NASDAQ:ADTN Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Ladies and gentlemen, welcome to the ADTRAN Holdings, Inc. Second Quarter 2026 Earnings Conference Call. Please note that this call is being recorded. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question at this time, simply press star followed by the number 1 on your telephone keypad. And if you would like to withdraw your question, just press star 1 again. Thank you. Now I would like to turn the call over to Tom Stanton, Chairman and CEO of ADTRAN Holdings, Inc. Tom, you may begin.

Tom Stanton | Chairman and CEO:

Thank you, operator. Good morning, everyone. Although we are disappointed with the reported results of this past quarter, we believe that they were driven by a specific set of factors. As we communicated in our preliminary results press release, a project delay from a single customer, combined with unfavorable impacts from product and customer mix, caused our results to fall short of our guidance. Despite these factors, demand across our end markets remains healthy. Our strategic priorities remain on track, and our customer base continues to diversify. We believe those underlying fundamentals position us well as we look ahead into 2027. As we shared in our pre-announcement, one of our customers adjusted the timing of a project, which affected our results for the quarter. This customer remains committed to its deployment objectives, and we view this as a timing adjustment rather than a change in demand. Overall customer demand remained strong during the quarter, but a challenging supply environment limited our ability to fulfill that demand, constraining shipments and resulting in an unfavorable mix. To be clear, absent these incremental supply constraints, we would have met our original revenue guidance. Against this backdrop, ADTRAN delivered second quarter revenue of $281.1 million, consistent with our preliminary results, and non-GAAP operating margin of approximately 3.8%. also in line with our pre-announcement. While these results reflected the items I just discussed, several indicators of our strategic progress continue to strengthen during the quarter. Our optical business continued to serve as a key growth engine, and our growth was broad-based across service provider, enterprise, government, and cloud customers, and reflects continued demand for higher capacity optical infrastructure, AI-driven networking expansion, and Secure Connectivity. We are also generating tangible benefits from our diversification strategy. Revenue from enterprise, government and cloud customers grew a strong 47% year over year and 19% sequentially, accounting for 25% of total company revenue in the quarter. Within this customer segment, revenue from hyperscalers increased 97% year over year, underscoring the strength of our diversification strategy. This momentum is being driven primarily by our data center interconnect business. In parallel, we continue to expand engagements with hyperscalers and large-scale content providers for our upcoming MicroMux Quattro and the LightWave 800 pluggable optics solutions. The results highlight our growing participation in attractive end markets beyond our traditional service provider base and reflect the opportunities created by continued investment in cloud and AI infrastructure. As we broaden our customer adoption and expand our solutions footprint, we believe we are well positioned to benefit from these longer-term growth trends. Secure connectivity is another area where we continue to drive increasing customer demand. Our recently announced collaboration with EU Networks highlights growing demand for quantum-safe networking solutions and validates the strength of our multi-layer encryption portfolio and integrated cryptographic management capabilities as service providers and enterprises place greater urgency on addressing quantum secure vulnerabilities. Within our service provider segment, we continue to unlock opportunities driven by vendor replacement programs, network modernization initiatives, broadband expansion efforts and increasing security requirements. These trends are driving investment across transport and access networks and position us to benefit from large scale broadband initiatives such as BEAD in the U.S., Project Gigabit in the UK, Germany's Gigabit Strategy 2030, and Italia's 1GIGA, alongside growing demand streaming from European network security and trusted vendor initiatives, including the proposed EU Cybersecurity Act 2, or CSA2. Now some specifics of our product categories. Optical networking revenue was $109.7 million, up 22% year-over-year and 13% sequentially. Access and aggregation solutions revenue was $86.9 million and was directly impacted by the customer timing dynamics I discussed earlier. Subscriber solutions revenue was $84.5 million, reflecting normal variability following a very strong first quarter. Subsequent to quarter end, we strengthened our financial foundation through the completion of a senior secured credit facility. This refinancing lowers borrowing costs and extends maturities, providing additional financial flexibility as we execute our long-term strategy. In summary, the underlying drivers of our business remains intact and demand for our products is strong. Although the company's gross margin performance has continued to improve over the last three years, including being able to overcome the product and freight cost increases we have experienced over the last few quarters, Q2 results reflected a tightening of supply, which resulted in an unfavorable product mix as our ability to ship higher margin products was impacted and ultimately lowered gross margins. As the supply chain outlook remains uncertain, we continue to advance actions that will strengthen our margins and better align our performance with our long-term operating objectives of 42 to 43 percent gross margin. Amidst the current supply environment, we are maintaining strong operating expense control, and remain committed to our 10% non-GAAP operating margin target. We continue to gain momentum in optical networking, further diversifying our customer base, and see a clear path forward towards improving profitability. We remain confident in our strategy and our ability to create long-term shareholder value. With that, I'll turn the call over to Tim to review our financial results in greater detail and follow up with questions. Tim?

