NASDAQ:AAOI Q3 2025 Earnings Call Transcript

Generated on 6/10/2026

Conference Operator:

Good afternoon. I will be your conference operator today. At this time, I would like to welcome everyone to Applied Optoelectronics Third Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this call is being recorded. I will now turn the call over to Lindsay Savarese, Investor Relations for Applied Optoelectronics. Ms. Savarese, you may begin.

Lindsay Savarese | Investor Relations, Applied Optoelectronics:

Thank you. I'm Lindsay Savarese, Investor Relations for Applied Optoelectronics. I'm pleased to welcome you to AOI's third quarter 2025 financial results conference call. After the market closed today, AOI issued a press release announcing its third quarter 2025 financial results and provided its outlook for the fourth quarter of 2025. The release is also available on the company's website at ao-inc.com. This call is being recorded and webcast live. A link to the recording can be found on the investor relations section of the AOI website and will be archived for one year. Joining us on today's call is Dr. Thompson Lin, AOI's founder, chairman, and CEO. and Dr. Stephan Murray, AOI's Chief Financial Officer and Chief Strategy Officer. Thompson will give an overview of AOI's Q3 results, and Stephan will provide financial details and the outlook for the fourth quarter of 2025. A question and answer session will follow our prepared remarks. Before we begin, I would like to remind you to review AOI's Safe Harbor Statement. On today's call, management will make forward-looking statements. These forward-looking statements involve risks and uncertainties, as well as assumptions and current expectations, which could cause the company's actual results, levels of activity, performance, or achievements of the company or its industry to differ materially from those expressed or implied in such forward-looking statements. In some cases, you can identify forward-looking statements by terminology, such as believe, forecast, anticipate, estimate, suggests, intends, predicts, expects, plans, may, should, could, would, will, potential, or thinks, or by the negative of those terms or other similar expressions that convey uncertainty of future events or outcomes. The company has based these forward-looking statements on its current expectations, assumptions, estimates, and projections. While the company believes these expectations, assumptions, estimates, and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the company's control. Forward-looking statements also include statements regarding management's beliefs and expectations related to the expansion of the reach of its products into new markets and customer responses to its innovations. as well as statements regarding the company's outlook for the fourth quarter of 2025. Except as required by law, AOI assumes no obligation to update these forward-looking statements for any reason after the date of this earnings call to conform these statements to actual results or to changes in the company's expectations. More information about other risks that may impact the company's business are set forth in the risk factors section of AOI's reports on file with the SEC, including the company's annual report on Form 10-K and quarterly reports on Form 10-Q. Also, all financial results and other financial measures discussed today are on a non-GAAP basis unless specifically noted otherwise. Non-GAAP financial measures are not intended to be considered in isolation. or as a substitute for results prepared in accordance with GAAP. A reconciliation between our GAAP and non-GAAP measures, as well as a discussion of why we present non-GAAP financial measures, are included in the company's earnings press release that is available on AOI's website. Before moving to the financial results, I'd like to note that the date of AOI's fourth quarter and full year 2025 earnings call is currently scheduled for February 26th, 2026. Now, I would like to turn the call over to Dr. Thompson Lin, AOI's founder, chairman, and CEO. Thompson?

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

Thank you, Lindsay, and thank you for joining our call today. We successfully deliver revenue, gross margin, and elongate loss per share in line with our expectations. In fact, we recorded the highest quoted revenue in our history, driven by strong demand in the CATV market, which also achieved regular revenue in the third quarter. The strengths we saw in our CATV business more than offset our best-earned revenue, which came in a touch below expectations, largely due to the timing of sudden shipment at quarter end. In per period, we have approximately $6.6 million in shipment of 400G transceiver to a large, high-scale customer, which was not able to return into revenue during the quarter due to various shipping and receiving delays, and which we have booked in Q4. Despite this delay, our financial withdrawal clearly highlights the advantage of having Diversified revenue stream as a result, our total revenue on a combined basis increased 15% sequentially and 82% year-over-year. Number three, we continue to make progress on customer qualification on our 800G product. As we mentioned last quarter, we believe we are near the final stage of qualification with several customers. We expect qualifications in the near term based on conversation that we are having with our customers, and we continue to believe that we will produce meaningful treatment of ARG products in the fourth quarter. During the third quarter, we did a revenue of $118.6 million, which was in line with our guidance range of $115 million to $127 million. We recorded non-GAAP gross margin of 31%, which was in line with our guidance range of 29.5% to 31%. And our non-GAAP loss per share of 9 cents was also in line with our guidance range of a loss of 10 cents to a loss of 3 cents. Total revenue for our data center product of $43.9 million increased 7% year-over-year, but was down 2% sequentially. Revenue for our energy product increased 32% year-over-year, while revenue for our foreign energy product was down 65% year-over-year, or $7.1 million. Primarily due to the timing of certain shipment, a quarter And that I just mentioned. Total revenue in Q3 in our CATV segment was a record $70.6 million, which more than tripled year-over-year and was up 26% sequentially from a strong Q2. This increase is due to the continued rent in orders for our 1.8 GHz amplified products for both existing as well as new customers. With that, I will turn the call over to Stephen to review the details of our Q3 performance and our Q4, Stephen. Thank you, Thompson.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

