NASDAQ:ADTN Q2 2025 Earnings Call Transcript

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Conference Call Operator:

Mr. Peter Schulman, Vice President, Investor Relations, you may begin your conference call.

Peter Schulman | Vice President, Investor Relations:

Thank you, Kate. Welcome, and thank you for joining us today for ADTRAN holding second quarter 2025 financial results conference call, and welcome to all those joining by webcast. During the conference call, ADTRAN representatives will make forward-looking statements that reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including those detailed in our earnings release, our annual report on Form 10-K as amended, and other filings with the SEC. These risks and uncertainties could cause actual results to differ materially from those in our forward-looking statements, which may be made during the call. We undertake no obligation to update any statements to reflect events that occur after this call. During today's call, we will refer to certain non-GAAP financial measures. Reconciliation of GAAP to non-GAAP measures and certain additional information are also included in our investor presentation and our earnings release. We have not provided reconciliations of our third quarter 2025 outlook with regard to non-GAAP operating margin because we cannot predict and quantify without unreasonable effort all the adjustments that may occur during the period. The Investor Relations presentation has been updated and is available for download on the ATRAN Investor Relations website. Turning to the agenda, Tom Stanton, ATRAN Holding CEO and Chairman of the Board, will provide the key investment highlights for the second quarter 2025. Tim Santo, our Senior Vice President and CFO, will review the quarterly financial performance in detail and provide our third quarter 2025 outlook, and then we will take any questions that you may have. I'd now like to turn the call over to Tom Stanton.

Tom Stanton | CEO and Chairman of the Board:

Thank you, Peter. Good morning, everyone. ATRAN delivered solid second quarter results marked by stronger revenue performance, healthy profitability, and continued balance sheet improvements. As previously disclosed in our pre-announcement, revenue exceeded our expectations with sequential and -over-year growth across all three of our revenue categories. This performance reflects strong execution and market share gains coupled with an improving industry backdrop driven by renewed infrastructure investment, the normalization of service provider spending, and growing demand for advanced fiber and optical solutions. Importantly, cash generation remained healthy with $32.2 million in cash from operations and $18.3 million in free cash flow. I'm encouraged by the improving demand environment across our key market segments. These demand trends not only supported our strong Q2 performance, but also increased our confidence in our outlook for continued growth over the coming quarters. Turning to the quarterly results, ATRAN's revenue of $265.1 million was above the high end of our previous guidance range. All three revenue categories delivered sequential growth, and for the second straight quarter, each revenue category generated -over-year gains. This broad-based momentum reinforces the strong competitive positioning of our optical transport, fiber access, and subscriber solutions portfolios. As expected, the highest sequential revenue growth in the quarter came from our optical networking solutions, which grew 22% -over-year and 15% sequentially. This growth was driven by demand in both the U.S. and -U.S. regions, with the most significant gains coming from our U.S. service provider customers. New customer acquisition also remained strong with 18 new optical customers added during the quarter, including several cross-selling wins, further validating the synergies with our optical transport and fiber access portfolios. There are multiple application demand drivers fueling the investment in optical networks. These include the build-out of private compute infrastructure, the expansion of wholesale service providers to connect AI infrastructure, ongoing 5G densification, and upgrading critical infrastructure. Combining these application demands with new customer wins and a return to more normalized service provider buying patterns gives us optimism for sustained growth in this category. In access and aggregation, we followed a very strong first quarter with additional growth in the second quarter, growing an impressive 30% -over-year for the quarter. This category was led by the strength of our large European service providers and -mid-size U.S. service providers, with many of these customers not only expanding their fiber footprint, but also expanding their share of business with us. New customer acquisition with our fiber access platforms also remained healthy. The ongoing success in our access and aggregation solutions is being driven by the technical leadership shown in our SDX portfolio and the corresponding Mosaic Cloud software. In the last two years, more than 10 million homes have been passed with fiber using the SDX6330 alone, highlighting the momentum of the flagship platform in our fiber access portfolio. Demonstrating our ongoing commitment to innovation, we recently connected the first commercial 50GPON customers in the U.K. using our new SDX6400 series. These product investments paired with our strong regional presence in the U.S. and Europe, new customer wins, and the continued demand for high-speed fiber-based broadband has us well positioned to sustain this success into the future. Our subscriber solutions category grew 4% sequentially after a strong first quarter. Within this category, residential solutions performed particularly well, increasing 18% sequentially and 25% -over-year. Importantly, new customer acquisitions remained strong, with 20 new service provider and government customers added for our subscriber solutions category during the quarter. Subscriber solutions revenue is growing due to expanded fiber connectivity, rising multi-gigabit demand, and service providers adopting bundled broadband solutions covering both access and in-home needs. Our broad subscriber solutions portfolio covers residential, enterprise, and wholesale fiber services and is being expanded to address the unique needs of SMB, MDU, and community Wi-Fi with the launch of our SDG9000 series of products. The expanded offering, along with continued demand for high-speed fiber services and large-scale deployments of our complementary fiber access platform, is expected to result in further growth in this segment during this quarter. Our Mosaic Software Suite integrates our comprehensive fiber networking portfolio, which covers everything from the optical core to the customer premise. Leveraging this extensive range of solutions and advanced software capabilities, we are well positioned to facilitate the industry's transition towards AI-driven network operations. Live customers are currently in progress, featuring our new suite of AI applications, including advanced generative and agentic AI tools. These complement and enhance our Mosaic One offering. Early results highlight the ability of these applications to transform how networks are operated by substantially lowering network operating costs while improving the subscriber experience. In summary, we are encouraged by the progress we made during the second quarter, both financially and strategically. We delivered growth across all major revenue categories and advanced our position in key technology domains. Our continued investments in next-generation optical, fiber access, and subscriber solutions are translating into new customer wins and deeper engagement with existing accounts. The ongoing expansion of AI infrastructure, especially as it moves closer to the network edge, plays directly to our strengths. Looking ahead, we remain confident in our outlook for the second half of the year. Strong customer demand and disciplined execution position as well to deliver continued improvement in profitability and cash generation, both of which are central to our long-term strategy. With a differentiated portfolio, expanding global presence, and increasing relevance in next-generation network architectures, we believe AdTran is exceptionally well positioned to for sustained success. With that, I'll turn the call over to Tim, our CFO, to walk you through our financial results for the second quarter. And then following Tim's remarks, we'll open the call up to any questions you may have. Tim?

