NASDAQ:ADTN Q1 2026 Earnings Call Transcript

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Kayla | Conference Call Operator:

Ladies and gentlemen, thank you for standing by and welcome to the ADTRAN Holdings, Inc. First Quarter 2026 Earnings Release Conference Call. All lines been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you'd like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you'd like to withdraw your question, again, press the star and one. During the course of the conference call, ADTRAN representatives expect to make forward-looking statements that reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including the successful development and market acceptance of our products, the ability of our third-party suppliers to supply components and products, our ability to convert our backlog into revenue, our ability to maintain current expected delivery schedules, competitive pricing and acceptance of our products, intellectual property matters, the effect of economic conditions, the impact of tariffs and trade policy, and other risk factors described in our most recent annual report on Form 10-K and in our quarterly filings with the Securities and Exchange Commission. AdTran Holdings assumes no obligation to update any such forward-looking statements. During today's call, management will refer to certain non-GAAP financial measures. Reconciliations of GAAP to non-GAAP measures and certain additional information are also included in our investor presentation and our earnings release. AdTran Holdings has not provided reconciliations of its second quarter 2026 outlook with regard to non-GAAP operating margins because it cannot predict and quantify without unreasonable effort of all the adjustments that may occur during the period. The investor presentation has been updated and is available for download on the ADTRAN Investor Relations website. Hosting today's call is Tom Stanton, ADTRAN Holdings Chief Executive Officer and Chairman of the Board, and Timothy Santo, Senior Vice President and Chief Financial Officer. It is now my pleasure to turn the call over to Tom Stanton, Chief Executive Officer of ADTRAN Holdings. Sir, please go ahead. And Tom Stanton, I turn it over to you.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Thank you, Kayla. Good morning, everyone. AdTrend delivered solid first quarter results with revenue of $286.1 million, up 15.5% year-over-year, and non-GAAP operating margin of 6.9%, up 3% year-over-year. These results reflect the continued strength of our core markets and the operating leverage we have now firmly established across the business. The demand drivers underpinning our business continue to strengthen. In the U.S., broadband expansion is gaining traction, and DB deployment funds are beginning to reach operators in a growing number of states. In Europe, high-risk vendor displacement continues to progress, with momentum reinforced by legislation such as the proposed Cybersecurity Act 2.0, which would mandate the removal of high-risk vendors from critical network infrastructure. This quarter also marked a meaningful step in our growth strategy as we showcased our expanding portfolio addressing cloud and AI infrastructure connectivity. This included the introduction of the LightWave 800, a solution purpose-built for high-performance, low-power intradata center connectivity. Optical networking solutions revenue was $97.3 million in the first quarter, up 24% year-over-year. On a sequential basis, strength from our larger customers and hyperscalers was offset by seasonal declines with smaller customers and government sales. Across our service provider base, demand remains healthy. Operators across all geographies are expanding wholesale optical capacity to support growing demand for cloud connectivity and higher bandwidth services, reflecting a broad-based trend. In Europe, high-risk vendor replacement initiatives continue to add to that demand, with growing strength among our cloud and hyperscaler customers and a positive outlook across our service provider base. We expect our optical networking revenue to build throughout the year. Access and aggregation solutions revenue was $90.5 million in the first quarter, up 2% year-over-year and 14% sequentially, driven by broad-based strength across the U.S. and Europe. We expect steady progress across our European business through the remainder of the year. In the U.S., B deployment funding is beginning to reach operators in select states, And while we are seeing early orders from several customers, we expect the impact to become more meaningful as we move towards the back half of the year. Subscriber Solutions revenue was $98.2 million in the first quarter, up 22% year-over-year. Demand remains healthy, supported by continued investment in fiber to the home, multi-gig Wi-Fi 7, and carrier Ethernet applications. In recent weeks, our award-winning SDG Wi-Fi 7 portfolio received conditional FCC approval exempting our platforms from covered list restrictions. We are among the first vendors to achieve this designation, and while the broader industry works through the approval process, we are already seeing service