As Thompson mentioned, we successfully delivered revenue gross margin, and a non-GAAP loss per share in line with our expectations. In fact, we recorded the highest quarterly revenue in our history, driven by strong demand in the CATV market, which also achieved record revenue in the third quarter. The strength that we saw in our CATV business more than offset our data center revenue, which came in a touch below our expectations, largely due to the timing of certain shipments at quarter end. In particular, we had approximately $6.6 million in shipments of 400G transceivers to a large, hyperscale customer, which was not able to be turned into revenue during the quarter due to various shipping and receiving delays, and which we have booked in Q4. Despite this delay, our financial results clearly highlight the advantage of having diversified revenue streams. As a result, our total revenue on a combined basis increased 15% sequentially and 82% year-over-year. In Q3, we delivered revenue of $118.6 million, which was in line with our guidance range of $115 million to $127 million. We recorded non-GAAP gross margin of 31%, which was in line with our guidance range of 29.5%, to 31%. Our non-GAAP loss per share of 9 cents was also in line with our guidance range of a loss of 10 cents to a loss of 3 cents. We continued to make progress on customer qualifications on our 800G products. As we mentioned last quarter, we believe we are near the final stages of qualification with several customers. We expect qualification in the near term based on conversations that we are having with our customers and we continue to believe that we will produce meaningful shipments of 800G products in the fourth quarter. For the third quarter in a row, we did record immaterial revenue for our 800G products related to deliveries for customer qualification activity. As we have mentioned before, our schedule on ramping up our production is largely constrained by our ability to build and qualify production capacity. On that front, we are pleased to report that we made good progress on getting our production ready during the third quarter and remain nearly on track to achieve the targets that we laid out at OFC. As a reminder, we expect this will culminate later this year with what we believe will be the largest domestic production capacity for 800G or 1.6 terabit transceivers, approximately 35,000 transceivers per month. or roughly 35% of our overall capacity for these advanced optical transceivers. Notably, we will be able to accommodate this expansion in our current Texas facility footprint. Further, by mid-2026, we continue to expect to be able to produce over 200,000 pieces per month, with the majority produced in Texas. As I just mentioned, we made solid headway towards these targets for next year. As you may have seen, we announced last week that we signed an agreement to lease an additional building in Sugar Land, Texas. We will begin construction on this new facility later this year and are confident in our ability to scale our production towards the middle to end of next year to achieve our 2026 targets. It's also important to note that AOI has had an in-house laser manufacturing capability for many years. and we have been expanding and improving this capability recently. While we have heard talks about laser shortages, having a laser production capability in-house gives us an advantage, and to date, we have not experienced a shortage of lasers that has affected our ability to deliver products according to our customers' requests. We've spent years developing our automated manufacturing capabilities, which gives us an advantage in the ability to do manufacturing virtually anywhere in the world that we would like to, and makes building out another facility in a cost-effective way in Texas possible. The message from our customers is consistent. Many of them have a strong preference for production in North America, and so that's what we have been and are currently focused on. When we talk about adding capacity, The lead time for us to add new equipment and add machinery to our production process is typically less than the lead time it would take to hire and train the types of skilled operators that are needed to do the manual processes that are used by most of our competitors. Just to reiterate, we currently have three manufacturing sites, one here in Sugar Land, Texas, where our headquarters is and which will soon involve two facilities, one in Ningbo, China, and two in Taipei, Taiwan, with an additional one under construction. As you may have heard me say at OFC, we expect to increase the total production of 800G at 1.6 terabit products by 8.5 times by the end of the year, and we are on track and dedicated to achieving this goal. During the third quarter, direct tariffs had a $1.1 million impact on our income statement. As it relates to tariffs, also, as I mentioned on our prior couple of earnings calls, While we do utilize some imported components in our transceivers, many key components, like our laser chips, are already manufactured in the U.S. Importantly, in our 800G and 1.6 terabit transceiver designs, less than 10% of the value of the components used is currently sourced from China, and we have a pathway as we scale production to further reducing this China content, ultimately to near zero. We are also in discussion with several key suppliers about onshoring their production to the U.S. to support a robust domestic supply chain. Turning to our third quarter results, our total revenue was $118.6 million, which increased 82% year-over-year and increased 15% sequentially off a strong Q2 and was in line with our guidance range of $115 million to $127 million. During the third quarter, 60% of revenue was from CATV products, 37% was from data center products, with the remaining 3% from FTTH, telecom, and other. In our data center business, Q3 revenue came in at $43.9 million, which was up 7% year-over-year and was down 2% sequentially. Sales of our 100G products increased 32% year-over-year, while sales for our 400G products decreased 65% year-over-year, or $7.1 million, which was primarily driven by the timing of certain shipments at quarter end that I previously discussed. In the third quarter, 83% of data center revenue was from 100G products, 9% was from 200G and 400G transceiver products, and 7% was from 10G and 40G transceiver products. Looking ahead to Q4, we expect a substantial sequential increase in our data center revenue, driven by growth in 400G revenue, as well as layering in some increased 800G revenue. In our CATV business, we saw exceptionally strong demand in Q3. CATV revenue in the third quarter was a record $70.6 million, which more than tripled year over year, and was up 26% sequentially from a strong Q2 revenue. This increase is due to the continued ramp in orders for our 1.8 GHz amplifier products. Similar to last quarter, we shipped a significant quantity of 1.8 GHz amplifiers to Charter in the quarter, and demand continues to be robust. On our last earnings call, we had discussed how in addition to Charter, we had six other MSO customers who had already begun to order and deploy our 1.8 GHz products or are in various stages of qualification of these products. We were pleased to see continued momentum with these new customers and are excited to see the broad-based appeal of our amplifiers