Tim Santo | Senior Vice President and CFO:

Thank you, Tom, and thank you for joining us this morning. As I shared last quarter, my focus remains on three key priorities, strengthening our capital structure, enhancing the capabilities of the finance organization, and deepening our engagement with stakeholders. These are fundamental to delivering long-term, sustainable value for our stockholders. We are making solid progress across each of these areas. First, we are taking meaningful steps to improve our capital structure. We generated $32.2 million in operating cash and $18.3 million in free cash flow this quarter, with $106 million of cash available on our balance sheet. We are advancing efforts to raise capital through the sale of non-core assets, including our Huntsville campus, which I will speak further shortly. Meanwhile, availability on our revolving credit facility has more than doubled and will continue to expand as we grow non-GAAP EBIT and accelerate our free cash flow. Second, we've strengthened our financial organization through strategic additions to my senior leadership team. These hires improve our ability to manage the complexities of our current structure and support execution. We will continue investing in talent to ensure finance remains a strategic asset of our business. Finally, we've deepened our engagement with external stakeholders. We've expanded participation in investor and industry conferences and are pursuing broader research coverage. We remain committed to transparency, listening, and increased accessibility as we execute our strategy and will continue to expand over the coming quarters. With that, let's take a look at the financial results for the second quarter of 2025. ADTRAN's second quarter performance reflects an improving industry environment and our ability to deliver strong operating results. We are adding new customers and expanding our presence with existing ones, driving market share gains, and we are continuing to scale our business. ADTRAN delivered second quarter revenue of $265.1 million up 17% year over year and 7% sequentially, exceeding the high end of our original guidance range and reinforcing strong execution and momentum. Our Network Solutions segment contributed revenue of $219.5 million, accounting for approximately 83% of total revenue in Q2 compared to 79% in the prior year. Our Services and Support segment generated $45.6 million of revenue, representing 17% of revenue in Q2 2025, compared to 21% in Q2 2024, largely resulting from the significant growth and outperformance in Network Solutions. Moving on to product categories. Our Optical Networking Solutions revenue was $90.1 million, or 34% of total revenue. As predicted, Optical Networking Solutions revenue was higher, growing by 22% year over year. Access and Aggregation delivered revenue of $91.2 million, or approximately 34% of total revenue, and increased 30% year over year. Subscriber Solutions was $83.8 million, or 32% of total revenue, increasing 2% year over year. Geographically, non-US revenue accounted for 55% of the total, while US revenue comprised 45%. Additionally, one customer represented more than 10% of our Q2 revenue. This quarter's non-GAAP gross margin was 41.4%. While gross margin was in line with previous trends, the quarter over quarter decline was primarily driven by product and customer mix, higher transportation costs, as we strategically reposition products to mitigate tariff exposure. We maintain our longer-term target ratio of 42% to 43%. Non-GAAP operating expenses were $101.7 million, up from $95.5 million in Q1 and $93 million in Q2 last year, mainly due to currency fluctuations and higher sales commissions. Non-GAAP operating profit was $8 million, or 3% of revenue, above the midpoint of our -4% outlook. This compares to 9.8 million, or .9% of revenue in Q1 2025, and 1.4 million, or .6% of revenue one year ago. The -over-year operating margin and profitability improvement was primarily driven by higher revenue. Although we tightly manage our costs, OPEX increased due to fluctuations in European currencies and higher sales-related expenses. Currency fluctuations were a meaningful factor this quarter. While we are generally well positioned from a natural hedging standpoint on profitability, we believe that looking ahead currency will continue to play a role in our financial results. Since joining AdTran in