Cogent communications holdings, Inc.(Q1 2022 Earnings)

May 05, 2022

Corporate Speakers:

- David Schaeffer; Cogent Communications Holdings, Inc.; Founder, Chairman, CEO & President
- Thaddeus Weed; Cogent Communications Holdings, Inc.; SVP – Audit & Operations
- Sean Wallace; Cogent Communications Holdings, Inc.; VP, CFO, & Treasurer

Participants:

- Philip Cusick; JPMorgan Chase & Co; Research Division, MD and Senior Analyst
- Brett Feldman; Goldman Sachs Group, Inc.; Research Division, Equity Analyst
- Walter Piecyk; LightShed Partners, LLC; Partner & TMT Analyst
- James Breen; William Blair & Company LLC; Research Division, Communication Services Analyst
- Nicholas Del Deo; MoffettNathanson LLC; Senior Analyst
- Unidentified Participant; Cowen; Analyst
- Unidentified Participant; Bank of America; Analyst
- Unidentified Participant; Raymond James; Analyst
- Unidentified Participant; RBC Capital Markets; Analyst
- Brandon Nispel; KeyBanc Capital Markets Inc.; Research Division, Research Analyst
- Timothy Horan; Oppenheimer & Co. Inc.; Research Division, MD & Senior Analyst

PRESENTATION

Operator^ Welcome to the Cogent Communications Holdings Incorporated First Quarter 2022 Earnings Conference Call and Webcast. My name is Hilda, and I will be your operator for today's call. (Operator Instructions) As a reminder, this conference call is being recorded and will be available for replay at www.cogenco.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 will now turn the call over to Mr. Dave Schaeffer, Chairman and Chief Executive Officer of Cogent Communications Holdings.

David Schaeffer^ Thank you, and Good morning. Welcome to our first quarter 2022 earnings conference call. I'm Dave Schaeffer, Cogent's Chief Executive Officer. With me on this call this morning is Sean Wallace, our former Chief Financial Officer; and Tad Weed are returning Chief Financial Officer.

I want to personally thank Sean, a long-time friend for his willingness to step in and act as our Chief Financial Officer, while Tad was on medical leave. And now the Tad has fully recovered. And after a brief transition period with Sean, Tad will be resuming the CFO duties. I'm excited to welcome Tad back as our CFO. Hopefully, you've had a chance to review our earnings press release. Our press release includes a number of historical quarterly metrics which are presented on a consistent basis.

Our corporate business continues to be influenced by real estate activity in central business districts. Two key statistics, including the level of card swipes for security entrants into buildings and leasing activity indicate that during the first quarter, the real estate market and leasing activeity in central business districts in which we operate continue to see improvement.

During the quarter, leasing activity across major markets continue to increase and workers return to offices continue to accelerate. In the first quarter, our corporate business experienced the smallest decline since the beginning of the pandemic as gross conditions improved and net churn continued to decline.

Adjusting for the negative effect of changes in the Universal Service Fund revenue, our corporate business was essentially flat in the quarter. While these improvements in our corporate business are encouraging, we continue to remain cautious in our outlook, given the uncertain economic environment and the continuing challenges of the endemic.

Our Netcentric business continues to benefit from continued growth in video traffic and streaming. For the first quarter, our traffic was up 8% sequentially and increased by 17% on a year-over-year basis. Our Netcentric business grew by 4.4% sequentially quarter-over-quarter and by 15.1% on a year-over-year basis. On a constant currency basis, our Netcentric business increased by 18.6% from the first quarter of 2021 and grew by 5.3% from the fourth quarter of 2021.

Despite facing significant revenue headwinds this quarter from the negative impact of foreign exchange and the reduction in USF revenue. Our first quarter total revenues increased sequentially by 1.3% to $149.2 million, and increased by 1.6% on a year-over-year basis.

On a constant currency basis, our revenue increased sequentially by 1.7% and 2.9% on a year-over-year basis. On a constant currency basis and adjusting for the negative impact of the decline in USF revenues from the change in USF tax rate, we experienced a sequential growth in revenue from the fourth quarter of 2021 of 2.1% and a year-over-year growth rate of 3.5%.

We continue to operate an extremely efficient network. Our network serves a growing number of markets, carrier-neutral data centers and multi-tenant office buildings and is able to support dramatic increases in traffic and revenue with a relatively fixed cost base. Our performance of our existing customer base continues to be strong, despite the impact of COVID-19. Customer churn, bad debt expense and days sales outstanding for the quarter for our corporate customers, all fell for the second quarter in a row.

Our DSOs outstanding of 21 days equals the best in Cogent's history. Our bad debt expense as a percentage of revenues was the best since the first quarter of 2016. Both our on-net and off-net churn rates improved for the quarter. We believe these statistics demonstrate the strong credit quality of our customer base and the importance of Cogent services to these businesses.

During the quarter, we returned only $1.3 million to our shareholders through our regular dividend. We did not purchase any stock in the quarter and have a total of $30.4 million authorized under our buyback program, which is authorized to continue through December 31, 2022.

Our cash at Cogent Holdings is $107.6 million at quarter end. This cash is unrestricted and available to be used for both dividends and buybacks. Cash held at our operating company is $204.2 million. And our total consolidated cash and restricted cash is $311.8 million at quarter's end. Our gross leverage ratio declined to 4.94% from 5.02% in the last quarter. And our net leverage ratio remained unchanged at 3.58%. Our consolidated leverage ratio, as calculated under our indentures is 4.91% at quarters end.

Our Board of Directors reflected on the strong cash-generating capabilities and investment opportunities in Cogent's business. As previously announced, we decided to increase our dividend sequentially by another $0.025 per share this quarter raising our quarterly dividend from $0.885 per share to $0.88 per share per quarter. This increase represents the 39th consecutive sequential increase in our quarterly dividend, and our annual dividend growth rate is approximately 12.8%. Now for some expectations against our long-term objectives.

Our targeted long-term EBITDA annual margin expansion guidance calls for an improvement of 200 basis points per year. Our targeted multiyear constant currency revenue growth rate is approximately 10%.

Our revenue and EBITDA guidance are meant to be multiyear goals and are not intended to be used as specific quarterly or annual guidance. Now I would like to ask Tad to read safe harbor language to give an update on COVID-19 and review some of our operating performance. Sean will provide some additional performance details later in the call, Tad?

Thaddeus Weed^ 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 the call, you will find these reconciled to the GAAP measurement in our earnings release, which is posted on our website at cogentco.com. A brief update on COVID-19.