and QuantumLink software. During the quarter, we announced the addition of four new software modules to our QuantumLink HFC remote management solution, which offers our customers actionable intelligence to optimize network performance, reduce operational costs, and improve the broadband experience. The new suite of software modules are add-ons to our existing QuantumLink Central, providing telemetry, adding unified visibility, predictive diagnostics, and automated controls to our remote amplifier management platform. Most software features will be available this quarter. The feedback we are hearing from our customers is very positive. In September, We attended the Society of Cable Telecommunications Engineering Expo. We had great interactions with customers and potential customers during the expo. And as I just mentioned, feedback from our customers continues to be very positive, with many noting that our amplifiers are groundbreaking in terms of performance, ease of setup, and control and monitoring capabilities. As cable operators prepare for substantial upgrades to their infrastructure to meet increased spectrum and bandwidth demands, it's clear that the deployment of next-generation amplifiers and related equipment has become essential. Looking ahead to Q4, we expect strength in our CATV business to continue, although we expect revenue in this business to moderate to between $50 million and $55 million next quarter, following this quarter's exceptionally strong results. Now turning to our telecom segment. Revenue from our telecom products of $3.7 million was up 34% year-over-year and 93% sequentially. As we have said before, we expect telecom sales to fluctuate from quarter to quarter. For the third quarter, our top 10 customers represented 97% of revenue, up from 96% in Q3 of last year. We had two greater than 10% customers, one in the CATV market, which contributed 66% of total revenue, and one in the data center market, which contributed 24% of total revenue. In Q3, we generated non-GAAP gross margin of 31%, which was in line with our guidance range of 29.5% to 31%, and was up from 25% in Q3 2024 and compared to 30.4% in Q2 2025. The year-over-year increase in our gross margin was driven primarily by our favorable product mix, Looking ahead, we expect continued gradual improvement in gross margins, although we expect that the revenue mix and data center in the next few quarters will be a slight headwind. We remain committed to our long-term goal of returning our non-GAAP gross margin to around 40%. The progress we have made so far demonstrates that we're on the right track, and we continue to believe that this goal is achievable. The revenue figures presented above are net of a contract revenue amount due to the accounting for warrants provided to customers. As a reminder, this amounts to approximately 2.5% of revenue derived from certain customers to whom AOI has provided warrants in exchange for future revenue. In Q3, the amount of this contract revenue was in material at about $50,000. Total non-GAAP operating expenses in the third quarter were $47.1 million, or 40% of revenue, which compared to $27.9 million, or 43% of revenue, in Q3 of the prior year. While operating expenses increased this quarter and were a bit higher than our forecast, this rise was largely driven by increased shipping costs related to increased business activity in our CATB business this quarter. Looking ahead, we expect non-GAAP operating expenses to be in the range of $48 million to $50 million per quarter. Non-GAAP operating loss in the third quarter was $10.3 million, compared to an operating loss of $11.7 million in Q3 of the prior year. GAAP net loss for Q3 was $17.9 million, or a loss of $0.28 per basic share, compared with a GAAP net loss of $17.8 million, or a loss of $0.42 per basic share in Q3 of 2024. On a non-GAAP basis, Net loss for Q3 was $5.4 million, or 9 cents per share, which was in line with our guidance range of a loss of $5.9 million to a loss of $2 million, or non-GAAP income per share in the range of a loss of 10 cents to a loss of 3 cents. This compares to a non-GAAP net loss of $8.8 million, or 21 cents per share, in Q3 of the prior year. The basic shares outstanding used for computing the earnings per share in Q3 were $63.3 million. Turning now to the balance sheet, we ended the third quarter with $150.7 million in total cash, cash equivalents, short-term investments, and restricted cash. This compares with $87.2 million at the end of the second quarter of 2025. We ended the third quarter with total debt excluding convertible debt of $62 million, compared to $54.3 million at the end of last quarter. As I mentioned on our prior earnings call, earlier this year we announced a revolving loan facility with BOK Financial of $35 million, which we intend to use to meet some of our working capital needs going forward. As of September 30, we had $170.2 million in inventory, which compared to $138.9 million at the end of Q2. This increase in inventory is almost entirely due to purchases of raw materials to be used in production of our products over the next several months. During the quarter, we initiated We completed this program during the quarter, raising $147 million net of commissions and fees, which we intend to use mainly for new equipment and machinery for production and research and development use, including the earlier mentioned production expansion in Texas. We made a total of $49.9 million in capital investments in the third quarter, which was mainly used for manufacturing capacity expansion for our 400G and 800G transceiver products. On our last few earnings calls, we have discussed our plans to make sizable CapEx investments over the next several quarters as we prepare for increased 400G, 800G, and 1.6 terabit data center production in 2025. To date this year, we have made a total of $124.9 million in capital investments, and we are tracking at or above our CapEx projections we gave earlier this year of $120 million to $150 million in total CapEx. We had noted on our prior couple of earnings calls that these costs could be impacted from tariffs, but that given the evolving nature, it is difficult to predict what type of impact or by how much. In Q3, the direct tariff impact on capital equipment was $1.9 million, or roughly 4%. But tariff rates and equipment import mix may cause future results to vary materially. We sourced equipment from all over the world, including both from domestic and international locations. We have and will continue to do our best to minimize any impacts. It's clear that U.S.-based production is a priority for our customers, and we remain fully committed to expanding our capacity to meet that demand. Moving now to our Q4 outlook. We expect Q4 revenue to be between $125 million and $140 million, accounting for a sequential decrease in CATV revenue, as well as a more substantial sequential increase in our data center revenue. We expect non-GAAP gross margin to be in the range of 29% to 31%. Non-GAAP net income is expected to be in the range of a loss of $9 million to a loss of $2.8 million, and non-GAAP earnings per share between a loss of 13 cents per share and a loss of 4 cents per share, using a weighted average basic share count of approximately 70.3 million shares. With that, I will turn it back over to the operator for the Q&A session.