March, I've prioritized strengthening FX management, taking early steps to build a more robust hedging strategy. These efforts support our broader goal of enhancing transparency and resilience in a more complex global environment. Non-GAAP tax expense in Q2 2025 was $628,000, reflecting higher taxable income in the U.S. We reported a non-GAAP net loss of $256,000, or 0 cents, on an earnings per share basis. This compares to non-GAAP net income of 3 cents per share in Q1 2025, and a net loss of 13 cents per share in Q2 2024. Turning to the balance sheet and cash flow statement, in the second quarter we continued to make meaningful progress in strengthening our financial position. Networking capital improved by $21.7 million sequentially, reaching $226.6 million, supported by a continued reduction in inventories and stronger collections. Trade accounts receivable were $164.8 million at quarter end, resulting in DSO of 57 days, and improvement from 60 days in the prior quarter. Inventory levels declined to $240.1 million at the end of the quarter, a decrease of $13.6 million sequentially. Correspondingly, days inventory outstanding significantly decreased by 17 days to 135 days in Q2 2025. Accounts payable were $178.3 million, with days payable outstanding of 70 days. Strengthening our balance sheet remains a key strategic priority. As mentioned before, operating cash flow was $32.2 million, and we had free cash flow of $18.3 million for Q2 2025. This is compared to $24.5 million in Q1 2025, and $3.9 million during Q2 2024.

We ended Q2 with $106.3 million in cash and cash equivalents, a $5 million sequential increase, reflecting solid improvement in our liquidity. It is worth noting that this increase was achieved net of certain AdTrend Networks SE share repurchases under our DPLTA agreement, underscoring our disciplined cash management and strong operational execution. We remain focused on materially strengthening our financial position in 2025 with the ultimate goal of achieving a positive net cash position. As mentioned earlier, we continue to evaluate opportunities to monetize certain non-core assets, including some of our Huntsville properties. Although we were close to closing a deal this past quarter, that deal is not yet finalized, and we continue to work on finding additional purchases for this unique property. Further, with our improved credit positioning, we are evaluating a sale leaseback transaction on our East Tower. We are approaching these decisions thoughtfully and increasingly from a position of strength. We are pleased with our second quarter performance and encouraged by the signs of continued improvement across the industry. We are beginning to experience the benefits of scale and expect that momentum to build in the second half as revenue growth continues. Foreign exchange has generally had a positive impact on our business in Q2, although it contributed to slightly higher operating expenses, largely due to the weaker US dollar relative to the euro. On a constant currency basis, we expect OpFex to remain consistent with prior quarter levels. As I mentioned since joining in March, I prioritize building stronger FX management and reporting capabilities. Our capital allocation remains focused on deleveraging and continuing to evaluate opportunities to streamline the portfolio. Before turning to our outlook for the third quarter, I want to briefly address our approach to guidance. A few weeks ago, we issued a press release preannouncing that Q2 revenue would exceed our prior guidance range. While that intraday disclosure update may have seemed atypical, it was required under German disclosure rules we inherited through the ADVA merger. These regulations mandate rapid public disclosure of any material deviation, positive or negative, from previously issued guidance. As such, we provide quarterly guidance rather than annual guidance to remain compliant and avoid unnecessary disclosure burdens. Looking ahead to the third quarter of 2025, we expect revenue between $270 million and $280 million and anticipate a non-GAAP operating margin of 3 to 7%. This outlook excludes potential tariff impacts due to ongoing uncertainty surrounding global trade policy and broader macroeconomic conditions. Additional financial details are available at .adtrans.com. This concludes our prepared remarks. I'll now turn the call back to the operator for Q&A.