Like many other companies, we continue to be impacted by the pandemic and the accompanying response by governments around the world. Our entire workforce returned to an in-office environment this quarter in March. We wanted to thank our entire workforce and in particular, our IT department for their continued hard work during these very challenging times.

We also want to thank our field engineers, contractors, billing and collection staff and many other Cogent employees who continue to work on the front lines, installing our new customers, maintaining and upgrading our network and providing outstanding service to our customers.

Our risks related to COVID-19 and other risks are described in more detail in our annual report on Form 10-K for 2021 and in our quarterly reports on Form 10-Q, our 10-Q for this quarter will be filed shortly after this call. Throughout this discussion, we'll highlight several operational statistics. Sean and I will review in greater detail some highlights and trends. And then following our remarks, Dave will close.

And then as always, we'll open it up for Q&A. Some comments on corporate and Netcentric revenue and customer connections. As a reminder, we analyze our revenues based on network connection type, which is on-net, off-net and non-core, 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 services firms, educational institutions that are located in multi-tenant office buildings or connected to our network through our carrier-neutral data center footprint.

On-net customers buy significant amounts of bandwidth from us in carrier-neutral data centers and includes streaming companies and content distribution service providers as well as access networks who serve the consumers of content.

Our corporate business represented 57.7% of our revenues this quarter. Our corporate business declined year-over-year by 6.4% to $86.1 million from the first quarter of last year and declined sequentially, but only by 0.8%. This was an improvement in our corporate business from last quarter when our corporate revenue declined year-over-year by 7.4% and declined sequentially by 2.5%.

As Dave mentioned, a decrease in the USF rate, which only applies to our corporate VPN customer connections, had a $0.5 million negative impact on our sequential quarterly corporate revenues and an $800,000 negative impact on our year-over-year corporate revenues.

The USF tax rate changes quarterly, and we cannot predict the impact of future USF rate changes on our revenues, although it has been declining. The USF rate for the second quarter of 2022, so the current quarter we're in has already been established and will reduce yet again to 23.8% from 25.2%. As we have discussed in previous earnings calls, 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 pandemic.

We also found that as a result of the work from home environment and general challenges related to the pandemic, many of our corporate customers delayed decisions about system upgrades and making new network investments. This slowdown in corporate sales, combined with normal historic levels of churn, contributed to a reduction in our corporate revenue for the past 2 years.

We are seeing some continuing positive signs that indicate that corporate buying patterns are beginning to return to a more normal level and our sequential rate of corporate revenue decline has just about ceased. Sales of our largest product by revenue and connections, our 1 gigabit DIA product experienced its fourth quarter in a row of rising sales.

We are also seeing some of our larger corporate customers begin to expand and reconfigure their networks. In terms of churn in our corporate base, we are also encouraged that the churn has fallen and most of our corporate churn is derived from our older products 100-megabit DIA and 100-megabit VPN products.

We continue to see very low levels of churn for our 1-gigabit connections. The number of connections, we had 45,393 corporate connections on our network at quarter end, which was a decline, but only a decline of 0.1% from the first quarter versus the fourth quarter of 2021.

Our corporate connections decreased by 2.8% from the first quarter of last year. Like the revenue improvement, these corporate connection declines were an improvement in our corporate business from last quarter when the connections declined year-over-year by 0.3% and sequentially by 3.7%. Our Netcentric business. Our Netcentric business, which represented 42.3% of our revenues despite material FX headwinds had another strong quarter and grew by 4.4% to $63.1 million quarter-over-quarter and grew by 15.1% on a year-over-year basis.

Volatility in foreign exchange rates primarily impacts our Netcentric business, and that impact was materially negative both sequentially and year-over-year. On a constant currency basis, our Netcentric business increased by 18.6% from the first quarter of last year and by 5.3% from last quarter.

Connections, we had 49,491 Netcentric customer connections on our network at quarter end, which was a sequential increase of 2.5% and 12% year-over-year. Our Netcentric business benefited from the continued strong demand of our larger ports, 10 gig, 100 gig and now 400 gig ports in selected locations. And the demand from outside of the U.S. was particularly strong. Now revenue and customer connections by type.

Our on-net revenue was $112.6 million for the quarter, which was a sequential increase of 1.7% and a year-over-year increase of 2.4%. Our on-net customer connections increased by 1.1% sequentially to 81,627 on-net connections and increased by 4.1% year-over-year. We serve these on-net customer connections on our network and our 3,065 total on-net multi-tenant office buildings and carrier-neutral data center buildings.

Off-net revenue was $36.4 million for the quarter. That was a sequential quarterly increase of 0.2%, but a year-over-year decrease of 0.9%. Our off-net revenues are impacted by incorporating the cost savings that we obtained from local -- lower local loop prices that we combine into our pricing to our customers.

The introduction of these customers into our off-net revenue base lowers our combined off-net ARPU. Our off-net customer connections increased sequentially by 2% to 12,922 off-net connections and increased by 5.8% year-over-year. And we ended the quarter serving these off-net customer connections and about 7,800 off-net buildings. These off-net buildings are primarily located in North America.

Some comments on pricing. Consistent with our long-term historical trends, our average price per megabit of our installed customer base decreased for the quarter, but the decrease was at a lower year-over-year rate of decline. Our average price per megabit for our new customer contracts actually increased sequentially. The numbers, the average price per megabit for our installed base declined sequentially by 5.8% to $0.31 and declined by 18.6% from the first quarter of last year.

The average price per megabit of our new customer contracts for the quarter increased to $0.18 from $0.17 last quarter and $0.20 in the first quarter of last year. We continue to succeed in selling larger 10-gig and 100-gig connections and now 400 gig connections in select locations to our customers and selling more of these larger connections results in a change in our connection mix and has the effect of lowering our average price per megabit at a greater rate than the changes we experienced in our ARPU or our average price per connection.

So speaking of ARPU. Our on-net ARPU increased sequentially, but decreased year-over-year primarily from the negative impact of foreign exchange and USF revenues. Our off-net ARPU continued to decline and decreased sequentially and year-over-year. Our on-net ARPU, which includes both corporate and Netcentric customers, was $463 for the quarter.

That was an increase of 0.8% from last quarter and a decrease of 1.8% from last year. Our off-net ARPU, which is predominantly comprised of corporate customers was $948 for the quarter. That was a sequential decrease of 1.4% and 6.4% from last year.

We do 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 loops and these reductions in our local loop costs are passed on to our off-net corporate customers and thereby lowering our ARPU.

Our sequential quarterly churn rates for both on-net and off-net both improved for the quarter. Our on-net unit churn rate was 0.9%. It was 1% last quarter, and our off-net unit churn rate was 1%. It was 1.1% last quarter.