spk03:

Operator?

Conference Operator:

We will now begin the question and answer session. To ask a question, you may press star then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then 2. At this time, we will pause momentarily to assemble the roster. And our first question comes from Simon Leopold of Raymond James. Please go ahead.

Simon Leopold | Analyst, Raymond James:

Thanks for taking the question. I'm going to ask two and start with the cable TV side. So clearly a strong blowout number here this quarter, so the moderation makes sense. And I guess where I'd like to go is to understand how you're thinking about the broader outlook for CATV in that I recall last quarter we talked about the potential to do over $300 million in 2026. If we sort of run right out what you're doing, you're certainly on that trajectory. But I want to assess this given the lumpy nature of cable TV.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Yeah, Simon, thanks for bringing that up. So, yeah, I mean, we do think $300 million-plus in cable TV revenue is still achievable next year. As you pointed out, you know, we're kind of approaching a run rate there in this quarter. What I think is significant to point out, though, and we pointed this out on the last earnings call as well, that a lot of that growth is going to come from new products that we've announced and we discussed in our prepared remarks a few minutes ago about the great success that we had at the Society of Cable Telecommunications Engineering Show, showcasing some of our new products, including the software products that we highlighted. Yes, I think that the $300 million-plus mark is achievable next year. However, it's not likely to come just from the amplifier products, although, again, we expect strong results in the amplifiers, but the additional revenue that we expect to see from those other products should get us up to that $300 million mark.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

Well, Simon, this is Tom. As we say in the script, we expect the cable TV revenue in Q4 will reduce to maybe $50 million to $55 million. So that means the data center growth should be a lot, okay? Since the revenue increased by about 10% compared to Q3. So that means data center revenue will increase by $25 to $40 million in Q4. Because in the season... Yeah, sorry. Go ahead.