providers engage with us on competitive opportunities that this creates. Stepping back from the details for the quarter, I want to take a moment to talk about our business and the market dynamics that continue to drive demand for our solutions. Service providers are investing across transport, access, and subscriber platforms to scale their networks for long-term demand and improved reliability. These investments are being reinforced by several important tailwinds, including high-risk vendor replacement initiatives in Europe, the expansion of managed optical fiber networks, or MOFIN, to address surging demand for wholesale services from cloud providers, and continued upgrades across access and subscriber networks to support multi-gig service delivery. In addition to these network upgrade catalysts, operators are in the early stages of transforming how they operate their networks and engage subscribers through agentic AI. With the launch of Mosaic One Clarity, which recently received the FTTH Europe Award for AI innovation, we are addressing the shift towards proactive and increasingly autonomous network operations. Early deployments have provided strong validation of these capabilities across both small and large operators, particularly in the areas of predictive maintenance and improving the in-home subscriber experience. Beyond our core service provider business, we continue to see meaningful opportunities to further accelerate growth by expanding our presence in both cloud providers and enterprise customers. These segments benefit from many of the same underlying trends shaping service provider networks, but they are growing at a faster pace and are driving new network architectures and requirements. In the enterprise space, we have a long history of providing secure optical and ethernet connectivity to some of the world's largest enterprise and government customers. Demand in this customer segment is increasingly shaped by two important tailwinds. First, the expansion of AI workloads across secure enterprise environments is driving demand for higher capacity interconnects between private enterprise data centers, and second, growing awareness of the limitations of traditional security mechanisms is accelerating interest in quantum safe, optical, and Ethernet communications. Building on our longstanding presence in these markets, we have developed a comprehensive portfolio of quantum safe communication solutions. While still early, we are seeing increasing engagement across a broadening base of enterprise, government, and utility customers positioning us well for longer-term growth as these initiatives mature. In our cloud provider customer segment, the rapid expansion of AI compute infrastructure and the networking required to connect large-scale cluster GPU deployments is driving a surge in networking investment, making this the fastest growing segment in our industry. Data center operators are scaling capacity to support AI workloads where power efficiency, thermal constraints, and network density have become defining design considerations. We have long-served data center customers through our interconnect solutions, and as evidenced by last quarter's results, that business continues to benefit from growing demand for data center connectivity. Our strategy is to build on that foundation and extend our portfolio to address surging bandwidth demands from inside the data center as well. LightWave 800 is the first clear example of this strategy in action. It is purpose-built for intra-data center connectivity and high-density AI compute environments and is designed to reduce power consumption by over 90% compared to existing alternatives. We are still in the early stages of this product family, but initial market engagement and feedback have been very encouraging. Shifting from our market opportunities to operations, memory pricing has remained elevated industry-wide and freight costs are adding an additional layer of pressure. headwinds that are affecting the entire sector. Despite these pressures, our non-GAAP operating margin of 43% reached its highest level since the beginning of the supply chain disruption in 2020. This was achieved through a combination of disciplined cost management, pricing adjustments across the portfolio, and a revenue mix that has less reliance on lower margin CPE where memory cost pressure is the most acute. Consumer CPE represents a relatively small portion of our overall revenue. Although memory costs remain elevated and could deteriorate further, our current visibility supports gross margins in the near term, remaining broadly consistent with what we have delivered over the past several quarters. We entered the second quarter with a positive demand outlook. Fiber infrastructure investment remains active across our core business, and we continue to advance our initiatives in AI infrastructure and enterprise networks, expanding our business opportunities. Our priorities remain consistent, expanding operating margin, generating cash, and converting the strong customer pipeline into revenue. With that, I'll turn the call over to Tim to review our financial results in more detail. Tim?