Tim | Chief Financial Officer:

Thank you, Tom, and thank you all for joining us today. Revenue for the quarter was $281.1 million, representing growth of 6.1% compared to the second quarter of 2025. Geographically, U.S. revenue was $134.4 million, representing approximately 48% of total revenue, up 12% year over year. Non-U.S. revenue was $146.7 million, representing approximately 52% of total revenue and up 1% year-over-year. By product category, optical networking solutions revenue was $109.7 million or 39% of total revenue increasing 22% year-over-year and 13% sequentially. Access and aggregation solutions revenue was $86.9 million or approximately 31% of total revenue While down 5% year-over-year and 4% sequentially, U.S. access and aggregation revenues were up a healthy 13% year-over-year, partially offsetting the non-U.S. customer order timing described earlier. Subscriber Solutions revenue was $84.5 million, or 30% of total revenue, up 1% year-over-year and down 14% sequentially following a strong first quarter. Turning to margins, non-GAAP gross margin was 40.7% compared to 41.4% in the second quarter of 2025 and 43% in the first quarter of 2026. Gross margin reflected the factors Tom discussed earlier, primarily the combination of product mix, customer mix, and higher product costs. Non-GAAP operating expenses were $103.9 million compared to $103.3 million in the first quarter of 2026 and $101.7 million in the second quarter of 2025. And as we continue to actively manage operating expenses related costs against inflationary pressures. Non-GAAP operating income was $10.6 million, resulting in non-GAAP operating margin of 3.8% compared to $8 million and 3% on a year-over-year basis, however, down from $19.9 million and 6.9% on a sequential basis. Non-GAAP tax expense during the quarter was $2.6 million, reflecting an effective non-GAAP tax rate of 33.7%. Non-GAAP net income attributable to ADTRAN Holdings was $3.4 million, or $0.04 per diluted share, compared to breakeven results in the second quarter of 2025, and $11.14 million in the prior quarter. Turning now to the balance sheet and cash flow, we continued to make progress improving our working capital metrics during the quarter, with $245.2 million of net working capital at quarter end. Inventory was $208.8 million with days inventory outstanding of 107 days down three days sequentially. Trade accounts receivable were $205.8 million with DSO of 67 days down one day sequentially. Accounts payable were $169.3 million with DPO of 65 days also down one day sequentially. These improvements contributed to operating cash flow of $25.9 million during the quarter and free cash flow of $8.7 million. We ended the quarter with $79.2 million of cash and cash equivalents, net repurchases of AdTrend Network's SE shares, and dividend payments made during the quarter of $22.6 million. This compared to $88.3 million at March 31, 2026. Also of note, we recently completed the refinancing of our credit facility led by JP Morgan. This new facility replaces our prior credit agreement while maintaining total revolver capacity, reducing borrower costs by 200 basis points, and extending our maturity to 2031. Turning our outlook to the third quarter, We expect revenue to be between $275 million and $295 million and non-GAAP operating margin to be between 1.5% and 5.5%. Our outlook reflects the current expectations regarding customer deployment timing, supported by continued strength in the optical networking solutions business, healthy demand across cloud, enterprise, and government markets. This concludes our prepared remarks. However, before turning the call back to Tom, I'd like to note that we will be participating in the Rosenblatt Virtual Technology Summit on August 17th and the B. Reilly TMT Conference in New York on September 10th. We hope to see many of you there. And with that, I'll turn the call back to Tom.

Tom Stanton | Chairman and CEO:

Thanks very much, Tim. Okay, at this point, we're ready to open up for any questions people may have.

Operator | Conference Operator:

We will now begin the question and answer session. If you would like to ask a question at this time, just press star followed by the number one on your telephone keypad. And if you would like to withdraw your question, press star one again. We will pause for a moment to compile the Q&A roster. And our first question comes from the line of Irvin Liu with Evercore ISI. Irvin, please go ahead.