Simon Leopold | Analyst, Raymond James:

Yeah, no, so that's where I wanted to follow up. On the data center, particularly around your comment about 400 and 800 gig being up, given 800 gig is teeny right now, I'd like to unpack that a little bit because I don't think you've announced certifications, qualifications on 800 gig yet. It sounds like that's somewhat imminent, but I don't want to over-interpret. So maybe just drill down specifically to how you think about 800 gig in that 4Q and And then, of course, how should we think about the timing of when to start thinking about 1.6T? I understand that's not in 4Q, but should we be thinking about that for next year? Thank you.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Yes. So 800 gig, we do expect meaningful shipments in the fourth quarter, as we said in our prepared remarks. Now, the growth in Q4 is largely going to come from 400 gig, but we do expect meaningful revenue from 800 gig. you know, in this quarter. And as you pointed out, that would require, you know, product qualification to be, you know, pretty imminent, which is what we believe. With respect to 1.6 terabits, yeah, we do think that we'll see revenue from 1.6 terabits later next year, but it's not going to be a factor in Q4, as you pointed out, and probably not in the first half of next year.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

So the A&Z single mode, especially, as in most of them will be from the 2xFR4, So the total 800G single-mode transceiver in Q4 will not be allowed. It's maybe $4 to $8 million. So most of the cost is from 400G single-mode transceiver. The 1.6G single-mode transceiver, we have right now, I would say, around four customers. So we are working very hard. So I will deliver the sample either by end of this year or early next year. But the volume effect should be more like, I would say, June, July next year for 1.60. And we have several, I would say, four or five different products for 1.60 single motor and receiver. And we will announce pretty soon in the short term.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Also, Simon, I just want to reiterate something that we've mentioned, you know, repeatedly and talked about a little bit on the call, but just for clarity. The factory that we're building, both here as well as the increased capacity that we've been adding in Taiwan, is capable of manufacturing both 800G and 1.6 terabit on the same production line. The only difference really is in the final testing in terms of the type of equipment that we need.

Simon Leopold | Analyst, Raymond James:

Great.

spk02:

Thank you. You're welcome.

Conference Operator:

The next question comes from George Nodder of Wolf Research. Please go ahead.

George Nodder | Analyst, Wolf Research:

Hi, guys. Thanks very much. Hey, I was just curious if you could tell us more about the shipping and receiving delay at the end of the quarter. I'm just wondering what that was. And can you confirm that it was a single customer or was it multiple customers? Any insights there would be great. And I've got a follow-up, too.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Sure. It was a single customer, a single hyperscale customer, which is a relatively new customer addition for us. And as a result of that, you know, some of the shipments at the end of the quarter, you know, I can't go into too many details because of, you know, obviously non-disclosure agreements and such, but let's just say that not all the systems that were, all the inventory management systems and all that have been properly configured at that point to be able to receive those goods in time for us to book them as revenue in the third quarter. So we resolved that in the first few days of the fourth quarter and have booked that revenue since then. So it wasn't anything that we expect to recur or anything like that. It was just kind of unique to this, I would say, sort of startup business, if you will, with this particular large hyperscale customer.

George Nodder | Analyst, Wolf Research:

Got it. Okay. I'm sorry. So the products were delivered to the customer, but it sounds like ownership couldn't transition because it hadn't been through their inventory management system. Is that the right view? Yeah. Yeah.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Yeah, basically. I mean, there's a system integrator that's involved, again, without going into too many details, but it essentially comes down to just a timing issue with the computer systems on all sides that needed to be synced up.

George Nodder | Analyst, Wolf Research:

Okay, got it. And then can you give us an update on the capital spend? I mean, you said you're tracking ahead of the 120 to 150 for the year. What does that look like now when you layer in Q4? And then how about 2026? Do you have an initial view on what CapEx would look like next year? Thanks.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Yeah, so we don't have a lot of the Q4 guidance comes down to sort of timing on when we're going to receive a lot of this equipment, so we're still looking at that. It's probably going to be ahead of that $150 million top end that we said before, but it's unclear at this point exactly how much of that equipment will really be able to be delivered in this quarter, so we'll get back to you on that. Similarly for 2026, we're still working on the CapEx plans for 2026, so I would expect it to be above what we're seeing in 2025, but I don't have a precise number yet on that. We're still going through those plans.