Conference Call Operator:

Thank you. We will now begin the Q&A session. At this time, I would like to remind everyone, in order to ask a question, press star then the number 1 on your telephone keypad. Our first question comes from the line of Brian Koontz with Nidham & Company. Your line is open.

Brian Koontz | Analyst, Needham & Company:

Great, guys. Thanks for the question and nice results there. You know, you had some real strength in your large SPs. I assume that's coming from Europe. And Tom, can you kind of maybe lay out kind of the trends you're seeing there, either in some of your larger existing accounts or some of the new ones you're actively ramping in Europe?

Tom Stanton | CEO and Chairman of the Board:

Yeah, sure. First of all, you're right. There was a lot of strength in Europe. And yeah, I mean, the large accounts did well, but we also saw strength specifically in optical and the US large service providers as well. So that was kind of, that was good to see. In general, the strength there is just the momentum there is just continuing to grow. I mean, we really don't see any slowdown. We think that the German carriers are getting, our German customer is getting stronger and more able to deploy. What's going on in the UK, I think you're aware of is continuing to really kind of beat where we had hoped it to be. So it's just continuing to move upward. The market itself is continuing to move towards, let's say, more and more towards making sure that they have the right vendor base, right, and removing Eastern vendors. We announced a, when last quarter, and I think we called it a Southern European, it was in Italy, and we actually, that's been quick. So we've actually started shipping towards the tail end of that quarter, some optical gear to that customer as well. So yeah, I would say everything looked positive.

Brian Koontz | Analyst, Needham & Company:

That's great. And maybe another kind of business topic here around data centers, which you talked about in the prepared remarks. When we were at OFC, we heard a little bit about emerging DCI opportunities and this concept of Mofin networks where the big cloud providers are contracting local SPs to build. Can you update us on that? Are you seeing that as an important trend? Is it meaningful at this point? And how would you characterize that opportunity for you?

Tom Stanton | CEO and Chairman of the Board:

Yeah, there is a host of different RFPs out there right now with service providers who are, and some of these are actually customer driven, so some of these are. You may have a big ICP come in and saying that they want to go to cover this. Then there are others that are just kind of more opportunistic and trying to make sure that their network is ready. But there's a ton of activity. We have won some business there, but I would say it's still early. There's just a lot of activity right now.

Brian Koontz | Analyst, Needham & Company:

Got it. Great. And maybe just one last, if I could, on the balance sheet. There were some redemptions of adversaries. How should we be, how should investors think about that relative to your expectations?

Tom Stanton | CEO and Chairman of the Board:

Yeah, let me touch on that and see if there's anything else to add to it, Tim. About half of that was actually we disclosed last quarter and then half of that was this quarter disclosure. In that case, it was the same person. We have been in discussions with them for quarters and I would say it was very well managed. I think we were glad to be able to get those shares back at the price that we were able to get those shares back at. Anything else, Tim?

Tim Santo | Senior Vice President and CFO:

I'd just say that that was largely an orderly transaction. Again, we're in contact with these investors. And done in an orderly way, it reduces the shares outstanding, which long term is a very positive thing.