Irvin Liu | Analyst, Evercore ISI:

Hi. Thank you for the question. Can you help us understand the nature of the project delay at the single large customer? Is this more of a financial or strategic decision on their end? And what gives you assurance that this is demand deferred and not demand destroyed?

Tom Stanton | Chairman and CEO:

Well, the biggest assurance that we have, and of course we do talk to them on a very, very regular basis, but the biggest assurance that we have is they've come out and recommitted to their plan. including the timing of their plan. And it's a very visible, very easy to check on number. And those plans haven't changed. So I think really what maybe a high level way to look at it is they have multiple plans now in flight. Some of them include the normal footprint expansion that we have been involved in for a few years now. Some of it has to do with Huawei replacement or vendor replacement, which is kicking off. Some of it has to do with upgrades and speed. And then some of it has to do with expanding that footprint expansion to even a greater extent than they had initially planned. All of those are in flight. But what we're seeing right now is kind of a repositioning of priorities within those different buckets. We may see one of the other ones kick in. We expect to see one of the other ones kick in sooner than originally planned. And this is all just kind of getting all the plans in place before they move forward. And they have enough inventory to continue to deploy at their committed rate as they kind of reposition these plans. Did that answer your question? Did that make sense? I know it's a long, drawn-out answer.

Irvin Liu | Analyst, Evercore ISI:

That did, Tom. Thank you. And then for my follow-up, I guess it's good to see your commitment to your 10% operating margin target. And you're currently at low to mid-single digits due to product mix headwinds in addition to component and freight cost headwinds. But can you discuss any sort of margin mitigation strategies you might have and walk us through the path from low to mid-single digit operating margins currently to perhaps low double-digit margins longer term?

Tom Stanton | Chairman and CEO:

Sure, maybe the easiest way to think about that. Of course, the bigger driver in all of this is revenue. So we had envisioned on our basically historical profile of getting into that double digits right around the low 300s, say somewhere between 310 and 320. And that assumes a gross margin in the 42% to 43%. That gross margin this quarter, and I will say with this quarter, and I don't want to at all minimize the fact that it was low. But we've had over two years, almost three years now, of raising gross margins pretty much every quarter or over any significant length of time. You can just see the trend moving upwards. And that's benefited us. And of course, that allows that revenue number to be lower. When the numbers, when I think about 310, 320, that's kind of in the midpoint of where our margin has been. but the environment is tougher and really what that the way that it is that it impacted us this last quarter was it cut rid of some of our flexibility so we saw the decline with our large customer which has got you know it's in the it's well we saw the decline of the large cup customer and we had plenty of demand the problem is is you know the Plugables are really hot right now. Those are not high margin products. We shipped a significant amount of those. We could have shipped a whole lot more if we had access to them. And some of the higher gross margin products were also just limited in supply. So our flexibility got impacted this quarter. I think that flexibility problem is not a fixed next quarter problem. So we've kind of factored that into our numbers. Now, what we're doing, One is we can, of course, raise prices. I don't want to over kind of rotate on that, knowing that there was a mixed problem more so than anything else. But we have already executed on our price increases, and we continue to keep our pricing in check with what we think the supply environment is going to be when those products ship. So we'll continue to execute on that. We have started doing some redesigns. And that's just to give us more supplier flexibility. I think the gross margin piece is not the, you know, I don't worry so much about gross margin because I don't think we're in a really bad place. I think we do have a mixed issue. But we need to make sure that we can continue supply no matter what happens. So we have kicked off redesigns in order to effectively mitigate supply issues, which ultimately will improve gross margins. And then, as we had talked about maybe a year ago or so, we continue to move on reducing our OPEX in our COGS-related areas. So we're seeing some benefit in gross margin, although it was hard to actually see through that this quarter.

Irvin Liu | Analyst, Evercore ISI:

Got it. Thank you.

Operator | Conference Operator:

Okay. That did. Our next question comes from the line of Ryan Kuntz with Needham & Company. Ryan, please go ahead.

Ryan Kuntz | Analyst, Needham & Company:

Great, thanks. Maybe just following up on the last question and your comment about supply impacts on higher gross margin products. I think we've all been assuming that memory has been a big concern, mostly impacting the CPE side of the business, and maybe we saw Some of that in the quarter, you know, with customers running inventory hotter or maybe even some pull forward before price increases that drove the big uptick in Q1. So maybe you can kind of unpack kind of the customer prem side gross margin trend as well as your comment around higher gross margin products were impacted on supply. Thank you.