In order to reduce our customer turnover, we employ a dedicated sales group that works to retain customers who have indicated that they are considering terminating their service with us. We may offer pricing discounts to these customers in order to induce them to reverse their termination decision, purchase additional service from us and/or extend the term of their contract with us.

Due to the commoditized nature of our Netcentric services, the vast majority of these move at or change contracts are related to our Netcentric customers. And during the quarter, certain of our Netcentric customers took advantage of our volume and contract term discounts and entered into long-term contracts for us. That represented over 2,400 customer connections and increased their revenue commitment to Cogent by over $21.3 million.

Some comments on EBITDA and we reconcile EBITDA to our cash flow from operations in each of our quarterly press releases. We do have some seasonal factors and the seasonal factors that impact our EBITDA and 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 and the timing and level of our audit and tax services; and finally, our annual benefit plan cost increases.

Our EBITDA decreased sequentially by $0.3 million, which was primarily due to the impact of these recurring seasonal increases that we experienced in our SG&A. However, our EBITDA increased year-over-year by $1.6 million. Our quarterly EBITDA margin decreased by 70 basis points and was 38.3%. However, our EBITDA margin increased year-over-year by 50 basis points. Earnings per share.

Our basic and diluted income per share was $0.02 for the quarter. There are some material items that impact that, unrealized gains and losses on the translation of our 2024 notes into USD. And recently, the noncash interest expense on our interest rate swap agreement have been the primary contributors to the variability in our net income and consequently, our earnings per share.

We have an unrealized foreign exchange gain of $24 million on our 2024 euro notes from the difference between the euro rate at the end of April of this year, which was $1.05 and the euro to USD rate of $1.12 when we issued the notes in June 2020. Our total unrealized gains in our euro notes for the quarter was $8 million -- it was $8.8 million last quarter and $18.9 million in the first quarter of last year.

During the quarter, we incurred $21.3 million of noncash interest expense this quarter related to the increase in the estimated fair value of our interest rate swap agreement, which we achieved a cash savings, but the accounting requires us to record the fair value.

Comments on foreign currency, more details. Our revenue earned outside the United States is reported in U.S. dollars, and it was about 25% of our revenues for the quarter. 17% of those revenues were from Europe and the remaining 8% related to Canada, Mexico, Asia Pacific, South America and our African operations.

Continued volatility in foreign exchange can materially impact our quarterly reported revenue results, valuation in our euro notes and our overall financial results. The revenue impact from the variability in foreign exchange rates primarily impacts our Netcentric revenues.

The foreign exchange impact on our revenue for the quarter was material and is expected to again be material this quarter. The foreign exchange impact on our quarterly sequential revenues this quarter was negative $0.5 million in the year-over-year negative foreign exchange impact was $1.9 million.

The average euro to USD rate so far this quarter is $1.08 and currently trading at about $1.5-$1.6, and the average Canadian dollar exchange rate is $0.79. If those averages remain at their current levels for this quarter, second quarter of 2022, we estimate that the negative FX impact will be $900,000 year-over-year and almost $3 million year-over-year.

We believe that our revenue and customer base continues to not be highly concentrated. Our top 25 customers represent about 6% of our revenues for the quarter. And with that, I will turn the call over to Sean to go over some additional details related to our performance.

Sean Wallace^ Thanks, Tad.

Thaddeus Weed^ Take it away Sean.

Sean Wallace^ And I also want to just have a quick moment of thanking Dave for his trust and providing me this position. It's been a great experience for me. I also want to thank the entire Cogent team. This is a fine company with a strong dedicated management team. And as a shareholder, I look forward to watching the continued progress in the future.

Let's talk about capital expenditures. Our quarterly capital expenditures increased by $2.8 million sequentially and increased by $2.7 million year-over-year. Our capital expenditures were $18.1 million this quarter compared to $15.3 million for the fourth quarter of 2021 and $15.4 million for the first quarter of 2021.

Supply chain uncertainty is causing us to shift our typical purchasing schedule for network equipment. These anticipatory investments are designed to ensure that our sorry, that we have satisfactory inventory levels of network equipment to accommodate our growth plans. We do continue to anticipate a reduction in our total capital expenditures for fiscal 2022.

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 $245.2 million at March 31, 2022. At quarter end, we had IRU contracts with a total of 297 different dark fiber suppliers.

Our finance lease principal payments were $5.9 million for the quarter, primarily due to purchases of dark fiber in international markets, compared to $5.7 million for the first quarter of 2021 and $6.2 million for the fourth quarter of 2021. Our finance lease principal payments combined with our capital expenditures were $24.0 million for this quarter compared to $21.5 million last quarter and $21.2 million for the first quarter of 2021.

Cash and operating cash flow. As of March 31, 2022, our cash and cash equivalents and restricted cash totaled $311.8 million. For the quarter, our cash decreased primarily from an increase in our quarterly dividend payment. Our $30.3 million of restricted cash is tied to the estimated fair value of our interest rate swap.

Our cash flow from operations was $49.4 million for the quarter compared to $47.1 million for the first quarter of 2021 and $36 million for the fourth quarter of 2021. Our quarterly cash flow from operations increased by $13.4 million sequentially and increased by $2.3 million on a year-over-year basis. Our cash flow from operations this quarter represented the largest cash flow from operations in Cogent's history.

Debt and debt ratios. Our total gross debt at par, including our finance lease IRU obligations, was $1.1 billion at the end of March, and our net debt was $822.7 million. Our total gross debt to trailing last 12 months EBITDA as adjusted ratio was 4.94% at March 31, 2022, and our net debt ratio was 3.58%. Our consolidated leverage ratio, as calculated under our note indenture agreements, was 4.91x at March 31, 2022.

Our EUR 350 million notes are reported in U.S. dollars and converted to USD at each month end using the month end euro to USD exchange rate. The unrealized foreign exchange gain on our euro notes was $8 million this quarter or $0.17 per share compared to an unrealized gain of $8.8 million last quarter or $0.19 per share and an unrealized gain of $18.9 million for the first quarter of 2021 or $0.41 per share.

Our swap agreement in restricted cash and noncash interest expense. We are a party to an interest rate swap agreement that modifies our fixed interest rate obligations associated with our $500 million 2026 notes to a variable interest rate obligation based on the secured overnight financing rate or SOFR.

We recorded the estimated fair value of the swap agreement at each reporting period, and we incurred noncash gains or losses due to changes in market interest rates. As of March 31, 2022, the fair value of the swap agreement increased to a net liability of $30.3 million. We are required to maintain restricted cash balances with the counterparty equal to the net liability.

