

Cogent

4Q23 First Look: EBITDA miss on higher costs, wavelength metrics absent

Maintain Rating: BUY | PO: 85.00 USD | Price: 80.72 USD

4Q23 results miss on EBITDA driven by SG&A and opex

CCOI announced 4Q23 results which met BofA/Street estimates on revenue but missed on adj. EBITDA (see [Exhibit 1](#)). CCOI's reported 4Q revenue of \$272mn was in line with the BofA/ Street estimates of \$270/271mn. EBITDA exclusive of TMUS payments was \$6mn vs. the BofA/Street estimates of \$41/44mn and \$111mn inclusive of TMUS payments (BofA/Street at \$128/132mn). The miss seems to be driven by higher than expected network expenses and SG&A costs. Some one-timer cost is clearly involved here but not broken out in the release. This will be discussed on the results call. Additionally, CCOI did not break out its wavelength segment explicitly (revenues and operating metrics), like it has the previous two quarters. We believe the wavelength segment is now lumped in with On-Net revenue. Management will be asked about the exclusion of the wavelength business metrics, the operating performance of the business, and the longer-term outlook on the conference call. We maintain our Buy rating.

Other things to note in the press release...

CCOI's quota bearing sales force rose to 657 (from 637 in 3Q23), with FTE sales reps flat q/q at ~620. Sales rep productivity fell to 3.3 from 3.6 in 3Q23 and 3.8 in 4Q23. Management continues to see positive trends regarding occupancy in its corporate business in several cities but did note the impact of post-pandemic leasing is affecting other metro areas. CCOI again raised its dividend to \$0.965 (payable 4/9) by 1% q/q.

On the conference call we want to hear more on...

CCOI's will host its conference call today at **8:30am ET (Dial in: 888-596-4144, Passcode: 6641307)**. Key discussion topics will include 1) exclusion of the wavelength business from reporting, 2) performance of the wavelength business, 3) return to office cadence expectations, 4) sales rep productivity, and 5) thoughts on leverage reduction and the opportunities for dividend growth in 2024+.

29 February 2024

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Stock Data

Price	80.72 USD
Price Objective	85.00 USD
Date Established	3-May-2023
Investment Opinion	B-1-7
52-Week Range	57.35 USD - 81.38 USD
Mkt Val (mn) / Shares Out (mn)	3,925 USD / 48.6
Free Float	88.7%
Average Daily Value (mn)	22.63 USD
BofA Ticker / Exchange	CCOI / NAS
Bloomberg / Reuters	CCOI US / CCOI.OQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

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FTE: Full time equivalent

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Timestamp: 29 February 2024 08:27AM EST

Exhibit 1: CCOI 4Q23 actual results vs. estimates

CCOI missed adj. EBITDA in 4Q23 vs. BofA and the Street

	4Q23 CCOI	4Q23 BofA	+/-	4Q23 Cons	
On-Net	141.2	130.6	8.1%	129.4	9.1%
Off-Net	123.7	124.4	-0.6%	126.5	-2.2%
Wavelength	*	7.3		4.4	
Non-core	7.3	7.4	-2.2%	8.8	-17.5%
Total Revenue	272.1	269.8	0.9%	269.1	1.1%
Network expense	174.2	167.2	4.1%	167.7	3.9%
SG&A	74.9	62.0	20.7%	59.0	27.0%
Adj. EBITDA	110.5	128.0	-13.6%	131.5	-16.0%
EBITDA mgn.	40.6%	47.4%	-14.4%	48.9%	-16.9%
Operational					
On-net conns.	88,733.0	89,965.9	-1.4%	91,126.0	-2.6%
Off-net conns.	36,895.0	35,685.5	3.4%	36,004.0	2.5%

Source: BofA Global Research, company reports, Visible Alpha consensus

* CCOI did not provide financial metrics for its wavelength segment

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Price objective basis & risk**Cogent (CCOI)**

Our \$85 price objective is based on an EV/EBITDA multiple of 14x 2024E inclusive of the TMUS/Sprint wireline acquisition (closed 5/1/23). This multiple is in line with historic comparables, which we believe is appropriate based on projected growth.

Downside risks to our PO are continued sluggish return-to-office causing below-normal legacy business growth, a longer-than-expected realization period and/or higher-than-forecasted costs for integration of the new Sprint Wireline business, greater-than-expected competition as CCOI enters new business markets, and challenges training and retaining a productive sales force.

Analyst Certification

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Cogent (CCOI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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