Tom Stanton | Chairman and CEO:

Yeah, sure. So it is more than memory. I hope I'm not the first one to tell you guys that, but it has gotten tighter in other areas. Optical amplifiers are definitely tight. There are certain pieces of silicon that are fairly nebulous that are getting very tight. So it is a broader set of problems. There are some areas where even PC boards are getting tight. So what's really important The way that it impacts us is we still tend to book a lot of what we ship within the quarter. And that ability to flex up for incremental demand, which we definitely saw this quarter, especially in optical, our ability to flex up has really diminished. And so our forecasting is more important. But I would say the hardest thing at this point... I'm sure we've talked about in the past. Memory was one of those things. I wasn't so much worried about the pricing of memory. I could pass a lot of that on. What I couldn't do, though, is make supply that wasn't there. So it was all about getting memory. At least in our supply chain, memory today is not the biggest issue. There are issues that have eclipsed that, and memory is, although incredibly expensive, that supply isn't as problematic as it was, let's say, six months ago. or three months ago. Got it. That's really helpful. Okay.

Ryan Kuntz | Analyst, Needham & Company:

And maybe as a follow-up, your comment around optical and the strength you're seeing in enterprise and cloud, what sort of use cases are you seeing there? Is this mostly for your line systems? You talked about pluggables. Can you see color on product mix there within the kind of enterprise and cloud use cases would be really helpful. Thank you.

Tom Stanton | Chairman and CEO:

Yeah, so definitely on OLSs as well as, you know, just standard pluggables. I would say across the board it was high. I will tell you OLSs or our line systems were a little more difficult to ship because of the constraints that we just talked about. Pluggables is, generally speaking, upgrading of bandwidth. And as you know, we have some hyperscaler content there, and we're seeing kind of a, You know, significant uptick in that activity as people are trying to upgrade their networks. So I think it's all just about bandwidth increases, not so much footprint, but just bandwidth increases. Got it.

Ryan Kuntz | Analyst, Needham & Company:

Really helpful. Thank you very much. Okay.

Tom Stanton | Chairman and CEO:

All right.

Operator | Conference Operator:

Our next question comes from the line of George Nutter with Wolf Research. George, please go ahead.

George Nutter | Analyst, Wolfe Research:

Hi, guys. Thanks a lot. I was just trying to get a better sense for where you guys are on the balance sheet. I know there was some talk about the real estate transactions, kind of wondering where you are on those. Any update would be great. Thanks.

Tim | Chief Financial Officer:

Tim, you want to grab that? Yes, will do.

George Nutter | Analyst, Wolfe Research:

Morning, George.

Tim | Chief Financial Officer:

You know, the best news there is Huntsville is very hot. The first 600 or so individuals for Space Command have will have seats in housing by the end of this year. We've seen a large uptick in military defense and other contracts being awarded to the Huntsville area, and that has driven up significantly the interest in our property. Beyond that, George, when we have something to announce, we will announce it, but we're continuing to hold out for the best deal and the best opportunity for the company.

Tom Stanton | Chairman and CEO:

Let me just add a little, because I also... and very nervous about trying to pre-forecast something. But our showings on that property have gone up substantially over the last couple of months. That's right.

George Nutter | Analyst, Wolfe Research:

Thank you.

Operator | Conference Operator:

All right. And our next question comes from the line of Bill Desalem with Titan Capital. Bill, please go ahead.

Bill Desalem | Analyst, Titan Capital:

Thank you. You put out a press release this morning relative to Toknet and then beginning the trial. Would you talk a little bit about that? And in the spirit of which I ask this is I don't recall ADTRAN being in Japan historically. So provide some backdrop there, if you would, please.

Tom Stanton | Chairman and CEO:

Yeah, to be honest with you, I don't have that press release in front of me, but we do sell into Japan. And this was, you know, in the optical space. that we have sold for some period of time. And I wish I did have that press release in front of me, Bill, but I don't. Oh, okay. Yeah, so that is, there is also, Japan is an interesting area because they were one of the first to build out GPON. And there are, So the population base is pretty much covered. And they are, I would say, leading the charge in moving to 50 gig. We have a lot of people that are trialing 50 gig and want to have marketing capabilities around 50 gig. I would say from a country perspective, Japan is probably at the forefront of literally looking at making that transition more wholesale. And this is just that.

