenues for this year from 43.8% for full year 2024.

Some comments on pricing. Our average price per megabit for our installed base decreased sequentially by 12% to $0.14 and by 34% year-over-year, essentially in line with historical trends. Our average price per megabit for our new customer contracts was $0.06, a sequential decline of 18% and 46% year-over-year.

ARPUs for the quarter. Our on-net IP ARPU was $509. Our off-net IP ARPU was $1,234. Our wavelength ARPU was 2,114. Our IPv4 ARPU was $0.30 per address. Churn rates. Our churn rates improved sequentially. Our on-net and off-net churn rates improved from last quarter. Our on-net unit monthly churn rate this quarter was 1.2% compared to 1.3% last quarter. Our off-net unit monthly churn rate was 1.9% compared to 2.1% last quarter. And our wavelength monthly churn rate has been less than 0.5% to relatively insignificant.

Traffic. Our year-over-year IP network traffic growth accelerated for the quarter. Our IP network traffic for the quarter increased sequentially by 4% and by 10% year-over-year. And for the total year, our traffic increased by 9%.

Sales rep productivity. Our sales rep productivity was 4.1 units this quarter compared to 4.6 last quarter and 3.5 in the fourth quarter of 2024. That's compared to our long-term sales rep productivity average of 4.8.

Foreign currency. Our revenue earned outside of the United States was about 20% of our revenues this quarter, similar to prior quarters. Based upon the average euro and Canadian conversion rate so far this quarter, so the first quarter of 2026, we estimate that the FX conversion impact on sequential revenues will be positive about $0.4 million. And year-over-year, more significant, about 3.5.

Customer concentration. Our revenue and customer base is not highly concentrated. Our top 25 customers are 17% of our revenues this quarter, similar to prior quarters. CapEx. Our CapEx was $37 million this quarter and $187.6 million for the year. And principal payments on capital leases were $8.5 million for the quarter and $33.8 million for the year. Combined, those amounts have declined year-over-year.

Comments on debt and debt ratios. Our total gross debt at par, including $623.4 million of finance lease obligations under long-term IRUs, was $2.4 billion at year-end. Our net debt -- total net debt of our cash and our $203.1 million due from T-Mobile at year-end was $1.9 billion. Our leverage ratio, as calculated under our more restrictive covenants under our unsecured $750 million 2027 notes indenture, was 6.13. The secured leverage ratio was 3.8, and the fixed coverage ratio was 2.38. The definition of consolidated cash flow, similar to EBITDA under our $600 million secured 2032 notes indenture includes cash payments under our IP Transit Services Agreement with T-Mobile and the definition and determination of consolidated cash flow.

Payments under our IP Transit Agreement were $100 million for the last 12 months, so that is added to the calculation. Our leverage ratio, as calculated under the $600 million secured 2032 notes indenture, was 4.67. Our secured leverage ratio was 2.9. And lastly, fixed coverage was 3.12. Bad debt and days sales. Our days sales outstanding was 30 days at year-end, the same as last quarter. And our bad debt expense was less than 1% of our revenues for the quarter and for the year.

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

David Schaeffer
Founder, Chairman, CEO & President

Thanks, Tad. I'd like to highlight a few of the strengths of our network, our customer base and our sales force. Now for some details around our NetCentric performance. We continue to be a direct beneficiary of a number of trends in the industry, whether it be artificial intelligence or streaming activity. At year-end, we're able to sell wavelength services in 1,068 data centers across North America with a provisioning interval of approximately 30 days. At year-end, we're selling IP services globally in 57 countries and 1,902 data centers. At year-end, we were directly connected to 7,659 networks. That is the largest number of directly connected networks of any service provider on the Internet. 22 of these were peers, and the remaining 7,637 networks were, in fact, Cogent Transit customers.

Now for some details around our sales force. We remain focused on sales force productivity and are disciplined about managing out underperformers. Our sales force turnover rate was 5.4% a month in the quarter, down from a peak turnover rate of 8.7% during the height of the pandemic and also below our historical average turnover rate of 5.7% of the sales force per month. At year-end, we had a total of 590 quota-bearing reps. Our sales force included 289 sales professionals focused entirely on the NetCentric market, 289 sales professionals focused on the corporate market, and finally, 12 sales professionals focused on the enterprise market.