Timothy Santo | Senior Vice President and Chief Financial Officer:

Thank you, Tom, and thank you all for joining us today. We delivered solid results for Q1 2026 led by continued and consistent execution. We had operating margin expansion to a new level despite a seasonal reduction in revenues that remained above the midpoint of our previously issued guidance driven by continued cost discipline and scale in the business. Our first quarter revenue was $286.1 million, up 15.5% year over year, and returning to a more normalized seasonal pattern. Geographically, U.S. revenue was $146.2 million, representing 51% of total revenue, up 42% year over year, and 7% sequentially. Non-US revenue was $139.9 million, or 49% of total revenue. Access and aggregation solutions revenue was $90.5 million, or approximately 32% of total revenue, up 2% year-over-year and 14% sequentially. Subscriber solutions revenue was $98.2 million, or 34% of total revenue, up 22% year-over-year. Optical networking solutions revenue was $97.3 million, or 34% of total revenue, up 24% year-over-year. Turning to gross margin, non-GAAP gross margin was 43%, up 55 basis points year-over-year from 42.5% in Q1 2025, and up 54 basis points sequentially from 42.5 in Q4 2025, driven by favorable product mix and continued progress on cost efficiency. Non-GAAP operating expenses for the first quarter were $103.3 million compared to $95.5 million in Q1 2025 and $105.1 million in Q4 2025. The year-over-year increase largely resulted from the impact of foreign currency fluctuations on our European cost base which has had minimal impact on operating leverage due to natural hedging and continued investment in R&D and go-to-market activities. Non-GAAP operating income was $19.9 million or 6.9% of revenue. On a sequential basis, operating income increased from 18.8 million or 6.4% in Q4 2025. Year over year, non-GAAP operating margin expanded 300 basis points from 3.9% in Q1 2025, continuing the progression from 5.4% in Q3 2025 and 6.4% in Q4 2025. Non-GAAP tax expense in the first quarter was $4.4 million, reflecting an effective non-GAAP tax rate of 25.5%. Non-GAAP net income attributable to AdTran Holdings was $11 million, or 14 cents per diluted share, compared to 3 cents in Q1 2025. Turning to the balance sheet and cash flow, net working capital was $253.9 million at quarter end, compared to $259 million at December 31st, 2025. During the quarter, inventory was $209 million with days inventory outstanding of 110 days down four days sequentially. Trade accounts receivable were 215.5 million with DSO of 68 days up two days sequentially due to the timing of quarter end invoicing. Accounts payable was 170.6 million with days payable outstanding of 66 days which is flat sequentially. As revenue scales, our focus remains on improving working capital efficiency. Operating cash flow was $12.7 million for the quarter, and free cash flow was a negative $3.3 million, reflecting timing of cash receipts and higher purchases of inventory. We ended the quarter with $88.3 million in cash and cash equivalents, compared to $95.7 million at December 31, 2025. Turning to our outlook for the second quarter of 2026, we expect revenue to be between $283 and $303 million and non-GAAP operating margin within a range of 5% to 9%. This concludes our prepared remarks. Before turning the call over to Tom, I'd like to highlight that we will be participating at the B. Reilly Conference on May 20th. in Marina Del Rey and the Evercore Technology Media and Telecom Conference on June 2nd and 3rd in San Francisco. We look forward to seeing many of you there. And now I will turn the call back to Tom. Great.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Thanks very much, Tim. Kayla, at this time, we'd like to turn it over to people that may have some questions.

Kayla | Conference Call Operator:

Wonderful. At this time, I'd like to remind everyone, in order to ask a question, press star then the number one on your telephone keypad. Your first question comes from the line of Mike Genovese with Rosenblatt Securities. Your line is open.

Mike Genovese | Analyst at Rosenblatt Securities:

Thank you very much. Tom, I'd like to hear about the LightWave 800 more, you know, about basically the strategy of launching this product, you know, maybe bigger thoughts on getting into the data center and But more specifically, any timing or size or margin expectations for the new product that you could share would be helpful. Thank you.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah. I'm going to shy a little bit away from pricing on the product, although there is a lot of IP in that product, and IP typically gains better gross margins. The reason I mentioned it in my remarks is the – market reaction to it has been fantastic. We've had some very large, very well-known customers that have been very encouraging for us to get the product out as quickly as possible. Unfortunately, there is a lot of work to be done and I would expect that to be sometime about a year from now before we really kind of hit production level type numbers. We did show we do have prototypes now. We did show operating models at the recent OFC. It is a real product. It does work. It's a matter of getting it finalized and then getting it to scale, which will take some time just because it's very, you know, it's a semiconductor-type product. Now, that is one of the products we have. We also have the Quattro, which will be coming out the end of this year, which is a 4x100 product. product versus the 8x100 product. It is also a very, very power-saving product. I think it's better than anything out there on the market today. The real thing about the 800, though, is it's ridiculously low power. I mean, it's, I think, one picojoule per bit, which is an industry first. And that's what's driven the excitement around it.