We recorded noncash interest expense of $21.3 million this quarter related to the increase in the estimated fair value of this interest rate swap agreement. The settlement payments under the swap agreement are made in November and May.

Under our initial settlement payment, we achieved a net cash savings of $0.6 million for the period from the swap agreement inception date in August 2021 to October 31, 2021. Under the settlement period made on May 4, 2022, we achieved a net cash interest savings of $1.2 million for the period from November 1, 2021 to April 30, 2022. Our cumulative cash interest savings in the swap agreement totals $1.8 million. Bad debt and days sales outstanding.

Our bad debt expense as a percentage of our revenues was our best performance since the first quarter of 2016. Our bad debt expense was only 0.2% of our revenues for the quarter compared to 0.5% last quarter and 0.6% in the first quarter of 2021. Our days sales outstanding, or DSO, for worldwide accounts receivable matched our corporate record low DSO of 21 days for the quarter.

We 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.

David Schaeffer^ Thanks, Sean. I'd like to highlight a couple of strengths about our network, our customer base and our salesforce. Our Netcentric performance details are as follows. As I stated earlier, we saw an acceleration of revenue growth in our Netcentric business during the last 3 quarters.

Our Netcentric year-over-year growth rate was 15.1% and 18.6% on a constant currency basis. We are a direct beneficiary of increased over-the-top video and streaming services, particularly in non-U.S. markets. I would like to highlight some important trends and statistics, we believe, demonstrate the strength of our Netcentric business.

At quarter's end, we were connected to 1,383 carrier-neutral data centers and 54 Cogent data centers, more than any other carrier globally as measured by independent third-party research. The breadth of our coverage enables our Netcentric customers to better optimize our network and reduce their latency. We expect that we will continue to widen our lead in this market as we project to connect over an additional 100 carrier-neutral data centers per year to our network for the next several years based on construction pipeline of anticipated new data centers.

At quarter's end, we directly connected to 7,625 networks. This collection of ISPs, telephone companies, cable companies, mobile operators and other carriers provided us a vast majority of the world's broadband subscribers and mobile phone users directly connected to Cogent's network.

At quarter's end, we had a salesforce of [220] professionals solely focused on the Netcentric market for the sale of transit. We believe this group of professionals is one of the largest and most sophisticated sales teams focused on this market in the industry.

In our corporate business, we are seeing some positive trends in our corporate business. As work from home environment becomes established as part of way people work, we believe our corporate customers will continue to look to upgrade their Internet access infrastructure to support larger capacity connections in order to ensure high-quality corporate access for work-from-home employees.

Our corporate customers are aggressively integrating new applications that become part of a remote work environment, such as video conferencing. These usages will require high-capacity connections, both inside and outside their premise. The aggressive push towards the lower cost of bandwidth and greater coverage has begun to boost our corporate demand for our robust [bidirectional] and [some metric] 1 gigabit and now 10 gigabit corporate products.

Corporate customers are increasingly buying connections in carrier-neutral data centers to supplement their corporate local area network connections and provide redundancies to support ad-hoc VPNs that are necessary for work from how. Now for a few comments on our salesforce and its performance.

We experienced improvement in our sales productivity from our continuous training as well as managing out underperforming sales reps. On a sequential basis, our total rep headcount did decline to 479 and the number of full-time equivalent sales reps declined to 453 at quarter's end.

Our year-over-year rep headcount decreased by 68 and our full-time equivalent number of reps decreased on a year-over-year basis by 69. Remember, our sales team was working remotely for the majority of the first quarter, only returning to the office for in-person management and training on March 1 in the U.S. and even later in some of our international offices.

Our salesforce turnover rate was 6.9% per month for the first quarter, a slight drop from the 7.0% per month we experienced in the fourth quarter and is primarily as a result of a more disciplined approach of managing out underperformers.

Many of these individuals have been hired remotely and never received the intense mentoring and training that can only occur within an office environment. These factors contributed to a rebound in our salesforce productivity to 4.7 orders installed per full-time equivalent per month, a 12% increase sequentially from the 4.2 orders per month per full-time equivalent rep in the previous quarter.

We believe our salesforce has been able to accomplish a great deal under some very challenging circumstances throughout the pandemic. In the first quarter of 2022, our sales team was able to achieve its best sales performance in our company's history. We want to thank the entire salesforce and our entire sales team for all they've accomplished and look forward to continued improvements in sales efficacy and the size of the salesforce throughout 2022.

In summary, we remain optimistic about our unique position in serving small and medium-sized businesses located in the central business districts of major cities in North America, where we have 1,824 multi-tenant office buildings directly connected to our network, representing approximately 1 billion square feet of rentable office space.

Currently, key indicators for office activity, including workplace reentry and leasing activity do remain below pre-pandemic levels. However, they are many encouraging signs that companies are returning to the office. Employees are returning and many new leases are being signed to really bring down vacancy rates in our footprint.

We are optimistic that with the combination of in-office sales teams and a return to a more normal office environment, we will benefit from selling tenants services that have deferred or delayed upgrade decisions to their network for nearly 2 years.

Many companies are establishing a long-term network architecture that is designed to support a hybrid workforce with greater flexibility. We will benefit from this opportunity to sell our services to new tenants as landlords aggressively work to fill vacant space in their office buildings in the U.S. and in Canada.

Our customer churn, our bad debt and DSOs are all better than our historical norms. We believe these statistics represent the strong credit quality of our customer base and the increasing importance of our service to the operation of their businesses. Our targeted multiyear constant currency long-term revenue targets of 10% and our long-term EBITDA expansion rates of approximately 200 basis points in margin per year, remain a very achievable goal in this improving environment.

Our Board of Directors has approved our 39th consecutive sequential increase in our regular dividend, increasing our dividend by $0.025 a share to $0.88 a share in the quarter. This increase represents a 12.8% annual growth rate in our dividend. Our constant currency dividend increase demonstrates the optimism of the increasing cash flow capabilities from our business.

While we did not repurchase stock in the first quarter, we do have $30.4 million available at quarter's end in our buyback program that's in place until the end of 2022. Again, I'd like to just personally thank Sean a 25-year friend who stepped in and really helped Cogent in a time of need. It gave Tad, the time needed to fully recover. And this has just been a great working experience. The team has worked together well. And I think Cogent is in the best place because of this collaborative effort. Now I'd like to open the floor for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We have a question from Phil Cusick from JPMorgan.

Philip Cusick^ I guess 2, if I can, starting with corporate sales trends. Can you talk about trends through the first quarter and in April sort of month-to-month and the potential for corporate revenue to grow, excluding USF in the second quarter? And then second, I think Akamai was talking about slowing traffic globally. Anything you're seeing in the Netcentric business to that angle, both overall and at peak periods? And what you think about the impact on revenue there?