In summary, we have made significant progress in a number of areas. We've improved our revenue trajectory and performance and have returned to sequential revenue growth, which we expect to continue. We are improving our margins and growing our EBITDA due to our diligence and cost reduction and our focus in selling profitable on-net services. Over 80% of our sales in the fourth quarter of 2025 were for on-net services.

We have a clear plan to refinance our 2027 $750 million unsecured notes with a new, longer duration $750 million secured note offering. We are actively working to monetize some of the acquired Sprint facilities, which will further accelerate our delevering and allow us to resume a more aggressive return of capital program to our equity holders.

We are effectively have now completed the integration of Sprint and Cogent's network into a unified network and business. We have converted all of the intended Sprint switch sites that we intend to convert into data centers. This program is materially complete and will result and a continued reduction in our capital intensity.

We are enthusiastic and optimistic about our wavelength business to add to our product portfolio. Our wavelength services are differentiated due to the uniqueness of the routes, the breadth of our footprint, our efficient provisioning and aggressive pricing. The reliability that we deliver is unparalleled. We have, since inception, offered superior services, a broad footprint of revenue-rich locations, expedited provisioning and market-leading disruptive pricing. That is why Cogent continues to be a market leader in the products that we sell.
With that, I'd like to open the floor up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Chris Schoell with UBS.

Christopher Joseph Schoell
UBS Investment Bank, Research Division

Dave, you had previously talked about returning to sequential revenue growth while sustaining sequential EBITDA growth each quarter. Can you just update us how you're thinking about total company revenues and EBITDA for 2026 as that Sprint mix continues to fall? And as we think about the waves business scaling in 2026, any guardrails you can share on the number of connections or revenues you believe are achievable based on what you're seeing in the business right now?

David Schaeffer
Founder, Chairman, CEO & President

Yes. Thanks for the question, Chris. So as we mentioned, we are not in the habit of giving specific quarterly or annual guidance. But I do believe that after the significant runoff in the Sprint acquired revenues, as Tad pointed out, 64% of the revenues that we acquired 2.5 years ago have attrited. And during that period, the Cogent revenues, which represented 57% of the combined company, had grown at 27%. As a result of that, we have had now about 10 sequential quarters of revenue growth. We will be back to positive revenue growth on a quarterly basis from this point forward, and we anticipate that the annual rate of growth on average over a multiyear period will be in that 6% to 8% range. We also have a small amount of further cost reductions that will contribute to margin expansion.

But the primary driver of margin expansion going forward will continue to be the revenue mix shift and the focus on on-net services. 80% of our sales in the quarter were on-net. We have improved the base from 47% on-net immediately after closing to 61%. We think that percentage will continue to improve and allow us to achieve that, at minimum, 200 basis point rate of margin expansion. The reality is we did nearly 800 basis points last year. That is probably not sustainable over a multiyear period, but we do have some tailwinds there.

And then to your question around wave. We have the largest North American wave footprint. We are beginning to gain credibility with customers. We saw an acceleration in our revenue recognition and installations. We expect those trends to continue. And because our wavelength products are virtually all on-net, they are significant contributors to our margin expansion.

Another way to kind of look at the markets that we operate in. In our on-net multi-tenant footprint, we today have about a 35% market share. That means we can continue to grow there, but it is harder because we already have over 1/3 of the customers as Cogent customers. In the NetCentric market for IP services, we are the largest provider globally and have 25% market share. We will continue to gain share and grow that business. But again, with 25% share, it becomes incrementally more difficult.

And what's encouraging to us about wavelength is the fact that we have less than 2% market share in North America. We are now establishing our credibility with 518 sites now having actual reference customers in them. And nearly 1,100 sites wave-enabled, we think that our rate of wavelength growth will accelerate and help us drive that kind of 80:20 mix in the incremental business.

Operator

Our next question comes from the line of Gregory Williams with TD Cowen.

Unknown Analyst

Sam on for Greg Williams. Two, if I may. First on the waves business, you mentioned before that the goal was to get the funnel to -- the waves funnel to about 10,000. Is the idea to get the funnel to 10,000 and it kind of stays in that range because you install the backlog as it comes in? Or do you expect the funnel to grow from there?

And second, on data centers. You mentioned the contract changes that pushed out the LOI for the 2 data center assets mentioned on the 3Q call. Is the expectation this transaction will still close? And if so, is the $144 million a taxable event? Or is there some sort of tax shield from the Sprint deal?