Bill Desalem | Analyst, Titan Capital:

Great. Thank you. And then relative to the supply issues and the customer schedule adjustment, how does all of this affect 2027? Another way to ask that is, is the second half of 26, is that a long enough period to adjust component supply chain and make these various adjustments that you need to be back on track? Or is this a longer sort of adjustment period?

Tom Stanton | Chairman and CEO:

Let me answer that a couple of different ways, and I'll try to be as direct as I can. So one is, you know, the root cause of the situation was really born from a dynamic within a particular customer, which we think will be worked out before the end of the year. So if it weren't for that root, we would not be talking about this. But then it did highlight in going through the quarter Once that effect kind of permutated through the company, it did highlight the fact that flexibility within the rest of the product set is getting tighter and tighter. So I want to first put it in the right frame. I don't see that tightness going away in the near term. I do know, and probably many people on this call know, that there is talk about additional capacity, especially in the and many others. So, we have a higher nanometer process, which is kind of where our products are, let's say 12 and up, coming online next year, which would alleviate some of these issues that we're talking about. But I think we're just in a tighter supply chain environment. And the best way for us to be able to mitigate that tightness is literally just better forecast, more order coverage. I preach that to our customers every time I can. You need to get your orders in. We need to be able to have visibility to it and secure supply. And I do think the customers are getting it. It's amazing. It's taken a long time, but I do think customers are getting it. But I can tell you what would mitigate a particular chip today, but I can tell you it'll be a different chip or a different problem six months from now. So I just think we're living in a tight period right now, and I can't tell you it's going to disappear next year. or what quarter it would disappear if it does disappear next year. I think it's all about discipline internally. We have, as we've talked about, we've gotten some more key components in our inventories now to make sure that we can mitigate the problems that are known. But like this quarter, there was issues that were not an issue last quarter. So we have to get better at forecasting where those future issues will be, not just the ones that we're currently facing. That's not a good answer, but that's kind of the environment we're in.

Bill Desalem | Analyst, Titan Capital:

That is helpful. And so I'll ask one more question before I hop off, Tom. Does that imply that we should anticipate you all building extra inventory in certain areas so that you can adjust that flexibility not with your supply chain, the product mix flexibility, not through the supply chain as much as just through your own warehouse, for lack of a better phrase.

Tom Stanton | Chairman and CEO:

Yeah, it does imply that. And I will tell you that that has been happening already. You just haven't seen it so much. And the reason is is we've been able to draw down old inventory back from the supply chain crisis down to a point to where we're kind of mitigating that increase. But you can think about it as old inventory versus new inventory, and that new inventory is directly related. Our inventories would be going down more if we weren't adding these kind of key components. But at some point in time, that old inventory is going to not be so old anymore, and you'll see an uptick in that inventory. But I don't think that's a – I don't – I think it'll be material to the numbers.

Bill Desalem | Analyst, Titan Capital:

Great. Thank you for taking all the questions.

Operator | Conference Operator:

Sure. Our next question comes from the line of Dave Kang with B Riley Securities. Dave, please go ahead.

Dave Kang | Analyst, B. Riley Securities:

Good morning. Thank you. First question is wondering if you can provide what the booked bill was and more interest in optical booked bill, if you can provide those.

Tom Stanton | Chairman and CEO:

We really don't do book-to-bill as a metric that we actually publish. It was, I will tell you, optical was probably the, I'm guessing here, but probably the strongest area. And it was, let's just say all the numbers were either at one or above one.

Dave Kang | Analyst, B. Riley Securities:

Got it. And then regarding the revenue miss, obviously it was a project delay, but it sounds like if you had enough components that you would have made up that revenue. Was that the message? Basically, you're saying that demand is so strong that it would have made up that $12 million revenue shortfall if you had enough components.

Tom Stanton | Chairman and CEO:

Yes, without a doubt. I mean, no hesitation at all. If we had... If we had plenty of material, we would not be talking about the downtick.

Dave Kang | Analyst, B. Riley Securities:

And what about the current third quarter? Can you talk about that project delay where you are? And also, I mean, you talked quite a bit about supply situation, but how that's going to play out in third quarter? Obviously, we're looking for sort of a flattish quarter sequentially.

