REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ADTN.OQ - Q3 2022 ADTRAN Holdings Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2022 / 3:30PM GMT

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

Michael K. Foliano *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Thomas R. Stanton *ADTRAN Holdings, Inc. - President, CEO & Chairman*

CONFERENCE CALL PARTICIPANTS

Fahad Najam *Loop Capital Markets LLC, Research Division - MD*

Michael Edward Genovese *Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst*

Paul Essi;William K. Woodruff & Co;Analyst

Paul Jonas Silverstein *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Ryan Boyer Koontz *Needham & Company, LLC, Research Division - MD*

Timothy Paul Savageaux *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to ADTRAN Holdings, Inc. Third Quarter 2022 Earnings Release Conference Call. (Operator Instructions)

During the course of the conference call, ADTRAN representatives expect to make forward-looking statements that reflect management's best judgment based on the factors currently known. However, these statements involve risks and uncertainties, including the continued spread and the extent of the impact of the COVID-19 global pandemic, the ability of component supplies to align with customer demand, the successful development and market acceptance of our products, competition in the market for such products, the product and channel mix, component cost, freight and logistics costs, manufacturing efficiencies, our ability to effectively integrate mergers and acquisitions, and other risks detailed in our annual report on Form 10-K for the year ended December 31, 2021, and our quarterly report on Form 10-Q for the quarter ending June 30, 2022.

These risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements, which may be made during the call.

It is now my pleasure to turn the call over to Tom Stanton, Chief Executive Officer of ADTRAN Holdings. Sir, Please go ahead.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Thank you, Brent. Good morning, everyone. We appreciate you joining us for our third quarter 2022 earnings conference call. With me today is ADTRAN's CFO, Mike Foliano. Following my opening remarks, Mike will review the quarterly financial performance in detail, and then we will take any questions that you may have.

Q3 marked a new era for ADTRAN's following the closure of the business combination agreement with ADVA Optical Networking on July 15. This transition point is timely as it coincides with our industry, continuing a rapid transition to the fiber everywhere era, especially in ADTRAN's highest growth regions in the U.S. and in Europe. Service providers have aggressive goals to rapidly deploy fiber to homes, businesses and critical infrastructure sites while increasing customer satisfaction, streamlining operations, reducing energy consumption and ensuring network security.

Our vision is clear. We want to help service providers achieve these goals by having the most complete portfolio from optical core to the customer prem. This portfolio includes scalable, secure and efficient networking infrastructure and customer premise platforms paired with best-in-class

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

software. These solutions maximize subscriber experience while simplifying operations through automation. The combination with ADVA provides us with the most complete portfolio to execute on this vision.

Given that this is our first quarter of combined results, with a full quarter of results from ADTRAN, Inc. and a partial quarter from ADVA, we have adjusted the revenue categories to reflect our broader fiber networking portfolio. The new revenue categories for both products and services are subscriber solutions, access and aggregation solutions and optical networking solutions. These categories cover our complete portfolio of fiber networking products and services that span from optical core -- from the optical core network to the customer premise network. A more detailed breakdown of these categories is provided on our investor's website.

As for integration planning, this process is well underway, we are on target, and the 2 companies remain excited by the customer reactions to the business combination. Looking at the results for the quarter, a key few points stand out. For one, we are very balanced geographically with our U.S. and non-U.S. business each contributing about 50% of the total revenue in the quarter. Second, each of our product categories, along with our consolidated service offerings contributed meaningfully from a revenue perspective, highlighting our continued diversification across our combined portfolio. We believe this well balanced and comprehensive fiber networking portfolio, coupled with our strong global presence, where you can -- will continue to provide us with higher growth potential in this ongoing investment cycle in fiber networks.

Our success in the quarter was driven primarily by a diverse mix of service providers that are upgrading their optical transport networks, deploying new fiber access networks, connecting residential and business subscribers to these fiber networks and upgrading to multi-gigabit capability in home Wi-Fi networks. Our strongest revenue contribution came from the U.S. and Europe as expected, where operators continue to invest heavily in fiber networks and where we have a strong presence. Taking a closer look at the combined portfolio, let's step through each category of our portfolio and look at the key areas of investment and growth drivers.