David Schaeffer
Founder, Chairman, CEO & President

Yes. Let me take those in reverse order. On the LOI that we announced last quarter, the counterpart, it came back to us and look for us to provide more than 50% of the agreed to purchase price in owner financing. Since we had a number of other interested parties who had submitted backup offers on those 2 facilities as well as a broader set of facilities, we decided to terminate that agreement at our choice and then reengage with some of those parties. We are far along in those negotiations and hope to be able to announce something soon. And that announcement may be for a broader set of assets.

Now to the tax consequences, I'll let Tad touch on that.

Thaddeus G. Weed
VP, CFO & Treasurer

Sure. So as a reminder, we paid only $1 for the Sprint business. So the tax basis is essentially the assumed liabilities, which is minimal in the -- both the buildings and the network that was acquired. However, we have material NOLs this year from the tax bill from 2025. And given the bonus depreciation deductions, we expect to continue to incur tax losses to offset any gain on the buildings going forward. So why it is a taxable event creating taxable income, we don't think on a net basis, that will result in income taxes being paid.

David Schaeffer
Founder, Chairman, CEO & President

And now, Sam, I'll touch on your waves question. While we were in the process of enabling the footprint, we felt it was critical to give funnel KPIs to show expressions of interest by customers. We have tried to be clear with investors that we do not give funnel data routinely for our other products, and we're treating wavelengths now as any other product. Now we do in our investor presentation typically show both our on-net and off-net conversion rates for the previous quarter. We intend to continue to do that.

Our funnel is continuing to grow, but we will not be reporting specific numbers. But we do anticipate with the footprint that we now have and the credibility that we are earning with existing customers, we are starting to see a larger percentage of their wave opportunities being shown to us for bid. And as a result of that, we will close more and see further acceleration in the waves business.

Operator

Our next question comes from the line of Sebastiano Petti with JPMorgan.

Sebastiano Carmine Petti
JPMorgan Chase & Co, Research Division

Just a quick follow-up on the waves business there. Could you update us on the level of installed but not yet billed balance in the quarter? Did that grow off of the third quarter? Because I think last earnings, you probably talked about maybe a few hundred waves had been installed, but not yet billed. And so what is the progress there? And then I have a follow-up.

David Schaeffer
Founder, Chairman, CEO & President

Yes. So 2 points. First of all, in the quarter, we actually saw the unit number of waves improve, which is an indication that we were eating into that backlog. But we also have been building an additional backlog.

And I would say that the installed but not yet billed base is comparable this quarter to where it was at the end of third quarter.

Sebastiano Carmine Petti
JPMorgan Chase & Co, Research Division

Got it. That's helpful. And then I guess, maybe just help us think about back to the data centers to some extent. I mean, I think you did mention that there were some other data centers that had been in active discussions last quarter. And so while the LOI that you just spoke of on the third quarter that's kind of now been terminated, what was the progress on some of the other, I guess, remaining data centers that were in active discussions? Did those progress?

And I guess, maybe help us think about as you look at your debt refinancing and the stack later this year, I mean, yes, you talked about trying to perhaps refinance with $750 million of secured. I mean, is there some level of assumed cash proceeds from asset sales anticipated in the intervening period as well, which probably helps maybe reduce the prevailing interest rate you might get at that time?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So really, three different questions. The first one is some of the backup offers on the 2 facilities that we had mentioned previously cover those facilities and others. So some parties were not particularly interested in moving forward without those facilities potentially being included. So it was not a 1 for 1, meaning that there was a backup just for the 2 facilities that were under LOI. And our view was that while there was no difference of opinion on price, we felt that we would be better served with an all-cash purchase rather than one that had us taking more than 50% of the purchase price in the form of a secured note against the assets.

In our refinancing, we are not assuming that there will be proceeds from the data center sales, although I do think there will be some proceeds. They are not baked into the point that I've made around the timing of the refinancing. Our plan is to refinance the unsecured notes with secured notes, dollar for dollar, no increase or decrease, in aggregate phase value and do that in a way that allows us to avoid paying the make whole, which would be due in -- any time between now and mid-June of about $13 million.