George Nodder | Analyst, Wolf Research:

Okay, super. Thanks very much.

Conference Operator:

Once again, if you would like to ask a question, please press star, then 1. And our next question comes from Michael Genovese of Rosenblatt Securities. Please go ahead.

Michael Genovese | Analyst, Rosenblatt Securities:

Great, thanks. I guess for 400G, with that customer becoming a run rate business, and if I'm not mistaken, I was thinking about 100,000 units per month, so maybe you could update on that. But is that the right way to think about it? And is it getting there in the fourth quarter and then we should think about that customer being at the same level of 400G per quarter all year in 2026. Am I thinking about that the right way?

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

So it is approaching, I mean, it is on track to becoming sort of a run rate business, as you mentioned. That is, when I hear the term run rate business, what I'm assuming you mean is that it's sort of capacity limited, right? That is, you know, we'll be selling a relatively consistent amount every quarter based on our capacity. So it's on, you know, it is moving in that direction. We will not be, you know, fully at capacity in Q4, not to mention the fact that we're continuing to add some capacity, especially in Taiwan, like we talked about earlier. So we won't reach its maximum potential in Q4 by any means, but it will be a meaningful contributor to revenue. As Thompson mentioned earlier, if you think about the guidance that we gave. Cable TV has an implied decline of let's just say $15 million roughly, give or take, while the overall revenue is going to be up roughly $15 million again, give or take, within the ranges that we specified. And so the rest of that growth is going to come from data center. and most of that is going to come from 400g as we discussed earlier. Not a little bit of 800g, but you know, not a lot. Most of it's going to come from 400g.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

So basically, it's limited by our capacity. So right now, for 400g single-mode transceiver in Q4, we can only make it maybe close to 60,000 per month. Then by Q2, as in our targets, go to $110,000 to $120,000 per month. So it depends on our capacity. That's why we spend our CapEx, to expand the clean room in Taiwan and the U.S. The other, for sure, is very important. It's the laser capacity. As I say, it's very important. As you know, it's a short of lasers. Good news, we have laser capacity. That's why AOI right now is doing 3-inch. We'll go to 4-inch next year. At the same time, our target is go to maybe Okay, not to mention the other laser, like, you know, 25G, 50G, just high-power CW laser for the signal photonics. We are talking about our target by December next year is at least more than 2 million per month. This is where we spend all the capex. You know, it's, you know, EB, stepper, all kinds of stuff. And for sure, we are working on a 60-inch wafer, but it will be more like a two-year project. But I think 4-inch, project is ongoing and it's pretty smooth.

Michael Genovese | Analyst, Rosenblatt Securities:

Okay, great. And then, I mean, it sounds like you've got pretty high confidence of an 800G qualification coming soon if you're putting some in the fourth quarter guidance. So I just, you know, I just want to double click on that confidence. But then also, if we just back up three months ago, is this process going, you know, the way you expected? You know, I know no matter of a couple of weeks on either side is no big deal, but Did you think you'd have it by now, or is this kind of going the way you thought it would go?

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

I think we should get an order pretty soon. We will send a separate page for qualification for DER8 and 2xFR4, so we should get some volume order in maybe, I would say, three, four weeks or even sooner. So we, okay, let me tell you, we have delivered thousands of samples, okay? It's just not, that's just full-spatial sample, okay, to several customers. So finally, they'll get into volume, but really not so big volume, because the big volume, so maybe I would say 150,000 per month, or even 250,000 per month, but right now we are only talking about maybe 10,000, 20,000, so, you know, it's not, it's volume, it's still far away from That's why I say, you know, by end of December, we should have $100,000 per month. By end of June, next year, we have $200,000 per month. We spend the money based on customer commitment, okay? It's not based on our wish list. Let me say that, okay? And don't forget, especially in the U.S., you know, the cleaning space, the capacity, the equipment, you know, it's quite a lot of money. So we spend that money based on customer commitment.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

very strong commitment the reorder the fourth the fourth volume order we should receive please within a few weeks let me say that and michael directly answer your question about you know relative expectations like i think we said that we expected the qualifications to be coming in you know in the late q3 or in early q4 and so we're still in that range that i would consider uh what we expected and and we're basically still on track for that schedule

Michael Genovese | Analyst, Rosenblatt Securities:

Okay, if I can ask another, what should 100G be doing in 26 versus 25? And just when you compare the ASP of 100G to 800G, are we at an eight times multiple or is it even higher than that for the ASP of 800 versus 100?