Mike Genovese | Analyst at Rosenblatt Securities:

Interesting. Now, when you say, you know, there's a lot of IP in it, I mean, is it Is it fair to say that it would not be significantly dilutive to company gross margins?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

It will not be dilutive to company gross margins.

Mike Genovese | Analyst at Rosenblatt Securities:

Okay, that's good to hear. I guess maybe just something similar on any other new products. I mean, we saw something about an announcement of an AI edge platform I'd like to hear more about. And then if I go back to OFC, I also think there was an announcement at least where you were demoing 800 and 400 ZR. So is that a product that you have, ZR? And could you talk more about the AI sort of edge platform?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, the AI edge platform I think you're talking about is still an offshoot of Clarity. So I'm not sure if there's anything else out there that we've seen that we announced. I'm not telling you it couldn't happen. But all of our AI products are in the Clarity family. We have an edge product. that we are trialing right now and then we have the core product for network operations that we have been trialing for some time. I will tell you the feedback here also is fantastic. I just recently had a bunch of customers and we had 150 or so customers here in Huntsville and the feedback that they just overwhelmingly positive so. Good things there on the 800 on the 400 ZR. 400 ZR. We do have products coming out towards the end of this year, I think, for 400. And those are just ongoing pieces. The AI piece, now that I think about the AI piece, you may be talking about it on Ensemble, which is the product that we were highlighting that has started to implement authentic AI in its product line.

Mike Genovese | Analyst at Rosenblatt Securities:

Okay, great. Yeah, I just wanted to get an update on those new products. So I'll... I'll pass it along to others for other topics. Thank you.

Kayla | Conference Call Operator:

All right. And your next question comes from the line of Irvin Liu with Evercore. Your line is open.

Irvin Liu | Analyst at Evercore:

Hi. Thank you for the question. I also had a question related to AI infrastructure. As you target this opportunity, can you talk about any sort of R&D and go-to-market investments needed to serve this customer segment? Thank you.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

There is some shifting that we'll be doing throughout the year where we make sure that we have the right R&D resources and sales resources to be able to do that. But all of that is within the current operating budget that we have today. So I don't think there's going to be any significant increase. We're kind of committed to and believe that we can grow the business fairly meaningful within the budgets that we have today. Once we get north of our targeted 10%, or excuse me, we said low single digits, but 10% operating income, then we'll take a look at that as well and make sure that we're investing in the right places. But right now, we don't see any problems.

Irvin Liu | Analyst at Evercore:

Got it. And then for my follow-up, you've been seeing strong demand in the regional service provider customer segment. So can you talk about any sort of momentum you're seeing as it relates to your suite of software products such as Mosaic One and IntelliFi? Just any color on upsell efforts and attach rates here would be helpful.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, we don't have those numbers broken out, but I will tell you the uptick on IntelliFi has been fantastic. Mosaic got a very good launch. We have probably close to 500 customers right now on Mosaic 1, and all of those are in different levels of subscription base, but IntelliFi is fantastic. doing really well. I think last time we reported on it, it was over 100 customers, and it's been a real highlight. So we don't have those numbers broken now. Hopefully next quarter I'll be able to talk about them.

Irvin Liu | Analyst at Evercore:

Got it. Thank you.

Kayla | Conference Call Operator:

And your next question comes from the line of George Nodder with Wolf Research. Your line is open.

George Nodder | Analyst at Wolf Research:

Hi, guys. Thanks very much for the question. You mentioned cloud revenue and your cloud business. Can you remind us what percentage of sales comes from cloud operators? Do you have a sense for that?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, we don't break that out. As you know, George, we don't break out specific customer segments like that. But just to give you some kind of – hyperscalers actually did really good in the fourth quarter. They were, as I mentioned – a real positive in the quarter, and we would expect that to continue on through this year. I mean, we've got a fairly good backlog with some of our hyperscaler customers right now that's building, so that's pretty much it.

George Nodder | Analyst at Wolf Research:

Got it. Okay. And I assume these are – can you just walk through maybe the product sets that you sell in there and just kind of get us where you're pointing on, you know, what is – what you're leading with with customers? Obviously, the LightWave product is going to come on, but – Is it optical? What pieces are you selling?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, the biggest piece is optical, and it's a lot of the momentum we're seeing right now is around our 100 ZR plug.