The final point I will make on that is that the proceeds for the data center sale would be reflected as cash on our entire balance sheet, but the proceeds do not go into Cogent Group, which is the borrower group of both the secured and unsecured debt. We may elect to contribute some of that cash to group, but we're well within the coverage ratios, both in terms of secured and total indebtedness and also in debt service coverage. So there's no requirement for us to contribute that capital, but it would be available at an unrestricted sister entity, Cogent Infrastructure, and therefore, could be used to either inject that capital into Cogent Group, the borrower or dividend back to Cogent Holdings, which can then be used for the benefit of shareholders.

Operator

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

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

Great. So on the data center, I think you'd originally kind of focused on $9 million or $10 million per megawatt. I mean, what do you think the market is for that now? And why not maybe try and lease those out and then get a multiple on that value? And then what additional room do you have on pricing and maybe leasing additional IPv4 licenses?

David Schaeffer
Founder, Chairman, CEO & President

Frank, let me take those again in reverse order. In terms of IPv4 leasing, we saw a material acceleration in our leasing, but at lower price as we did 2 wholesale transactions of large blocks. We are continuing both on a retail and wholesale strategy. Today, we're about 46% of our addresses are leased and approximately 4% of our addresses are allocated to customers at no cost. This is nothing new. It's been part of our strategy to win business since Cogent's inception.

But we do still have half of our address space that is sitting fallow. We have greatly improved the marketability of that address space by being able to deploy RPKI or additional security features across those addresses, which have made them more desirable to counterparties. And we anticipate continuing to see growth in our IPv4 leasing business. The 44% year-over-year growth in that business, again, was extraordinary. I'm not sure if we can repeat that, but we will continue to see further growth.

Out to the data centers. I think when we established a go-to-market strategy in the spring of '24 and announced that we were going to begin the capital investment to convert these facilities, we looked at both public trading comps as well as transactions in the private market. If anything, over the past year, data center space has become more scarce and valuations have improved.

Now we are fully conscious of the fact that our data centers are repurposed switch sites and not purpose-built campuses which are different and attract a different customer base. We have done a minimal amount of leasing and have been focused mostly on the sales process. I think we feel that based on the number of sites that are in active discussion and a number of counterparties, that we will absolutely be monetizing through sale, a significant portion of the footprint.

And in terms of exact price per megawatt, we are not going to disclose that because that would impact our ability to maximize value through these negotiations. But as Tad pointed out, other than the capital that we've invested, we have no real basis in these assets. And in fact, because the assets sit at Cogent Infrastructure, they represent a negative EBITDA cost that's not burdening the borrower, Cogent Group, but is a drag on the entire complex. And by selling these data centers, we both get the cash proceeds as well as a reduction in operating expenses.

Operator

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

Brandon Lee Nispel
KeyBanc Capital Markets Inc., Research Division

I appreciate the analysis on the Sprint revenue versus Cogent Classic. I wanted to understand and ask a few questions there. First, maybe just can you help us understand how you came up with that analysis? Because I think in the past, you've said it's sort of difficult or impossible to delineate between the 2 businesses once you integrated.

Second, what changed versus your expectations? I think, Dave, when you closed that acquisition, you said you'd probably be at more of a run rate of $350 million versus $190 million annualized run rate that you gave us today? And then where do you think the bottom is, what do you think that business does in terms of revenue in 2026?

David Schaeffer
Founder, Chairman, CEO & President

I'll take those again in reverse order. One, I think that business is continuing to deteriorate, both based on the nature of the customers and the discipline that we have applied to ensuring that the services we sell have an adequate margin. While we realized that the off-net enterprise customer base is inherently less profitable, in fact, even after a diligent effort of trying to bring enterprise business on-net, we have only been able to get to an 88% off-net and 12% on-net mix because many of these enterprises operate globally across a footprint that is just not economic to bring on-net. And therefore, we're going to be saddled with that lower margin portion of our revenue stream, but we do intend to make sure that the margins are adequate.

We have virtually completed the burn-off of the noncore products and the vast majority of the undesirable revenue. But with that said, we're still experiencing significant monthly and quarterly sequential degradation in that business. I had projected the 10.9% rate of decline that we were seeing from Sprint. We thought that we could maintain that rate of decline and migrate customers to more profitable products. What we in fact found was that many of those customers actually intended to go away independent of our acquisition at an accelerating rate. And then that was further compounded by the discipline that we applied. I think it will continue to decline. We will continue to report on it.