Starting with our optical network solutions, we see broad-based demand and a growing backlog for ADVA's optical transport solutions with a mix of service providers, Internet content providers, government agencies and large-scale enterprise customers. Demand remains strong from large-scale transport systems to internally develop optical modules and pluggable transceivers. This category has several exciting developments, especially in the metro edge with a mix of optical modules, advanced security solutions and edge optimized platforms that are an ideal complement to ADTRAN's fiber access and aggregation solutions.

Building on our innovations in optical network -- and optical networking ADA recently announced the creation of ANS, a wholly owned but separate company to serve the increasing requirements for secure network infrastructure. The new legal entity specializes in secure transmission technology to protect highly sensitive communication networks with -- from cyberattacks. ANS will collaborate with national security organizations to ensure end-to-end networking protection that meets the highest industry requirements, including safeguarding data against strikes from quantum computers.

Moving to our fiber access and aggregation solutions. We continue to see great demand for our 10-gig fiber access platforms and the latest industry market share report from Dell'Oro ADTRAN held the #2 market position in North America and #3 market position in EMEA for 10-gig PON aggregation port shipments. We are now pairing these fiber access platforms with industry-leading carrier Ethernet aggregation and network synchronization solutions from ADVA that will further enhance our ability to meet the fiber access and aggregation needs for all subscriber types. In the subscriber solutions category, we saw tremendous growth during the quarter.

On the residential side, where the growth is the highest, we are benefiting from enhancements to our cloud managed multi-gig mesh Wi-Fi 6 solution offering and the growing number of subscribers that are now connecting homes that were previously passed with our fiber access platforms. On the business side, we now have a much broader solution offering, ranging from carrier Ethernet edge devices and network virtualization solutions to enterprise class routers and switches. These solutions, which are also complementary to our residential offerings and aggregation solutions helped fuel additional growth in our subscriber solutions segment.

Incorporated into each of these product categories are software solutions, led by ADTRAN's Mosaic One SaaS platform. ADTRAN SaaS customer base, which includes hundreds of service providers, is up 31% year-over-year. And this includes more than 100-plus service providers that have

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

adopted the latest version of Mosaic of our Mosaic One platform. With a much broader portfolio and a larger customer base in the combined company, along with expanded capabilities and ADTRAN SaaS portfolio, we expect to further accelerate growth in this strategic area.

Looking ahead, we have a lot of exciting developments in the optical networking space. The recently launched 100 GR pluggable coherent transceiver is a solution that is an ideal match for ADTRAN's access and aggregation portfolio by greatly reducing the cost, power and space needed to deploy 100-gig connectivity deeper into the network for mobile backhaul, fiber access backhaul or large-scale enterprise service delivery.

In addition to the 100 GR, we also announced the Access Wave optical module which simplifies deployment of 25 gig point-to-point services for mobile backhaul, mobile fronthaul and enterprise service delivery. In the access and aggregation space, ADTRAN is expanding its lead in open disaggregated fiber access platforms with a much anticipated launch of the SDX6330. This is the densest, highest capacity and most energy-efficient 10-gig fiber access platform in the industry and is well ahead of the competition in terms of scale, performance, cost and expandability. On the subscriber side, ADTRAN is having great success with its SDG series of platforms for Wi-Fi 6 and is expanding these solutions to incorporate Wi-Fi 6E and business class features for work from home and small business users.

In the software space, we continue to make great advancements in our Mosaic portfolio, helping service providers automate the management of both customer premise and network infrastructure while providing end users with tools needed to maximize their service experience. With the combined company, we will be integrating the complete portfolio from the optical core to the customer premise under a seamless management environment with ADTRAN's Mosaic One platform. This will both improve subscriber experience and increase operational efficiency.

The success we are having in these focused platforms, along with exciting innovations on a road map have us well positioned for further growth during this ongoing investment cycle in fiber networks. Our key regions in the U.S. and Europe view fiber networks as critical infrastructure, and sizable public investments remain ahead to ensure their deployment. While supply chain issues continue to impact us, the outlook is improving. Given these factors, we remain very optimistic about our future.