George Nodder | Analyst at Wolf Research:

Got it. Okay. I guess I would have assumed the 100 gig ZR plug was a little bit more of a telecom application rather than a cloud application.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

As you know, maybe you do know, I think you do know, George, that we have a fairly large footprint. So when you look at large data center connectivity, not in the sweet spot. That's where the 400 and 800 will play more. In the smaller data center interconnectivity spot, which some of the hyperscalers have as an architecture, it plays very well.

George Nodder | Analyst at Wolf Research:

Okay, super. And then the other one I had was just on the LightWave 800. Obviously, laser datacom chips are really hard to come by in the industry. I hear what you say about, you know, the business ramping a year from now. I guess I'm just curious about, you know, where you guys are getting laser datacom chip supply. Is that difficult to come by? Is it easy to come by? Is there anything you can tell us about where you're sourcing those? Thanks a lot, guys.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

They probably won't get into direct sourcing on that. We do have some partners that we're working with on this. They do know what the supply needs are right now. Right now, we see Now, you know, depending on how aggressive that launch is, we don't see any issues in being able to supply it as we launch it. Okay. Great.

George Nodder | Analyst at Wolf Research:

Okay. Thank you.

Kayla | Conference Call Operator:

And your next question comes from the line of Ryan Kuntz with the Needham & Company. Your line is open.

Ryan Kuntz | Analyst at Needham & Company:

Great. Thanks for the question. I wanted to ask about optical demand, kind of it that made me step it up to a higher level. You talked about MOFIN demand here. you know, can maybe characterize where you are, you know, where you see the biggest drivers specifically within Europe for your optical product lines and, you know, which products you're seeing the greatest success with in terms of demand. You just talked about 100ZR. I assume that's a big piece, but maybe any more color beyond that would be great. Thanks, Tom.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, I do think 100ZR also, I think that the, especially in Europe, I think that our 400 and 800 gig products are going to play very well in that upgrade path as well. The customer base that we're talking about is a customer base that you already know. It's ones that we've been doing business with for a very long period of time. And they're trying to situate their networks to be able to do more basically wholesale services. That customer base is active. And then there's one here in the U.S. that you're already aware of that's also making a lot of noise around it.

Ryan Kuntz | Analyst at Needham & Company:

And are you seeing within that, are you seeing a shift away from traditional chassis-based transponders over to ZR-pluggables in the telecom side as well?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

It's a mix. That is dependent on the carrier size. And it also depends on whether or not they already have installed chassis. Where there's already an installed chassis there, they're going to upgrade that chassis. Where it's a footprint, even in footprint on some of the larger carriers, the operational ease that, you know, the current systems provide is actually very beneficial to them, but it's definitely a mix.

Ryan Kuntz | Analyst at Needham & Company:

Got it. And then maybe hitting the gross margin here, obviously great results on the quarter. Congrats. And you talked about a lower mix of consumer CPE within your subscriber solutions. Can you maybe, you know, is consumer CPE, would it approach half of that number or you think it's maybe less than half of your your total subscriber business?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Probably, to be fair, it's probably, I think it's definitely not less than a half, but it's not substantially more. And I think the reason that I was bringing it out is we have gotten feedback that customers were unclear about kind of how much the CPE margin problem is affecting us. And it does affect us. I mean, there's no doubt about it. But the impact is substantially less when you take a look at it in the overall perspective of the entire company. But it is north of 50% of just the subscriber segment.

Ryan Kuntz | Analyst at Needham & Company:

Makes sense. And maybe one last one, if I can squeeze it in. You talked about some better visibility on bead projects here. What sort of milestones... should we look for before we start to see, you know, your revenues start to inflect for Bede? Are we talking about, you know, permits and design and, you know, forecasts and orders? Can you walk us through how we should think about, you know, the milestones that let Bede unfold and start to contribute for Atran?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, so funding is starting to flow or could flow for Bede. by far the majority of the states now. So a lot of that has been worked itself through. Now what you're seeing is kind of individual customers deciding how they want to roll out. We have some customers that have already placed purchase orders and they're rolling out or at least making sure that they've got supply to be able to not be a hamstrung. The smaller the customer, the easier that is. On the larger customers, you know, the biggest pull, long pull is going to be actually deploying the fiber itself, which is why, you know, we've been saying end of this year is probably where you start seeing that. On a local level, I mean, you can look at permitting and kind of where that is, it's kind of hard to actually get a good grasp of. At the end of the day, I'm looking for purchase orders. We're starting to see some today, but it's a trickle. It's not a lot, but we expect that. I mean, this whole unlocking of, the approval process really has accelerated. We went from maybe two states a quarter ago, I think three states a quarter ago, to pretty much all of the states now being able to send out funding. So I think the best visibility is actually seen in the numbers, though, because every carrier is going to be a little different.