Now in terms of why we did this and how, it was a very arduous and manual task. We had to go into the nearly 1,300 acquired customers and look at every individual order on an order-by-order basis. It was a very manual process. But I do believe, based on concerns I was hearing from investors, that this was an extremely important metric that they cared about. And we then basically invested what was effectively a full-time person to do this analysis. We will be able to do this going forward. And I think it gives an investor a better lens on how Cogent's business is performing versus the acquired business, as well as the mix shift that we are focused on and being more on-net.

The way to improve our cash flow going forward is growth in top line, but growth in top line of more profitable business. And the 80% on-net that we sold in Q4 is actually better than we did the quarter before we acquired Sprint. So in Q1 of 2023, we actually only were 76% on and 24% off. So this focus on on-net is going to be a significant driver of margin expansion.

Thaddeus G. Weed
VP, CFO & Treasurer

I'll just add one thing to the complexity. So when we acquired the business under the TSA, T-Mobile was billing the customers on our behalf through their billing system. We worked an incredible effort to bring all of those customers into our billing systems. We had 1 billing system for November 2023. But for that period, from close, so May 2023 through October '23, we were relying on the information that we got from T-Mobile billing on our behalf. So bifurcating that and post billing on our system was complicated, I'll just leave at that.

Brandon Lee Nispel
KeyBanc Capital Markets Inc., Research Division

Understood. And if I could just follow up with one quick one. Where would you estimate the EBITDA contribution of the Sprint business is today?

David Schaeffer
Founder, Chairman, CEO & President

I think it's close to 0, but slightly positive. But still far below our aggregate margins. It's probably in the 0% to 5% range. But we are working on improving that, which does include, in some cases, price increases.

Operator

The next question comes from the line of Nick Del Deo with MoffetNathanson.

Nicholas Ralph Del Deo
MoffettNathanson LLC

A couple of questions on the data center front. Dave, you were explicit that the LOI fell apart because of the demand to help you finance it. I recall that one of the due diligence items that the counterparty needed to complete was confirming power availability from the utilities. Was that availability confirmed?

David Schaeffer
Founder, Chairman, CEO & President

It was confirmed by that party. And we have now made the data available to the backup providers to go through the same confirmation process. But the reason why we did not move forward with the previous LOI was not a negotiation on price. They got comfortable with both the power availability and title to the actual land, which were their 2 big concerns. And they just came back and tried to have us provide them financing. Even though when we executed the LOI, they had assured us that they have proof of funds and the wherewithal to pay all cash. They were just trying to magnify their returns through owner financing.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Got it. Are you able to share when the LOI fell apart? And if you do have new deals in hand soon, as you suggested, should we expect a press release to announce those? Or would you disclose those on your next earnings call or some other conference presentation or something?

David Schaeffer
Founder, Chairman, CEO & President

I think we would probably announce it in a stand-alone announcement. And I do think we anticipate something in the next couple of months. That's probably as specific as I can be. But unless it was a day or 2 before the earnings call, I think we would probably announce it separately.

And then to when the LOI fell apart, it was fairly recent. There was a negotiation. They had made the request, we went back, and we're trying to keep them moving forward under the original terms. But eventually, earlier this year, we became convinced that they were not going to move forward unless we provide the financing.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. Okay. And then can I ask a couple about the legacy Cogent versus legacy Sprint revenue splits. So it looks like you're talking about a $42 million growth in quarterly legacy Cogent revenue from the time of the deal closing to today. It looks like over that time, your quarterly IPv4 revenue is up about $9 million. Waves are now at about $12 million. So that would imply that about half the revenue growth was from those 2 line items and about half came from, call it, the core products that you focused on pre-deal. Is that a fair way to think about it? And...

David Schaeffer
Founder, Chairman, CEO & President

Yes.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Is it correct to assume that the -- okay. Okay. Good. And the T-Mobile CSA revenue, is that in the Sprint bucket?

David Schaeffer
Founder, Chairman, CEO & President

No, it is not. That was revenue that did not exist previously and was a drag to our revenue. I guess it was about $400,000 for the quarter -- last quarter. And I think at peak, it was almost $6 million. So that was the services we were providing to T-Mobile that we had previously never provided. And it was not to a Sprint customer, it was to T-Mobile. But they have been able to reduce their reliance on our paid services by about 93%, 94%. But that remaining $400,000 is in there. So in fact, the underlying Cogent revenue growth probably would have been a little better if we had excluded the CSA both initially and today.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. Got it. That's helpful. And if I can squeeze in one more quick one about the IPv4 leasing revenue. So the revenue was down a little bit quarter-over-quarter despite the address at least being up noticeably. Can you just talk about the dynamics there?