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

It's not an eight times multiple. It's less than that. With respect to what 100G will do next year, I think it's going to be pretty consistent. I don't see a big fall off for sure. It could even go up a little bit. There continue to be new deployments of 100G. But I think the best scenario that I would model in is sort of a flat 100G business next year.

Michael Genovese | Analyst, Rosenblatt Securities:

Okay. You know what, if I could just ask one more. How are you guys feeling about the, you know, with the CapEx plans and the expansion plans, you know, gone to the market a few times this year. Are you in a good place for your spending next year, or do you think you're going to have to do more fundraisers?

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

I think we're going to continue to raise the capital that we need to fund the CapEx. I mean, our plans continue to expand. What we're hearing from our customers is, you know, more and more bullish in terms of the volume that they need and particularly the volume that they'd like to have out of U.S.-based factories, which we don't have yet. I mean, we just announced the lease a week or two ago of the new facility, which still has yet to be built out. So that's basically a 2026 event. So, you know, we're going to continue to add capacity as we see that demand coming from our customers, and it's very strong right now.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

But let me say three points. One, we have some discussion with one or two major customers. With respect for the U.S. capacity, I think maybe customers will, you know, invest ALI in maybe $200 million, $300 million, okay, under discussion. Number two, I think we are working very close with Texas State to some fundraising, some support, including the U.S. government for CHIP Act. So I think maybe we should get some good money from both Texas State and the U.S. government. Number three, don't forget next year we should be profitable quite a lot. I would say, you know, No surprise, our net profit should be more than $150 million next year or even higher. So some of the expansion can be paid by our profit.

Michael Genovese | Analyst, Rosenblatt Securities:

Perfect. Great. Sounds exciting for the future. Thanks for answering the questions.

spk02:

You're welcome.

Conference Operator:

The next question comes from Ryan Kuntz of Needham & Co. Please go ahead.

Ryan Kuntz | Analyst, Needham & Co.:

Great, thanks. Following up on the transceiver products here, it sounds like you guys are doing well in silica photonics. I wanted to ask your view on kind of the macro of SIFO versus EML versus VXLs and what you're hearing from your customers about their interests as the data rates move up here to 800 and 1.6. Thank you.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Well, I would say... First of all, what we're hearing from our customers may just be a function of where they view us in terms of our technological capabilities and what they need. So that is to say, I'm not saying that, for example, when I tell you that our customers like SIFO, they like our SIFO solution for sure. That's not to imply that they're going to switch all of their products over to SIFO. They have other vendors that are working with EMLs, for example. But all that being said, I think broadly speaking, I think SIFO is seen as a technology that has more scalability in terms of its ability to go to higher data rates in the future. I think we're at the early stages of implementing silicon photonics, you know, in terms of volume manufacturing and all that. So it's going to take some time for them to become sort of comfortable and let that technology ramp up. But it certainly has more legs in terms of higher data rate than EMLC.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

Especially, you need less laser for SIFO. And don't you know that's a very serious problem, shortage of lasers, especially for EML, okay? Not to mention 200G, even 100G EML. So, for example, the 800G DR8, if you use EML, you need, I would say, 8 EML. But if you're using system for only, you only need two high-power CW lasers. So, that's a very good reason. Because you can't get enough EML. So what you can do, you've got all the, you've got everything, but no laser. So you can make, no way you can make in the, you know, 800G 1.6T transceiver.

Ryan Kuntz | Analyst, Needham & Co.:

Great stuff. Maybe shifting gears to cable. You know, how are you feeling about, about share there at your larger customers? Do you feel like the uptick in demand here for cable? Is this share gain? Is this higher deployment rates? Any view on how you feel about share versus customer spend?

spk03:

I would say it's share gain primarily.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

The customer's plans continue to evolve, but as I mentioned, We've had some very, very successful interaction with our major customers, including the larger MSOs like we've talked about with Charter and others, but also with a number of smaller operators. The Society of Cable Telecommunications Engineers show that we were at was really very, very positive for us. So I think we're taking slots that could have potentially gone somewhere else and gaining that share.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

So besides Charter, we have six other customers, and we only got two good-sized orders from two brands. So total, we have seven customers right now for cable TV, 1.8 gigahertz. Okay, now including 1.2 gigahertz. But next year, we're talking about another 10. So that means by next year, total, we should have 17 customers in cable TV in North America, Latin, Australia, even Asia. So not only one customer, okay? A new .