Brian Koontz | Analyst, Needham & Company:

That's great. Thanks for the questions and nice job in the quarter.

Tom Stanton | CEO and Chairman of the Board:

Thank you.

Conference Call Operator:

Your next question comes from the line of Michael Genoves with Rosinblatt Securities. Your line is open.

Michael Genoves | Analyst, Rosenblatt Securities:

Great. Thanks very much. Tom, you mentioned a couple of times in the script, you talked about market share gains. Could we just double click on that and get some more thoughts on what you're seeing there? Yes.

Tom Stanton | CEO and Chairman of the Board:

You know what's going on in Europe and I would say there's probably nothing big there that changed other than the Italian one that we brought on. We picked up market share in the, I'll call it the tier two space, but the kind of competitive carrier space here in the US as we won some additional optical business. I'm going to guess here about 50% of that new business was where we added a customer that was buying either optical or fiber access and then they joined on with buying the other piece that they were not buying. And that was really good to see because that was kind of the premise of the acquisition that we did three quarters ago or three years ago. Tier two, tier three we added somewhere around 10 or 11 carriers during the quarter just for fiber access alone. And I mentioned we added 20 customers on the subscriber space. The majority of those were carriers and then the next largest segment was in government municipalities. So, that space as you know continues to be very active.

George Nutter | Analyst, Wolfe Research:

Great.

Michael Genoves | Analyst, Rosenblatt Securities:

Thanks.

George Nutter | Analyst, Wolfe Research:

And

Michael Genoves | Analyst, Rosenblatt Securities:

then, you know, if I go back a couple quarters ago on your reporting, there was a big emphasis on operating leverage. And then last quarter, you know, we had the Forex pop up, but it sounds like you're hedging that again or hedging that out now. So, I guess my question is, you know, do you expect to start talking about operating leverage again as being a key part of the story? Because, you know, again, we have that thread and it kind of got lost and I've been waiting for it to come back. So any thoughts on that issue would be helpful. Thank you.

Tim Santo | Senior Vice President and CFO:

You know, I think I'll highlight just on the Forex side, you know, it was generally EPS neutral because we are largely naturally hedged. What I'm working on internally with our bank groups and with some of our advisors is a hedging strategy that keeps it that way. You know, the challenge is you do see some volatility in the individual line items. Again, back to, you know, FX is, I'm sorry, OPEX, if you back out, the impact of currency were largely flat. But at an EPS level, it was neutral, slightly positive for the company. So what we really want to do is hedge against any further changes in the US dollar, which is active strategy. You know, ideally what I have is a constant currency model, which, again, I've been here a quarter, so we're still working some things internally and building out some additional capabilities within my team. But with a constant currency reporting, there will be more transparency to the true impact of FX and the benefits of our hedging strategies.

Tom Stanton | CEO and Chairman of the Board:

And just on a percentage basis, right, we are starting to see that this quarter, you know, if you take a look at the midpoint of our guidance on our EBIT, you'll see that that's moving up from where we ended up and where we were guiding to last quarter. So I think we're right at that tipping point now to where you'll start seeing that leverage. FX or no FX, you'll see that leverage. So yeah, we don't want to get too ahead on what we're projecting because, you know, things happened. But I would say we're right at that point right now.

Michael Genoves | Analyst, Rosenblatt Securities:

Okay, that's good. That's great for me. I'll pass it on. Thanks again.

Conference Call Operator:

Your next question comes from the line of Christian Schwab with Craig Hallam Capital Group. Your line is open. Mr. Christian, your line is open.

Christian Schwab | Analyst, Craig Hallam Capital Group:

Sorry, I was on mute. Thank you for staying with me. Just a follow up on the currency question, you know, in the hedging, you know, you assume constant currency. Can you just tell us, you know, your assumption for the dollar to euro exchange rate for the quarter, which you're assuming it will be until all your hedge strategies are in place?

Tim Santo | Senior Vice President and CFO:

Well, again, on an EPS basis, we're largely naturally hedged. So I expect on an EPS basis us to remain relatively neutral. We are net positioning a strong improvement in the dollar, but no material movements in the next three months.