Ryan Kuntz | Analyst at Needham & Company:

And you think you'll just see nice steady improvements and 27 starts to feel like a more material number for you.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Oh, absolutely.

Ryan Kuntz | Analyst at Needham & Company:

Yes, yes. Great.

Irvin Liu | Analyst at Evercore:

Thanks, Tom.

Kayla | Conference Call Operator:

Okay. And your next question comes from the line of Christian Schwab with Greg Helm. Your line is open.

Christian Schwab | Analyst at Greg Helm:

Oh, great. Thanks. Just a quick clarity on that, Tom. With 27 orders picking up in bead more materially, would you anticipate 28 being Potential peak revenue for that program, or do you think it extends beyond that? And would you be willing to quantify a revenue range of opportunity? You know, over a multi year timeframe that this program could offer you guys.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

I think we've given a range before and, you know, that math changes depending on. Ultimately, which carrier actually is deploying where. Tim, do you remember what that range was?

Timothy Santo | Senior Vice President and Chief Financial Officer:

We had said of that market size, there was about a billion to go to the industry over multi-years.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

So it's a five-year program. The timing of this, we've seen programs like this in the past. I think if you pick the middle of the window... That's typically where you see the majority of the spend. And then you'll see some kind of cleanup at the very tail end when people try to make sure that they get all the funding they can get. So, you know, my guess would be the middle of the program, which would be probably towards the tail end of 27. And then you'll probably see some cleanup from that point forward. And as you get towards the end of the program, you'll typically see some kind of flush as people try to make sure they get all the work they need to do.

Christian Schwab | Analyst at Greg Helm:

Great. That's great clarity. And then my last question just has, you know, your largest, one of your competitors, you know, spent a significant amount of time on their conference call talking about memory cost headwinds. I'm just wondering how you guys are navigating through that.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, sure. Right now we're doing good. So I do think that we are helped by the fact that we have a fairly diverse product portfolio. When you get into some of our larger products, like some of our larger access and ag platforms which handle thousands of customers, or you get into optical for that matter, the memory content on those products is just less of the total bill of material. so the impact is significantly less if you get into some of the lower end residential cpe that memory income that memory can be a large percentage of the total bill material and i think that's the direct impact if you take a look at our that maybe that's the direct tie through to your question if you take a look at our cpe for residential which is the most materially impacted is also the lowest cost products we sell and the lowest inherent gross margins to begin with that we sell. There's a bigger impact. When you get to some of the larger 100-gigabit platforms, 400-gigabit platforms, that memory impact is just substantially less, and I think that's the difference.

Christian Schwab | Analyst at Greg Helm:

Fantastic. Thanks, Tom. Okay.

Kayla | Conference Call Operator:

And your next question comes from the line of Dave Kang with B. Riley. Your line is open.

Dave Kang | Analyst at B. Riley:

Yes. Good morning. Just the first question is regarding the Middle East conflict. Just wondering if you can talk about the impact from that.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah, so I think it impacts us in a couple of different ways. One is, without a doubt, it hurt us on the freight line. There are some, you know, some disruptions. Our freight expense this quarter was higher than I would like it to be. Probably be higher this quarter as well. So last quarter and this quarter. And that's just a matter of being able to get capacity in the right lanes. And it's a little messy last quarter, frankly. I think that's the biggest headline impact. We absolutely saw an impact, though, in our Middle East revenues as well. Some of that was disrupted last quarter. I don't know when that gets better. I would expect it to be a little better this quarter, but I think it hurt us both on the revenue and the cost line.

Dave Kang | Analyst at B. Riley:

Are we talking like maybe 1%, 2% revenue impact?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Revenue, yeah, less than 5%, yes.