Tom Stanton | Chairman and CEO:

Yeah. So we don't see an uptick in the customer that we're talking about right now. And to be honest with you, we just don't see a change in the procurement environment. So we think things are going to stay in the kind of status quo that they're in right now, maybe even get a little bit tighter in certain areas. We are fighting for more supply. I mean, literally, we have people calling every day trying to get more of whatever it is that we have on order or don't have on order. So that's just kind of seeing through that that mix of what's going to be available and what's not going to be available is kind of what our forecasting process has turned into. And so, yeah, it's just assuming the environment doesn't change.

Dave Kang | Analyst, B. Riley Securities:

Well, I think, you know, I was juggling a couple of things. Obviously, you've seen that this FCC planning to ban Chinese transceivers. Just wondering if you were sourcing transceivers or pluggables from Chinese vendors, and if so, how quickly can you pivot to American vendors?

Tom Stanton | Chairman and CEO:

We do do some pluggables from China, let's say transceivers from China. We also source from other places, and I don't know, I'm not, are versed enough to give you a direct answer to that. So that's something that we can cover at, you know, you can call in and we can talk more about it.

Dave Kang | Analyst, B. Riley Securities:

Yeah, it's clearly a fluid situation. I'm sure there are really a lot of questions there. My last question is, any update on LPO activities? Any qualification or, yeah.

Tom Stanton | Chairman and CEO:

Well, it's still, we're not talking about qualification yet. It is still on track, as I talked about before, why we would get units in right around the half or second quarter, get them to customers. We do have a significant, I will tell you another piece of this, which we haven't really talked much about, which is the Quattro. And we've got multiple customers, including multiple hyperscalers that are very interested in that product as well. That one actually delivers earlier, so I would expect to see trial units before Let's say sometime in the first quarter. We have people right now that are trialing kind of alpha units, and that seems to be going well. So I think both of those, both of them are on track, but both of those are getting some traction. So that seems to be going well.

Dave Kang | Analyst, B. Riley Securities:

Thank you. Okay.

Operator | Conference Operator:

Our next question comes from the line of Tim Cervazo with Nord Capital Markets. Tim, please go ahead.

Tim Cervazo | Analyst, Nord Capital Markets:

Good morning. You mentioned a growth metric around the cloud portion. You talked about 25% of revenue being from government enterprise. I think it was something in the 90s in terms of cloud growth. I just want to go back and confirm that and also try to get a sense of within that 25% of revenue, how How large is the cloud piece? And I'll follow up from there.

Tom Stanton | Chairman and CEO:

Let me see if I have that. I don't think I have the number, but I do kind of generally know where we are in that space. So the specific number that we gave was, I think it was 97% growth in hyperscalers. So we look at cloud as being broader than hyperscalers because that would include typically large content cloud providers. So hyperscalers specifically was 97%. And that's not a surprise. I mean, I think we kind of signaled in our last call that that area we expected to be solid this year and continue to grow, and it seems to be that. That seems to be the case. And what was the second part of your question, Tim?

Tim Cervazo | Analyst, Nord Capital Markets:

I was just trying to get a sense of within that category, however you want to describe it, how significant is that? I assume it's a relatively small percent of that 25% of the broader category.

Tom Stanton | Chairman and CEO:

My sense, just from remembering, is it's somewhere between 30% and 50%. It's getting to be a big piece of that pie. Okay.

Tim Cervazo | Analyst, Nord Capital Markets:

of that 25,000. Okay, 25,000. Yep, I got it. And just a quick one, any 10% customers in the quarter, and also as you look out to the Q3 guide, be interested in what's happening there from a segment perspective. It sounds like you don't expect access and aggregation to rebound. Given the customer push, you've got a little sequential growth there. I mean, I guess the overall question is, do you expect to see opticals continue to grow?

Tom Stanton | Chairman and CEO:

Yes. Direct answer is absolutely yes. I mean, I talked a little bit about the order flow there, and yes. So, I mean, we expect that to grow. You know, subscriber is one of those that's probably the most difficult thing to forecast because it is very much demand-driven. people have chunks of inventory and then they go away for a while. So you'll see, you'll always see more volatility. I'll say typically see more volatility in that subscriber piece. So that one's less firm in our numbers and knowing exactly where it's going to end up. Access and Ag, you're right. We don't expect a rebound because that single customer is such a large piece of that content. I will tell you that Access and Ag in Europe Notwithstanding, that customer was actually pretty strong, and we continue to expect that strength in the third quarter, but optical is going to be the biggest.