Christian Schwab | Analyst, Craig Hallam Capital Group:

Great. And then my second question is regarding the U.S. revenue strength. Are you guys benefiting this quarter and do you anticipate benefiting in the second half of the year due to the bankruptcy of EPS?

Tom Stanton | CEO and Chairman of the Board:

Yeah, we right off the bat started getting calls. We've started shipping to multiple customers now in the U.S., predominantly in the U.S. I think we have some international business as well, but that's affected. That'll be a positive movement for us, both on the OLT side, on the infrastructure side, as well as on the subscriber side. It already has been. It's already started impacting us.

Christian Schwab | Analyst, Craig Hallam Capital Group:

Could you quantify that opportunity over, you know, multiple quarters to come or the positive impact that you received this quarter?

Tom Stanton | CEO and Chairman of the Board:

I don't really have that number. That's getting pretty granular. I would say across the business, it's probably in the 10-ish million, but, you know, that's when it is all rolling. Some of these things are still competitive. They're going out to RFP. Some of them, we have interoperable products, so we're an easy plug-in. So, where people were really in a bind, they kind of called us. But, yeah, I would say it's probably material, but it's not overly so.

Christian Schwab | Analyst, Craig Hallam Capital Group:

All right, great. No other questions. Thank you. Okay.

Conference Call Operator:

Your next question comes from the line of George Nutter with Wolfe Research. Your line is open.

George Nutter | Analyst, Wolfe Research:

Hi, thanks a lot, guys. Tim, I think you mentioned your efforts on the sale of the North Star Tower. It sounds like from your comments that that's, you know, you've had a particular buyer kind of walk away from the process. Is that correct? And what do you think the outlook is for getting a transaction done there? Thanks.

Tom Stanton | CEO and Chairman of the Board:

Yeah, let me start with the first piece, and then I'll turn back over to Tim. We didn't have a buyer walk away. We had a buyer that has been slow to close. So, they are still actively trying to get their side of the deal done. But based off of the timing differential, you know, we're now looking at offering it to other people. And before that, for a period of time, we were not. We had taken it off and we're trying to close the deal. That's still an active negotiation, but we are now looking at other offers as well. Tim, anything you want to add to that? I'd

Tim Santo | Senior Vice President and CFO:

just say we're, exactly, you know, we are under an exclusivity period. We have an inked deal, but, you know, there's contingencies that have kept us from moving that forward and those remain in place. We're tired, as you are, with some of these things moving. So, it's unique property. It's a tough property, but it's a gorgeous property. So, you know, we're not willing to give the property away for an amount that's at a fire sale. And we're also very selfishly aware of who's going to be our neighbor. So, we're working with some new parties to help us remarket the facility in parallel. And also, I mentioned, you know, re-exploring with our renewed strength and capital position a sale leaseback transaction on the East Tower.

George Nutter | Analyst, Wolfe Research:

Thank

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you.

Conference Call Operator:

Your next question comes from the line of Tim Savages for Northland Capital Markets. Your line is open.

Tim Savages | Analyst, Northland Capital Markets:

Hey, good morning. And congrats on the outlook in particular and some of that operating leverage that you're starting to show. And along those lines, I think you mentioned an expectation for subscriber solutions to grow in Q3, but I'd be looking for any other color from a segment or geographic perspective about where you expect that sequential growth to come from. I can follow up from that.

Tom Stanton | CEO and Chairman of the Board:

Yeah, so, yeah, we explicitly, you're right, I explicitly did point out subscriber solutions and that's just backlogging that area continues to grow. So, we kind of have more visibility as to what we expect there. Optical probably have a very strong core as well, that business and that backlog continues to grow and access continues. Backlog is probably not as big because we do have lumpy order patterning, but yeah, it's positive. I mean, the business itself is definitely trending positive. I don't, our visibility, as you know, is usually strongest in the next quarter and then it gets a little weaker and a little weaker. All of the signs that we have right now are looking upward. So, yeah, and I would say across all the product segments. Probably the strongest single area right now is optical because they have the most ground to make up. They had the inventory depletion cure itself the latest. At this point in time, I would say it's cured and we're just seeing strong activity there. Did that answer your question, hopefully?