David Schaeffer^ Yes. Thanks, Phil, for both questions. First of all, in terms of our corporate sales funnels, they had continued to build over the past 6 months, although many corporate customers who clearly needed service and we're engaging with the salesforce we're not ready to make that final purchase decision due to uncertainties, first from Delta variant and then from Omicron. I think most of our corporate customers now have a much clearer view on what their future networks will require and that we will be living with some level of COVID for the foreseeable future.

As a result of that, virtually all of our customers have some hybrid work component to their network architecture. And they are now ready to upgrade their networks to support that, meaning at their primary location, increasing connectivity and extending contracts. It also means that they will add an alternate VPN concentration point typically in a carrier-neutral data center, where there is still some uncertainty as around branch office locations.

Many of these secondary locations still remain unoccupied. Some will be permanently closed. Others may return with a hybrid work environment. So for that reason, our secondary sales of DIA in those locations have lagged as well as our VPN services.

Those VPN services are delivered by either SD-WAN or VPLS, they're meant to be permanent office-to-office connectivity. Well, that market is not permanently impaired, there is not the same level of clarity around network architecture for those VPNs. So there's a bit more of a lag. In terms of trends that we've seen in April, they continue to be strong.

We continue to see customers ready to sign contracts for the products and services that I've just described. While we do not give specific quarterly guidance, it does appear that the improvements that we saw throughout the term of the first quarter, sequentially getting better on a month-to-month basis from January to February to March are continuing into April.

And as a result of that, we are encouraged that with the only 0.1% sequential revenue decline in corporate revenues in the first quarter when adjusting for USF and FX, we should see a stable and hopefully growing revenue stream from corporate, I want to caution investors we are still probably several quarters away from that robust kind of 2.2%, 2.5% sequential corporate growth rate that we had experienced for nearly a decade prior to the pandemic, but we are seeing good consistent improvement and should expect that to continue throughout the year as companies are back in offices, signing new leases and kind of adapting to the new world order. Now pivoting to your second question on Netcentric.

Typically, summer months see a slowdown in traffic growth, I think that on a sequential basis, we'll probably continue to see that trend play out. We saw it throughout the pandemic. Secondly, we saw a benefit from growth outside of the developed world. I think the rest of the world's Internet traffic growth rates are still substantially above the developed world. It is still being driven primarily by over-the-top video.

Cogent benefits really 2 ways. One, we sell to the majority of those video producers, those companies that are distributing that content. But secondly, we have over 7,600 access networks around the world that buy their upstream from Cogent.

As a result of this, our effective price per megabit is actually increasing, even though our headline price may continue to decline at historical rates due to the fact that we're getting paid by both the sender and receiver. In the case of the content delivery network that you mentioned, they only get paid by the sender and typically have to pay the receiver to connect to them.

So we have a very different market dynamic. And in fact, we sell to virtually all of the third-party CDN operators as well as proprietary CDN networks for content publishers.

Operator^ Our next question comes from Brett Feldman from Goldman Sachs.

Brett Feldman^ Yes, Dave, kind of a multipart question around inflation and how you're thinking about managing the impacts on your business. And the 2 things I was hoping you could expand upon are, first of all, how inflation impacts your cost structure, I think that your biggest cost is really your salesforce. And so if you can maybe expand upon what you're seeing in terms of wage growth there and whether you have an opportunity to mitigate that?

And then on the pricing side, to what extent at all do you think you have an ability to revisit or maybe even raise price for your customers if you were to experience sustained upward pressure on your cost structure?

David Schaeffer^ Thanks for both questions, Brett. I'm going to actually take them in reverse order. While I would love to be able to say we have pricing power that is not real listing. We are in the technology business. The underlying technologies that we utilize of wave division multiplexing and optically interfaced routers continue to improve and are nowhere near reaching their technical limitations.

So we see the cost of production of our service continuing to decline due to these advances in technology and our ability to optimize utilization of our global fiber infrastructure. Now short term, we are absolutely experiencing equipment delays, and it is causing an increase and an inefficiency in our capital deployment.

So when we replace equipment in our network, our typical model is to take existing equipment at the core of the network and move it to more peripheral locations, putting the newest generation equipment in the densest parts of the network. That still is our model. But typically, that equipment is not a unitary box, but rather a chassis with multiple cars.

What we've experienced is that we order the complete configuration, the chassis and all the requisite cars, the chassis and 3 quarters of the cars show up and then the last 25% have some kind of supply chain issue.

And therefore, we're stranding capital on our warehouse shelves until that final component can come in. And that's made our capital expenditures more lumpy, but we think these are transitory events. These are not permanent situations and talking with our current equipment vendors and their competitors, I think all of them feel that this issue will get resolved.

The market remains sufficiently competitive. And as a result, the cost of production is declining and the competitive pressures mean prices will come down. We capture that efficiency better than any of our competitors and anticipate our capital as a percentage of revenues to continue to decline as well as our margins to continue to expand. Now with the wage piece that I'm going to let Tad touch on that.

Thaddeus Weed^ So as I mentioned in the prepared remarks, our CPI adjustments typically all occur in the first quarter. So you're seeing any impact of CPI adjustments that we have and primarily in the first quarter of this year. With respect to wages, we did have the annual COLA increase.

That was all included in the wage adjustments for the first quarter. We do not make interim adjustments to wages with exceptions for promotions. Most of our contracts, if they do have a CPI clause, have an embedded cap in that CPI clause. So in short, any impact of inflation on our cost is essentially reflected in our first quarter amounts. I don't know if you want to add anything to that.

David Schaeffer^ I think in terms of our employee base, Cogent has always offered a very robust entry-level package for our sales reps. Even in a tight labor market, we have a surplus of resumes and applicants. We have a very well-developed training program.

But as we've shared both internally with our salesforce and externally, it is a hard job to telesale to the volumes that we require to be successful and not all reps succeed. We really hope that now we're back in the office for good that we'll be able to continue to lower that turnover rate. But we feel that the reps that are here at Cogent as well as those that we're hiring, we're extremely competitive and don't feel that there's any material wage pressure.

Operator^ Our next question comes from Walter Piecyk from LightShed.

Walter Piecyk^ Dave, given the rising interest rate environment, do you have any different leverage targets that you're considering?

David Schaeffer^ So we have been always focused on our absolute lowest cost of capital. That's why we looked at the euro-denominated debt. We are considering the possibility of monetizing that unrealized gain that we made.