David Schaeffer

Founder, Chairman, CEO & President

It was actually pretty simple. One of the parties that took the large wholesale block had a small retail block with us, and it was the timing of when we terminated that retail agreement and converted it to wholesale in conjunction with a much larger purchase.

Operator

Our next question comes from the line of Michael Rollins with Citi.

Michael Ian Rollins
Citigroup Inc., Research Division

Dave, I was curious if you could be more specific on the cost base. I think in the past, you described that there's some duplicative costs that the company is incurring during this integration. How much of those are left, and the timing of those savings? And then can you also share with us what the burn rate is for the data center portfolio that you're looking to monetize?

David Schaeffer
Founder, Chairman, CEO & President

Yes. Two very different questions. So first of all, we have achieved the vast majority of the increased cost savings that we had targeted. So if you remember, the initial number was $220 million. We then increased that number to $240 million. And we probably have achieved over $230 million of that $240 million in cost savings. So there is a small tail, but it is not material.

Secondly, we have incurred incremental expenses associated with integration activities. Those will continue throughout this year. They peaked at about an annual run rate of $60 million or about $5 million a month. Today, they're down to probably closer to $3 million a month, but there is still monies being spent on various integration optimization programs, but we do anticipate those ending by the end of the year.

And then to the final question, which is the burn associated with the infrastructure that we acquired from T-Mobile. So the infrastructure business, which includes the data centers and the physical fiber network, has a negative EBITDA of about $140 million. We have partially offset that because the IPv4 securitization sits under infrastructure and generates about $60 million of EBITDA. So the infrastructure silo of Cogent's balance sheet is about negative $80 million of EBITDA. Roughly 20% of that is associated with the data centers, and we're looking to sell a significant portion of that footprint, probably at least 50% of it.

Michael Ian Rollins
Citigroup Inc., Research Division

And sorry, that 20% associated with the data centers, is that 20% of the...

David Schaeffer
Founder, Chairman, CEO & President

20% of the $140 million of negative costs associated with the Sprint assets. These are primarily in 3 buckets. They're real estate taxes, personal property taxes and right-of-way fees. We got the actual network for $1 with no revenue. We now are completing the repurposing of that. And as we add high-margin -- the margins accrue to group, but we can fund those losses over at infrastructure through our ability to move money out of the borrower group through holding some back down to infrastructure. In fact, that's how we've been funding those to date using our restricted payments capacity. And we do have about $350 million of accumulated unused restricted payments capacity at the borrower.

Michael Ian Rollins
Citigroup Inc., Research Division

If I could just follow up real quick with 2 other items. First, if you look at the corporate business at the heritage Cogent side of the equation, can you share with us a little bit more detail about what's driving the heritage revenue change over the last couple of years? And if there's any inflection in trend there? And the same for NetCentric, where it might be a little bit easier to unpack the IPv4 and the wave impact, just given the concentration of those products in NetCentric?

David Schaeffer
Founder, Chairman, CEO & President

Yes. So on the NetCentric side, it is easier because we do break out the IPv4 revenue, of which 85% of it is NetCentric. We break out the wave revenue, which is virtually all NetCentric. And then the incremental difference is the growth in the core transit product.

In the corporate business, there was a mix of DIA and VPN services at Cogent and then a mix at Sprint. At Sprint, the mix was much heavier VPN than it was DIA. At Cogent, it was much more DIA. We have converted some of the Sprint customers from MPLS to VPLS VPNs, improving the profitability, but we are continuing to support the MPLS product long term. We are trying to move as much on-net as possible. But the underlying growth in the corporate business at Cogent has come mostly from DIA.

Operator

Our next question comes from the line of David Barden with New Street Research.

David William Barden
New Street Research LLP

The first one, Dave -- and I apologize for asking this -- is about your new contracts that you've signed in January with the Board and how we, as investors from the outside, look at maybe how your incentives have changed. You always took stock as compensation. Now you're getting cash compensation. Does that change how you think about the business, how you think about dividends? It would be really helpful to get some insight there.