Tim | Chief Financial Officer:

And I can confirm there were no 10% customers this quarter.

Tim Cervazo | Analyst, Nord Capital Markets:

Great. Thanks very much.

Tim | Chief Financial Officer:

Okay.

Operator | Conference Operator:

Our next question comes from the line of Michael Genovese with Rose Plant Securities. Michael, please go ahead.

Michael Genovese | Analyst, Rose Plant Securities:

Thanks. Hey, Tom, I want to ask more about plugables. So I want to clarify a couple things on the call. When you mentioned the mix shift earlier and that you were selling more plugables, could you just talk about what business specifically that was in and which were kind of plugables and selling more plugables as opposed to, I guess, embedded systems and optical? Is that for DCI in long haul in Metro. Is that what you were talking about?

Tom Stanton | Chairman and CEO:

Yes, but more specifically, I will tell you we probably had the strongest 100 ZR quarter we've ever had. That should tell you kind of of what we're talking about.

Michael Genovese | Analyst, Rose Plant Securities:

Okay, that makes sense. And then you just mentioned earlier the quad, because we were, I guess, asking about the... The LPO product, which I think has a different name. And then the Quad, could you talk more about the difference between those two products?

Tom Stanton | Chairman and CEO:

Yeah, so the other product that we've talked about that got a lot of press was the Lightwave 800. The Quad is actually a 4x100. It's in the Micromux family, so it's a 4x100. A mux that's very, very efficient. I don't know if there's anything out on the market today that's like that. So it plugs right into a router and gives you multiplexing capability at a very low cost.

Michael Genovese | Analyst, Rose Plant Securities:

If I'm not mistaken, though, the LightWave 800 is different from these products because it's a new market of inside the data center for you as opposed to between data centers where most of your business is now. Is that a correct understanding?

Tom Stanton | Chairman and CEO:

Yes. The LightWave 800 is intra-data center, which we have not played in that space. We don't have a Micromux product either, by the way. Both of these are kind of incremental to the piece that we have traditionally done, but I would say the LightWave is a farther reach, yes.

Michael Genovese | Analyst, Rose Plant Securities:

Okay. And the timing, though, is the MicroMux is earlier in 27 and the LightWave is mid-27? Is that correct?

Tom Stanton | Chairman and CEO:

The MicroMux is going to be out earlier. So I would – we should be trialing units end of this year or early – Next year. And then the current schedule for the lightweight is getting units trialing middle of next year. You know, we're saying into Q2. And then production towards the end of the year or the first part of the following year.

Michael Genovese | Analyst, Rose Plant Securities:

Okay, great. And then just a final question from me. I guess maybe it's a two-part question. But, you know, with the transceivers for inside the data center, you know, this is a very large market, right? It's a new TAM that you're going into, and I'm kind of used to seeing deals there being, you know, like you don't get $25 or even $50 million deals. Every time I see somebody win a transceiver deal, it's at least $100 million, and it could be a billion. You know, I'm just wondering if the larger deal sizes, as you start to work on that market, and so on.

Tom Stanton | Chairman and CEO:

Michael, you may not, we sell to most of these customers already. Now, we sell different products, but most of them have, you know, well, for instance, like I mentioned before, Hyperscaler was the fastest growing area in our enterprise segment, and he was a significant contributor, so they know who we are. I would say without a doubt, you know, we've even sold Access products to one of the Hyperscalers that was really into Access. They know who we are. I don't think there's a trust problem with thinking that we can scale and that we build quality products. We have increased our sales force into that area to make sure that we're covering all of the bases. We've already done that. We're trying to get all the pieces in the right place. It's not like they won't have heard us, and I doubt if there'd be any issue with worries about scalability with us. In relation to the numbers that you're talking about, you are correct. I think my job is to not get us too overhung out there. We need to be able to deliver what we need to be able to deliver, but the numbers are typically bigger than the numbers that we're talking about. Great. Okay. Thanks so much. Appreciate it. All right. And, Seth, I see that we're at the end of the call list, so I appreciate everybody for joining us today, and we look forward to talking to you next quarter.

Operator | Conference Operator:

This concludes today's call. You may now disconnect.