And I wish I could say I was smart enough to know the future of currency movements, I wasn't, but we'll take it when we can get it. And I think we may do that. We may look at extending some of our maturities. In terms of aggregate leverage, we are very comfortable in where we are at. We have a great deal of flexibility. We remain underlevered relative to many of our peers.

And we have the 2 pillars of a great business, which is growing revenues throughout a very challenging environment, we continue to grow and continued margin expansion. So with that, we feel comfortable that while we are slightly ahead of our targeted range at 2.5x to 3.5x at 3.58x levered. We're well within a comfort zone. And even in a rising interest rate environment, we feel that our cost of debt capital is substantially below the equity cost of capital, and therefore, a levered balance sheet makes sense.

Walter Piecyk^ So does that comfort allow you to have the comfort to go to 4x by maintaining the dividend growth rate that you've been consistent at in the last many quarters?

David Schaeffer^ Well, I can comment on the past 39 quarters because they've already occurred and that is a rarified club of companies that have that level of dividend growth pace and consistency. In terms of the future, I fully anticipate to be able to do that. I cannot make a promise.

We're going to continue to monitor the situation. But based on the fact patterns as they exist today, we have a great deal of confidence in our ability to generate increasing amounts of free cash. And then the decision will be to evaluate market conditions and determine whether we should accelerate buybacks or continue to accelerate the dividend.

Walter Piecyk^ Aside from buybacks because that would obviously accelerate or increase the leverage even faster. I guess this is kind of a circular question I'm trying to get to, but if your comfort level is 3% to 3.5%, that's fine. That's where you are today. But if your dividends take you to 4x, so you're above the stated 3.5% comfort level, your comfort level going to 4% as interest rates rise. Is that what I should understand?

David Schaeffer^ So we're already -- our range is 2.5% to 3.5%. While we have not officially modified that. We've been at 3.58% now for 2 consecutive quarters. We're flat at that. We are comfortable being over 3.5% for a period of time, and we will evaluate based on the relative cost of capital and the growth rate. As our growth rate reaccelerates the historical norms, this issue will become moot.

Walter Piecyk^ Sure. But if it doesn't, you're basically allowing your leverage to go up at a time when rates are going up rapidly, but whatever. So let's move on to the second, I mean just these are numbers, it's basic math, right? Can we just talk about the salesforce? The salesforce obviously was an area of focus in terms of corporate growth. I think maybe Tad was focused on this.

You're basically back to 2018 levels. Some of the stuff you talked about in your prepared remarks were similar to what we heard last quarter. What should we expect in terms of the trajectory of the salesforce? Is it just going to continue to decline? And if that's happening, how should we think about your ability to return to growth in corporate?

David Schaeffer^ All right. So 3 components. First of all, our salesforce productivity materially improved from 4.2 to 4.7 installed orders per full-time equivalent sequentially. We are actually still below the long-term average of 5 quarters per rep. So there is still room to improve productivity. Secondly, 2 thirds of the quarter was out of the office. We did not have our Cogent people in the office. We know that they are more productive when they have training and management at their side rather than remote.

Third, while our turnover rate slightly moderated is substantially ahead of historical rates at 6.9% a month, that's far above the 5.2% long-term average. We're going to see that number come down as employees are in the office. Many of the people that are leaving the vast majority are individuals that were hired during the pandemic and trained remotely. While I think we did a great job.

Walter Piecyk^ Dave, you had 550 quota-bearing salespeople in 2019, at the end of 2019, which was before the pandemic. You now have 480.

David Schaeffer^ No, I understand. I'm going to explain. We continue to hire throughout the pandemic, at the identical or actually slightly improved rate over what we were doing pre-pandemic. What occurred during the pandemic was our turnover rate spiked from 5% a month to almost 9% at peak.

The problem was those individuals we hired remotely, no matter how well we modified our training did not do as well as people who are hired and trained in the office. That's empirical evidence. As a result, now that we're back in the office, we'll continue to hire at these rates, and we expect our turnover rate to decline. As a result, our salesforce will grow and our productivity will rise.

Also remember, our addressable market for corporate opportunities has been reduced temporarily by about 10%. So the average occupancy rate in our footprint has fallen from about 94% occupancy to about 85% occupancy. As those buildings re-tenant and typically with smaller tenants measured by square footage, our TAM will actually increase. That will also benefit a larger salesforce. We will grow the salesforce, and we will increase productivity.

Operator^ Our next question comes from James Breen from William Blair.

James Breen^ Dave, just following up on that point, can you just talk about the discussions you've had on the real estate side? Are they starting to see some re-leasing of the space to sort of boost that 50 average tenants up to the maybe 60% range as we come out sort of the back end of the pandemic?

David Schaeffer^ Thanks for the question, Jim. So I'm going to actually speak with 2 halves. I myself have a fairly substantial real estate portfolio only here in D.C., but also I talked to others in the industry and other markets. I think we've seen a significant increase in tour activities up to levels that equal pre-pandemic levels. Now tours take a while to convert to leases, but we're also seeing leasing activity accelerate probably back to 60% of pre-pandemic levels from a trough of about 20% of pre-pandemic levels at the worst.

The third point is that most tenants are taking smaller footprints. The nature of their office configuration is changing and their leases tend to be shorter in term. So while the vacancy rates remain around 15% to 16% across our CBD office footprint. I think over the next several quarters, that vacancy rate will decline, and the number of tenants per building will continue to increase.

Leasing is a bit of a lagging indicator. I think companies have demonstrated that they're now committed to a hybrid environment and a return to office. And as a result, we're seeing, I think, good leading indicators to say, our corporate -- total addressable market will actually be better post pandemic than it was pre-pandemic.

Operator^ Our next question comes from Nick Del Deo from MoffettNathanson.

Nicholas Del Deo^ Sean, congratulations on the new role. Really appreciate all your help over the last couple of years. Tad, it's great to hear you're fully recovered and nice to hear your voice again. Kind of turning to questions. There are a few metrics that we can look to, to measure the return to office trend.

Dave, I think you called out bad swipes and leasing activity. Do you view those as the metric that most strongly correlates to the outlook for the corporate segment? Or is it more dependent on things we can't quantify like customers understand their needs and their comfort signing deals and things like that?

David Schaeffer^ I think it's a combination of both -- we saw a pickup in all of our leading indicators in the corporate market, probably last fall, meaning more spoke tos, more proposals being issued.

But what we also saw was customers reticent to actually pull the trigger and sign those orders. I think after going through the I would say, third, work from home, return office, work from home shift with Omicron. I think virtually all companies that we speak to say, we're now committed to the path we're on, and we're ready to actually take those proposals and convert them to orders.