I think the second question, maybe for Tad, is when you talk about secured financing, what specifically are you planning on securing? How much are you planning to secure? And what rates are you expecting?

David Schaeffer
Founder, Chairman, CEO & President

All right. Great. So first of all, with regard to my contract, I am still in negotiations with the comp committee for some additional equity going forward. The vast majority of my compensation, roughly 80% of it remains in equity, and that equity does not begin to vest until 2029. So there's both a long-term cliff and a significant portion that needs to vest. Now -- so I do not have to pledge shares going forward, which created a cascade of bad events. I now have cash compensation that will allow me to pay both taxes and to be able to live, but it is a fraction of my total compensation.

In terms of being able to go forward and how I think about dividends, I'm as committed to shareholder returns as I've ever been. We have shifted our priorities to get our leverage down. And I think we will be in a position where we will see our leverage rapidly fall and be able to return to either buybacks, dividends at a higher rate or a combination thereof.

I'll let Tad touch on the refi, and I may jump in as well.

Thaddeus G. Weed
VP, CFO & Treasurer

Well, I mean, we're in negotiations with multiple parties. We've essentially only kind of come to terms on the amount, but not with respect to rates and the rest of the terms that we are in the process of negotiating.

David Schaeffer
Founder, Chairman, CEO & President

Yes. I think we have a very clear structure that will allow us to do this as secured debt. I don't think this call is the correct forum to roll that out, but we will [indiscernible]. And we also will anticipate that the current secured debt is a pretty good education of about where our new debt will price.

David William Barden
New Street Research LLP

Got it. And is there anything about the 2032s that is relevant to kind of rolling the '27s?

David Schaeffer
Founder, Chairman, CEO & President

Not really. I mean, the same test will be in place will be governed by the most restrictive covenants, which will probably be the existing '32s, and that will be 4x secured leverage and a 2x debt service test.

David William Barden
New Street Research LLP

Got it. And if I could just squeeze in one more, I really appreciate it, guys. Dave, you've kind of mentioned that the 2 kind of things that were going to be advantages for you in the wave market were price and time provision. I think you said you're down to 30 days, I think you targeted 2 weeks. Could you elaborate a little bit on the kind of process to get to even better provisioning timing? And where are you, do you believe, on a price perspective relative to "market?"

David Schaeffer
Founder, Chairman, CEO & President

Yes, I'll take the price one first. I think we're probably at a 20% to 30% discount. I also believe our advantages are more than you outlined. I think the breadth of the footprint, as well as the diversity of the routes and reliability, are all really important criteria. And I think the acceleration you're seeing in our waves business is as a result of that.

And then in terms of getting the provisioning window even shorter, I think it will be 3 things. It will be, one, our just continued process refinement as we do more, but 30 days is still generally 3x to 4x quicker than industry averages. A third party actually just last month, released a report benchmarking us. And in terms of wave line services, out of all of the providers, there were several dozen providers, both regional and national, evaluated, we were actually #2 in terms of provisioning already. And I think we'll end up being #1, just like we are in IP.

I think the other thing that is a constraint today is actually, pluggable optics lead times have become more challenging just because of the pressures that some of the massive data center builds have put on the entire ecosystem for telecom and networking equipment.

Operator

Our next question comes from the line of Mike Funk with Bank of America.

Michael J. Funk
BofA Securities, Research Division

I've had one question, Dave. Going back to the sequential revenue growth, I'm looking at the Street forecast, and consensus is for about 3.5 sequential revenue growth in 2026. And this is not why it's '26-ish. I think historically, the Street forecast revenue growth faster than actual probably a combination of constructive commentary from the company. The longer-term revenue growth guidance provided and relative opaqueness of your business. I don't think it's helpful to have revenue growth so much higher than actual. So maybe help us think about the correct rate of sequential revenue growth in 2026 to reduce some of the volatility that we see in your stock on earnings?

David Schaeffer
Founder, Chairman, CEO & President

Yes. And it's a delicate balancing act because while I want to give clarity and guidance, I'm not comfortable in giving quarterly or even annual guidance. I do think that over a multiyear period, that 6% to 8% growth rate is what is absolutely appropriate to model. I'm going to have to leave it to every analyst to do their own diligence and channel checks, and we're just not going to give a number that says 3.5 is too high or too low on a sequential increase in revenue.