Ryan Kuntz | Analyst, Needham & Co.:

Great stuff. And when you talked about the new products coming in cable, are you referring to nodes or the software products for the amps that you mentioned earlier?

spk03:

Both, both, yes.

Ryan Kuntz | Analyst, Needham & Co.:

Got it. Super, that's all I got. Appreciate it. Thank you.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

And don't forget the software, the Cosmic is pretty good. That's very important. And Quantum Link and Quantum Bridge, customers really like it. They solve a lot of problems of the customer. They solve a lot of issues. They can save a lot of operating expense. And that's why they like it. That's why AI would become the number one supplier in cable TV. It's not only hardware, but integration of hardware and software and the management system.

spk03:

Appreciate that.

spk02:

Thank you.

Conference Operator:

Once again, if you would like to ask a question, please press star then one. Our next question will come from Tim Savigno of Northland Capital Markets. Please go ahead.

Tim Savigno | Analyst, Northland Capital Markets:

Hey, good afternoon. A couple questions, but I want to start with what we've been hearing pretty much all week here is about a pretty dramatic kind of step function increase and really across a lot of the different areas in AI optical, including inside the data center for modules. Maybe focused on 1.6 to some degree, but pretty broad-based seeming. My first question is, are you seeing that in terms of your conversations with customers about overall levels of transceiver demand? Just, you know, I don't know, in the last four to six weeks.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Just look at our... I'm sorry, I cut you off there. I didn't hear the first part of your question.

Tim Savigno | Analyst, Northland Capital Markets:

No, all good. Go ahead. Sorry.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Yeah. But yes, I mean, we're seeing very strong increase in demand. If you look at our guidance, again, you know, just kind of go back to the segment guidance that we gave it implies a dramatic ramp in data center revenue in the fourth quarter. And, you know, we didn't give annual guidance for next year, but we certainly believe, you know, that's the beginning of a sustained ramp. So I think we're exactly in sync with what you described. You know, we're seeing that ramp first at 800 gig, but as we talked about later next year, we expect 1.6 to be a strong contributor as well. Does that answer your question, Tim?

Tim Savigno | Analyst, Northland Capital Markets:

Yeah. And I wanted to follow up on your capacity targets exiting the year, I think at 100,000 units a month. And Thompson had mentioned before, you know, commitments from customers, I guess. And I want to kind of dig into that a little bit more, which is, would you be in a position to ship that full, given we're running out of year a little bit here, but would you be in a position to ship that full capacity in the first quarter? And do you have either orders on hand, commitments, however you want to describe it, to kind of cover those type of volumes starting in Q1 next year?

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

I would say more like Q2. Don't forget the Chinese New Year and the manufacture cycle time is one and a half months. So even if we got all the equipment ready, you know, we are doing a pilot round right now, both in Taiwan and U.S. And so even the customer give us orders because of the manufacture cycle. So I would say you're going to see maybe 90 to 100,000 This is per month of revenue. You always say it's more like Q2. And to answer your first question, right now, customers give us crazy numbers, okay? Just AY share, not their total demand. They're talking about, like, more than 300,000 of 800D plus 1.60 single motion achievers, just AY share. So for sure, we're going to spend the money until we've got a commitment. So, yeah, yes, it's true. Right now, all the hyperscale data centers, data center customers are really serious. So it's not a problem. Let me say that. It's not a problem. It's a real demand, okay? And for all of them.

Dr. Stephan Murray | Chief Financial Officer and Chief Strategy Officer, Applied Optoelectronic

Tim, I just wanted to touch on one thing that your question asked earlier. I want to make sure we're on the same page. So you mentioned a capacity of 100,000 per month. That is our 800 gig or 1.6 terabit, but again... 800 gig primarily the shared capacity. In addition to that, we also have capacity for 400 gig. Those are not shared, right? So the 400 gig capacity, as Thompson mentioned, should be 120,000 pieces or more early next year. And we do have, you know, customer commitments that would cover that.

spk02:

Great. Thanks very much.

Conference Operator:

At this time, we have no further questions, and I will turn the call back over to Dr. Thompson Lin for closing remarks.

Dr. Thompson Lin | Founder, Chairman, and CEO, Applied Optoelectronics:

Again, thank you for joining us today. As always, we want to extend a thank you to our investors, customers, and employees. For your continued support, we continue to believe the fundamental driver of long-term demand for our business remains robust, and we are in a unique position to drive value from these opportunities. We look forward to welcoming some of you to our Texas Factory Tour next week and seeing many of you at the upcoming investor conference. Thank you.

Conference Operator:

The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.