So I think the lengthening of the decision cycle is now a shrinking decision cycle. And I think that helped us in the quarter, and I think it's going to help us for the next several quarters. And those leading indicators are important to understand the total addressable market. There is still 3x as much vacancy in our footprint as normal.

To put it in perspective, out of our 1 billion square feet, there's really another 100 million square feet of vacancy that would be equivalent to probably all of the office space in the market, say, the size of a Philadelphia. Philadelphia had not a single -- every office building was completely empty.

That's a big number. And I think what's happening now is landlords have adjusted their rents. They've adapted to more flexible lease terms, not requiring 10- and 15-year leases. And as a result, companies are willing to sign those new commitments. And I think offices will begin to see a decline in their vacancy rates. It's probably a several-year process till we return to a fully robust office market.

The final factor that's really impacted office space has been a fairly significant residential conversion phenomenon while it is not typically impacted Cogent buildings because of the size and type of buildings, nationwide, it is anticipated that about 10% of the inventory of office space in North America will be converted to residential.

That is a result of a 12- to 13-year underinvestment in housing units where we were running about 300,000 to 400,000 units per year below pre-financial crisis, trend lines. And one of the easiest ways to catch up is taking an existing office building and convert it into an apartment or a condo development.

And we're seeing a lot of that. That phenomenon is tightening the market coupled with the willingness of landlords to be flexible in our Class A buildings, we see a lot of tenants moving in from B and C buildings who would never have been Cogent opportunities now coming into our footprint.

Nicholas Del Deo^ All right. That's helpful, Dave. And I guess maybe one more question. A lot of worries out there regarding a possible recession. I mean, it's obviously impossible to predict exactly how that might check out, how it might affect your business, if it happens. But at a high level, how do you think a recession might impact each segment of your business, especially with the corporate still recovering from COVID?

David Schaeffer^ Yes. So I mean we have lived through at least 3 previous recessions and our business grew in those, except for 2 quarters in the financial crisis. There was a very, very deep downturn that was very abrupt in late '08, early '09, and we did experience 2 quarters of negative corporate growth.

Absent that, Cogent has grown through more benign recessions. I mean it is likely that economic growth will slow as stimulus as being withdrawn and as interest rates increase. But again, companies are looking at their total cost of operations and economizing taking less space, having employees work remotely, taking advantage of technology.

And we are a net beneficiary of those trends because -- we provide the technology that supports those remote workers and the ability to reduce that real estate footprint. So I think we'll continue to do well. Cogent has always won market share based on a relative value and the Internet has become so seminal.

The final point I would like to make is that we've seen a pretty significant shift across CBD office leasing away from traditional fintech and financial services companies and law firms much more to tech-focused businesses and that is a net beneficiary of Cogent because those businesses tend to be very bandwidth needy and need our service. Remember, Cogent's corporate value prop is symmetric, non-oversubscribed, non-block, non-metered and more bandwidth same price.

To your question on Netcentric, I think the transition from linear to streaming is continuing. It's not a straight line up. We have saw some of our streaming customers experience some challenges in the last quarter, particularly in the more developed markets that but in general, there is still a lot of linear video that's going to be streamed.

And as a result, total bandwidth is going to continue to grow, and we'll continue to capture a disproportionate share of that. We feel comfortable that even in a recession, our Netcentric business will continue to perform.

Operator^ Our next question comes from Greg Williams from Cowen.

Unidentified Participant^ This is Jeff on for Greg. I just wanted to touch on CapEx a little bit. I know you said that it's expected to decline in 2022. Just to clarify, is that on a year-over-year basis versus 2021? And then just in terms of magnitude, when you include capital leases, is it fair to expect CapEx to remain around that $20 million per quarter range? Or could that potentially drop below in 2022? Any color you could provide there would be helpful.

David Schaeffer^ Yes, sure. So the capital efficiency of our network continues to improve, but we are continuing to have to deal with preordering equipment that is not necessarily immediately deployable, as I explained earlier. As a result, while we expect CapEx to decline, it will not decline back to a more normalized rate until supply chain issues have been fully resolved. And I don't think that's going to happen in 2022. I think it's probably still a year out in discussions with our primary vendor, they're predicting shipment challenges for the next year.

With regard to capital leases, we are continuing to expand our international footprint and therefore, acquiring some additional fiber. As noted, Sean mentioned, we have 297 different suppliers. That's up from, I think, 291 last quarter. And as a result, our principal payments on capital leases will probably be at similar levels. So CapEx and capital lease expenditures will come down, but probably not precipitously for the next year.

Operator^ The next question comes from David Barden from Bank of America.

Unidentified Participant^ This is Alex on for Dave. Dave, encouraging to hear that we're seeing an improvement in return to office and leasing and the central business districts that you're talking about. Are there any areas, geographic areas that you're seeing a little bit of a lag in return to office and leasing across North America?

David Schaeffer^ So I would definitely say the more challenging markets tend to be on the coast [today], San Francisco has been a slow market to recover. D.C. has been a slow market. Actually, Toronto has been a slow market. The best return to office has been in the South, Florida, Texas, pretty close to pre-pandemic levels. Some other markets like New York, Philadelphia, lagging, but still not as bad as, say, D.C. I think Atlanta is kind of in that intermediate category.

So it's not completely homogeneous. But I think that most companies in most locations now have kind of a return to office philosophy. I know your employer, Bank of America has changed its policy several times. And my guess is it's not quite as crowded in your building as it was pre-pandemic, but it sure feels a lot better than it did even a few months ago in terms of number of people in the office.

Operator^ Our next question comes from Frank Louthan from Raymond James.

Unidentified Participant^ This is Rob on for Frank. So one of the CDN providers on their call earlier this week said they're seeing the rate of growth in traffic flow. Would you say that you're seeing something similar? And what do you think the overall growth rate of Internet traffic looks like for the full year?

David Schaeffer^ Yes. So our growth rate at 17% year-over-year is actually below our long-term multiyear trend. The base is getting larger. The 8% sequential growth rate for us was pretty much in line with averages. We continue to gain share. I do think global Internet traffic growth accelerated during the pandemic, and it has slowed now to kind of mid-double digits, low teens, and that's below kind of the 15-year trend line, but that's after a year or 2 of being above trend line.

And I think one of the key drivers was the fact that during the pandemic, the streaming transition accelerated, I think it's now more normalized. I think it may actually reaccelerate a little bit if we do see a recession.

Video consumption is a classic inferior good, meaning if people have less disposable income. They spend more time watching television. Secondly, streaming tends to be more cost-effective than any of the linear applications. So I think while we've seen some slowdown, we may actually have the ability to see some reacceleration a little later in the year.