Tim Savages | Analyst, Northland Capital Markets:

Sure did and leads very well into the next one, which is, you know, Tom, you've mentioned, or maybe both you guys have mentioned continued momentum in the second half in terms of revenues and cash flow. I mean, should we take that as implying an expectation for continued sequential growth into Q4? You know, you do at times have some seasonal headwinds there, or I know it's early, but I want to see if I'm interpreting that positive correctly.

Tom Stanton | CEO and Chairman of the Board:

Yeah, I'm going to, we don't give, as you know, guidance past the quarter, but I would say the momentum is strong enough to where I would not be surprised if we were to overcome any seasonal patterns at this point.

Tim Savages | Analyst, Northland Capital Markets:

Great. And maybe last one for me. You did see a good amount of sequential growth in the U.S. this quarter and I've talked about that to some degree, but should we, I guess, to what extent should we associate that with inventory, you know, burning off versus maybe some of the new wins you announced last quarter with the tier twos in the U.S. or what makes the factors, would you say, was driving that U.S. growth in particular?

Tom Stanton | CEO and Chairman of the Board:

I think you literally hit the mix. I think we did win some tier threes as well, but they tend to be smaller buyers, so you have to really have a big mass, and I would say we don't have a big mass yet. Tier twos can move the needle. They have started buying our optical products as well. So it was tier twos and the tier ones here in the U.S. are probably what drove the most. Enterprise also did good, but those two drove the most. I'm trying to think of the numbers. Those two definitely had the biggest impact.

Tim Savages | Analyst, Northland Capital Markets:

Okay, thanks very much.

Conference Call Operator:

Your next question comes from the line of Bill DeZell and with Titan and Capitals. Your line is open.

Bill DeZell | Analyst, Titan Capital Group:

Thank you. Relative to the strength that you were talking about, really around the globe, are you able to either rank or kind of highlight what's the true driver between the expanding bandwidth, the AI, the data centers, vendor replacement? There are all these factors that I think you've highlighted are favorable contributors, but are there one or two that are truly the meaningful drivers?

Tom Stanton | CEO and Chairman of the Board:

I would say the biggest driver right now is upgrade of the network, at least for us, right, is upgrade of the network for residential broadband. That's driving the biggest piece of our kind of revenue growth over the last few quarters. The next biggest driver, it gets optical returning to normality would definitely be the next one, and I would tell you, like I said, we're expecting a strong second half there. That normality, it's not just normality, it's new application wins. I mentioned we won some in Europe. We won some additional projects in Europe that include 5G densification, for instance, which is kind of nice to see. Then we're seeing some of the work, and have won some business around kind of getting just general bandwidth upgrades, and some of that is AI driven. It's kind of hard. Optical is multiple different things affecting optical. If you would just let me say fiber to the pram plus optical, that would be the right answer, because the fiber to the pram is also affecting our subscriber business, of course.

Bill DeZell | Analyst, Titan Capital Group:

That's helpful. Thank you, Tom. Then in the U.S., do you see any opportunity to crack into any of the Tier 1s that you are not currently a meaningful player with?

Tom Stanton | CEO and Chairman of the Board:

We sell to the other, well, let me define Tier 1 for you, if you don't mind. Tier 1 carrier customers, TOCO customers, we sell to them, but I don't see any real big change in trajectory in the near term there. For MSO customers, I think there's a difference. I think that we have products well positioned, and the larger MSOs here, and we could see some movement there. Does that answer your question?

Bill DeZell | Analyst, Titan Capital Group:

Yes, but it certainly does lead to another to expand on that last comment about winning additional, sounds like large MSO business.

Tom Stanton | CEO and Chairman of the Board:

Right. We're working at it. We have some approvals that we've gotten, and I think we're well positioned. Until I see that big PO coming in, I'm not going to really cut it, but we're approved and ready to go.

Bill DeZell | Analyst, Titan Capital Group:

Great. Congratulations on a really nice quarter.

Tom Stanton | CEO and Chairman of the Board:

All right. Thank you very much. I think with that, we are out of questions for today. So, I appreciate everybody joining us on the call today, and we look forward to talking to you next quarter. Thank you, everyone. Ladies and

Conference Call Operator:

gentlemen, that concludes today's call. Thank you for your participation. You may now log off.