Dave Kang | Analyst at B. Riley:

So it's definitely meaningful. I mean, material, right?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Well, especially if you talk on a regional, we look at EMEA as one big bucket, and that's how we manage it. And for the EMEA area, yeah, it definitely hurt. But on the overall company, it was fantastic. It was not as meaningful. I think on the freight side, it probably hurt more, to be honest with you.

Dave Kang | Analyst at B. Riley:

And should we expect that to be better this quarter?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

I don't think our freight, yeah, I don't want to tell our operations guys, but I don't expect our freight to be materially better this quarter. I think it's going to be messy this quarter as well.

Dave Kang | Analyst at B. Riley:

I can't project. Go ahead. Yes. Got it. So that leads me to my second question is your operator margin guide for 5% to 9%. Just wondering if you can go over some of your assumptions of 5% versus 9%. Yeah.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Yeah. So we continue to think that, I mean, if you think about it, basically, we're assuming a similar freight environment in this quarter as last quarter and a similar memory impact in this quarter as last quarter.

Dave Kang | Analyst at B. Riley:

Got it. And then my last question is, were you able to raise prices or any plans to raise prices to counter, you know, elevated freight as well as component costs?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Freight, we're not pushing so much on. I mean, we're still very hopeful that that's transitory. Component prices on the memory prices, we have raised prices to customers to reflect the current challenges in that supply chain.

Dave Kang | Analyst at B. Riley:

Got it. Thank you.

Kayla | Conference Call Operator:

And once again, if you'd like to ask a question, please press stars and the number one on your telephone keypad. Your next question comes from the line of Tim Savageau with Northland Capital Markets. Your line is open.

Tim Savageau | Analyst at Northland Capital Markets:

Hey, good morning. I want to come back to a comment you made about optical, mainly kind of building throughout the year, which makes sense. Now, typically... In access and aggregation, you see kind of the opposite pattern, which is a stronger first half driven by Europe and then maybe a weaker second half. My question is, I wonder if Bede can serve to offset that this year so you might be able to have a similar type profile building throughout the year.

Tim Savageau | Analyst at Northland Capital Markets:

At least let's just focus on access and aggregation here. As a result of that, And at this point, are you able to make an estimate for what the annual incremental contribution of BID might be in the second half or this year in general?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

Thanks. I really, yeah. Unfortunately, I really can't give an estimate on BID because there's too many customers and too many unknowns. But your question is, do I think it would offset the typical access in ag? I think a couple of things will play into that. Bede definitely will be helpful. I think the other thing that we expect to see, and this is still relatively early in the year, But I think Europe is going to be stronger than what we saw the last couple of years seasonally. So I think that you won't see the current expectations is that we won't see the same kind of fall off in the second half versus first half that we saw last year. Does that answer your question, Tim? Sure does. Thanks very much. Okay.

Kayla | Conference Call Operator:

And your next question comes from the line of Bill DeZellum with Titan Capital. Your line is open.

Bill DeZellum | Analyst at Titan Capital:

Thank you. Relative to the LightWave 800 and your engineering knowledge set that you have gained to reduce that power consumption by 90%, is there a carryover or an opportunity to take that knowledge and apply to other products throughout your catalog that could be materially impactful to the business? And if so, what's the timeline that it would take to have that technology or those capabilities infiltrate the rest of the product line?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

I think it's relatively unique to the product sets that we're talking about. because of particular speeds and particular distances, that we're able to actually get the power savings that we're talking about. But I did call it a family. And I consider Quattro to be part of that same family, which is in our multi-mux family, which is very, very power savings as well. But I think the proliferation you'll see of that technology is in that pluggable space. So you're going to see first product is QSFP. We do have other products that are, let's say, I'll just say more integrated that will be coming out over time. So I think you're going to see different members of the family and similar application sets where this technology will actually play itself out.

Bill DeZellum | Analyst at Titan Capital:

And Tom, those applications are all within the data center or are there other short distance opportunities that are outside of the data center that I'm not thinking about right now?

Tom Stanton | Chief Executive Officer and Chairman of the Board:

There could be, but I can tell you that the demand inside the data center is worth focusing on. It is very large.

Bill DeZellum | Analyst at Titan Capital:

Great. That's helpful. Thank you. Okay.

Tom Stanton | Chief Executive Officer and Chairman of the Board:

At this, I think we are out of questions, so I want to thank everybody for joining us on the conference call and we look forward to talking to you next quarter. Thanks everyone.