What we said is, from this point forward, we're comfortable that our quarterly reported revenues are going to grow. We think that's going to continue to improve. We think that, that growth is going to be driven by high-margin products. And just as you said, maybe Street numbers were too high on top line, they've consistently underestimated our ability to expand margins.

Michael J. Funk
BofA Securities, Research Division

Maybe one more if I could, Dave, sneak it in here. Rep productivity, I wanted to touch on that. They've been coming down. What are you doing internally, change in processes, people, to improve rep productivity?

David Schaeffer
Founder, Chairman, CEO & President

So the productivity is measured on a unit basis. If you've actually noticed, our ARPUs have actually gone up somewhat too. We are focused more on on-net services. So there is a higher payout for on-net versus off-net to help get to that 80:20 mix that I referenced. And then third, we continue to train, to promote internally and try to incent our sales force to grow. But we do still have 5.4% per month of turnover. That is below the long-term average of 5.7%, the peak of 8.7%. But our productivity at 4.1 for the fourth quarter was actually about 18% better than our rep productivity in the fourth quarter of 2024.

There is some seasonality to rep productivity. And while the 4.8 that we average is good, we actually think we can do better than that. And I think you'll see that number trend up as this focus on on-net and as we kind of roll through the seasonality that I mentioned.

Operator

Our last question comes from the line of Ana Goshko with Bank of America.

Anastazia Goshko
BofA Securities, Research Division

So just on the plan to refi the '27 sort of dollar for dollar with new secured. So in the prior question on the planned use of proceeds of any data center sale, you clearly didn't commit to using it to repay debt. So I think you said you have options.

But when you reduced your dividend about -- in the last earnings announced date, the rationale that was provided for reducing the dividend was that you wanted to focus on deleveraging. And I think implicit in that was the idea that cash on the balance sheet, potential cash from asset sale proceeds and potential cash from free cash flow would be used to repay debt. So I just wanted to revisit that concept and what the plan is to get leverage down? And I believe you cited a target of 4x?

David Schaeffer
Founder, Chairman, CEO & President

Yes, that is absolutely correct, Ana. And we are absolutely committed to not materially changing our return of capital either through buybacks or dividends until we reach 4x net leverage. We each quarter have less monies due to us from T-Mobile, which we're counting in our leverage. So that is a bit of a hill that we have to climb. We also are again, delevering both on a gross and net basis. And I think we will continue to do that.

And holding cash on the balance sheet has the exact same impact on net debt. We have not been specific around a gross debt target, and we may opportunistically even buy back some of our debt if it's sometimes trades at a discount as our current secured debt has, that could also be an effective mechanism to use excess cash to reduce leverage. But we are absolutely committed. I want to leave no ambiguity that we intend to get for the entire complex, not just the borrower group, down to 4x net leverage before we materially change our return of capital strategy.

Anastazia Goshko
BofA Securities, Research Division

Okay. And then secondly, I know you don't provide specific guidance. But in terms of your ability to generate free cash flow, particularly this year, what is your level of confidence and maybe some order of magnitude if you expect it to be positive?

David Schaeffer
Founder, Chairman, CEO & President

So we absolutely will produce a growth in EBITDA. You can extrapolate what we have done and then later on, the contribution margins with the mix shift that I described and then layer in some of the aggregate savings. Two, we absolutely expect our capital expenditures to go down. Those two things will allow us to generate unlevered free cash flow growth.

And it is likely that when we refinance the unsecureds, our coupon will be slightly higher probably than it is today for the current unsecureds even though we will be converting them to secured. That is highly dependent on how the current bonds trade. But we do think that even on a levered basis, we will be generating free cash. That's as close to guidance as you're going to get me.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Mr. Dave Schaeffer for closing remarks.

David Schaeffer
Founder, Chairman, CEO & President

Well, first of all, I want to thank everyone. I know it was 1.5 hours. We have actually gone longer. I thought this was somewhat unique in that we added a lot more granularity to our disclosures around the trajectory of this Sprint acquired business and also, the relative mix of products.

I think in summary, there are 3 really important objectives for Cogent to build value. One is to grow top line; two, to continue to expand margins and then three, eliminate any overhang of a debt maturity that is 17 months away. And I think on all 3 of those vectors, we are and will continue to demonstrate meaningful progress. Thanks, everyone, and we'll talk soon. Take care. Bye-bye.

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