Operator^ Our next question comes from [Laura Lee] from RBC Capital Markets.

Unidentified Participant^ So we're taking the questions. I guess, first, you've spoken in the past by corporate customers upgrading from 100 megabit to 1 gigabit or 10 gigabit. I was just wondering if that rate of conversion is staying stable, accelerating or slowing down, I'm trying to figure out if there's a base of customers that will stay at that 100-megabit service and how much more room there is for Cogent to continue to benefit from that trend?

David Schaeffer^ So I think the 100 meg gigabit conversion is substantially complete. There are always some technological laggers who aren't going to change, if it's not broke, don't fix it, mindset. But what we've actually seen is a pretty significant increase in corporate customers actually now asking for 10 gigabit connections. While I don't think those connections are necessarily needed at this time.

The average corporate customer uses about 11% of their bandwidth at peak. But what we are seeing is companies, particularly those that are less price sensitive, looking to move to those 10 gigabit connections. And that represents an even bigger step-up in differential than to move from [1 megabit] to 100 megabits to gigabit. And as a result, I think we may see some ability to see our corporate on-net ARPUs go up.

Unidentified Participant^ Okay. And then -- so what would that -- can you say what that percentage differential is between 100 meg to [1 megabits] and [1 megabits to 10 megabits]. Just to get the magnitude.

David Schaeffer^ That’s correct.

Unidentified Participant^ No, what percentage magnitude differential between those 2?

David Schaeffer^ Okay. So today, probably about 10% of our base is at 100 meg and about 89%, 90% is at 1 gig and less than 1% today is at 10 gigabit. But as I said, we're seeing an accelerating rate from a small base of people that actually do want to go to 10 gigabit.

Unidentified Participant^ Okay. How much more in terms of pricing, how much greater is the ARPU for a 10 gigabit service versus the 1 gigabit?

David Schaeffer^ Generally, about a 5x to 6x increase in price.

Unidentified Participant^ Got it. Okay. Great. And then secondly, can you talk about any differences in headcount changes and productivity trends specifically between the Netcentric versus the corporate salesforces?

David Schaeffer^ So when I actually touch on headcount for the entire company in productivity. It was a real milestone for the entire company to have the highest revenue per employee in our history at $604,000 per employee than our sales and operations.

That's better than companies that are 20x our size, while it declined, it declined only very modestly and our national account managers that focus on multisite customers also has declined much more gradually. The bulk of the turnover has been in the lowest entry level. And it was really those individuals that we hired during the pandemic that never became fully productive.

Unidentified Participant^ So is it fair to say then that the average tenure of your salesforce has actually increased then with the attrition of the more new entrants?

David Schaeffer^ It actually has. So our average tenure of the salesforce increased by another 10%, a [10th] of a month. And during the entire pandemic our average sales tenure actually increased by about 20% as a result of almost all the turnover being of very untenured reps.

Operator^ Our next question comes from Brandon Nispel from KeyBanc Capital Markets.

Brandon Nispel^ Okay. Great. Dave, a question for you. As we look at the corporate growth, excluding USF, this quarter, you guys sort of got to flat, maybe slightly grew sequentially. Should we expect that to continue throughout the rest of the year?

And do you think you can finish the year actually growing that business on a year-over-year basis? Secondly, gross margins were down 90 basis points this quarter year-over-year. It's been several quarters in a row now the gross margin compression. What's really causing that? And what should we expect for the remainder of '22?

David Schaeffer^ Yes. I'll take them in reverse order, Brandon on gross margin, it's basically been our international expansion and a low occupancy in those new markets until they fully ramp -- we think that, that is a temporary phenomenon and experience has shown us that markets that we expanded into 2 or 3 years ago, achieved gross margin profiles identical to the more mature Cogent network, but the rapid rate of new market expansion pull down aggregate gross margins.

To your first question about corporate, as I kind of stated earlier, we don't give exact quarterly guidance. But I do think that the worst of our corporate churn and sales headwinds are behind us, and we should see continuous improvement. Will that be enough to have full year-over-year growth? I'm not I don't have enough data to give that exact level of prediction, but I do feel that we should see continued improvement throughout the year.

Operator^ The next question comes from Tim Horan from Oppenheimer.

Timothy Horan^ Dave, can you just talk about your strategy in terms of raising debt and refinancing debt and just your -- what do you think your overall cost of that will be over the foreseeable future? And then secondly, your salesforce is maybe one of the reasons the churn is a that they're just not making enough money with leasing activities kind of relatively low. And I guess maybe can you just talk about your comp structure for the salesforce? Are they making more than they were pre-pandemic and not [offset] inflation?

David Schaeffer^ Yes. So 2 very different questions. Let me take the debt strategy question first. I do think we're in a rising interest rate environment for the next couple of years. There's probably heightened capital markets volatility. As a result of that, I think we would like to extend maturities.

We would also like to monetize that $24 million FX gain that Tad mentioned. So it is likely that we will pull our euro-denominated debt and put in place probably a U.S.-denominated issue of longer duration that will raise our interest rate, but the cash savings that we monetize will more than cover that for several years. I think longer term, we're back to a low interest rate environment. So I do think this is not a permanent new normal, but rather a response to a number of exogenous shocks to the system that have created really unprecedented inflation.

To your question about salesforce, we typically give a rep a 3-month bridge, so they get their full commission payment for 3 months, then they're just on their base salary and they're variable. Across the organization, we're roughly about 2/3 salary, 1/3 variable.

Our total comp package is actually one of the most aggressive in the industry, where we give reps and accelerators for the length of time that they've been at Cogent as well as we give accelerators for different levels of certification and that we give raises based on tenure. So you get both more variable and more base the longer you've been here. That's part of the reason why our average tenure continues to increase.

And really, the reps that we've been turning over are those that are very early in their career and have never achieved the funnel building necessary to be successful. It was unfortunate, we did the best we could in a remote environment. I think now we're back in person in office. We're going to see that turnover rate come down. We are not losing reps to competitors. That's not the issue. It's really more of we're losing reps who just never could ramp and meet our expectations.

Operator^ That is our last question. I would like to turn the call over to Mr. Schaeffer for final remarks.

David Schaeffer^ Well, again, I want to thank everyone. I was expecting a little shorter call, but I'm glad everyone was engaged. And again, I hope you all join with me in thanking Sean and wishing him well in his new venture. And he's been a great asset to Cogent. So thanks a lot. We're glad to have Tad back right next to me and in [this seat]. Take care, everyone. Bye-bye.

Operator^ Ladies and gentlemen, this concludes today's conference. We thank you for participating. You may now disconnect.