With this background, I will turn things over to Mike to provide a review of our financials. And then following Mike's remarks, we will answer any questions you may have. Mike.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Thank you, Tom, and good day to all. I'll cover our third quarter 2022 results and provide our expectations for the fourth quarter. Please note that this is the first quarter for ADTRAN Holdings, Inc., which includes the consolidation of the ADVA financials for a partial quarter, beginning at the finalization of the business combination on July 15, which affects year-over-year and quarter-over-quarter comparisons. Since this is the case, I will refrain from repeating the first time consolidation effects when discussing year-over-year and quarter-over-quarter comparisons of our results.

I will be referencing non-GAAP information with reconciliations to GAAP presented in our press release and supplemental financial schedules on our Investor Relations page at investors.adtran.com. The supplemental financial schedules on our web page also provide certain information by segment and category, which I'll also be discussing today. ADTRAN's third quarter 2022 revenue came in at $340.7 million, up 147% year-over-year and exceeded the upper end of our guidance range of $320 million to $340 million.

Inclusive of ADVA revenues, our Network Solutions segment makes up 90% of revenues in Q3 2022 compared to 87% in Q3 of '21. Our Services & Support segment contributed 10% of revenues in Q3 2022 compared to 13% in the year-ago quarter. Year-over-year and quarter-over-quarter revenue increases are driven by our subscriber solutions category, which makes up 39% of revenues compared to 34% in Q3 of '21 and 46% in the previous quarter. The newly introduced technology category, optical networking solutions include the optical networking or cloud interconnect portfolio of ADVA and contributed 35% of revenues.

Access and Aggregation revenue share was 26% compared to 66% in the year ago quarter and 54% in Q2 of 2022. On a regional basis, year-over-year domestic revenue grew by 85% and international revenue increased by 270%. Domestic and international revenues are split about equally with about 50% of our revenues each providing a more balanced business with an expanded portfolio and global footprint. Our customer diversity continues to be a focus with 210% of revenue customers, 1 U.S. service provider customer and 1 international service provider customers.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Q3 non-GAAP gross margin was 38.1%, improving by 3.5 percentage points year-over-year and 1.7 percentage points sequentially. The increase in gross margin is due to an improved customer and product mix in the combined company and improvement in supply chain expenses, partially offset by unfavorable currency developments. GAAP gross margin is inclusive of $25.5 million acquisition-related expenses, amortization and adjustments due to the business combination with ADVA. While we anticipate continued supply chain challenges, we remain focused on managing higher component costs, freight expenses and expedite fees.

Our non-GAAP operating expenses were $109 million, increasing by 116% year-over-year and 101% quarter-over-quarter. Operating expenses were 32% of revenues compared to 36.5% of revenues in Q3 '21 and 31.5% in Q2 of '22. Non-GAAP operating profitability was $20.9 million, which translates into a non-GAAP operating margin of 6.1% compared to negative 1.9% in Q3 of '21 and 4.9% in the previous quarter. The improvement in operating profitability was driven by higher revenue volume at more favorable gross margins. Other income on a non-GAAP basis decreased year-over-year and increased quarter-over-quarter. The decrease on a year-over-year basis was mainly driven by market-related losses and impairments in our investment portfolio and higher interest expense related to our credit agreements, partially offset by favorable realized foreign currency exchange fluctuations.

Quarter-over-quarter improvement was mainly due to higher favorable realized foreign currency exchange fluctuations that offset higher interest expense and investment losses. The company's non-GAAP tax provision for the third quarter was an expense of $8.8 million or 42% tax rate, primarily driven by the change in our annual estimated effective tax rate related to the closing of the business combination with ADVA during the quarter and the requirement to capitalize R&D expense in the U.S. beginning in 2022 and the subsequent effect on our valuation allowance.

Closing out our income statement results. Non-GAAP net income was $12.2 million and $7.7 million after adjusting for minority shareholder interest in ADVA. This results in EPS attributable to the company of $0.11 per share. The significant difference in non-GAAP net income of $12.2 million and GAAP net loss of $44.9 million is mainly due to purchase accounting adjustments, which also explains the significant difference in non-GAAP net income of $7.7 million in GAAP net loss of $41.9 million after eliminating the minority interest.

Turning to the balance sheet and cash flow statement. Cash and cash equivalents totaled $111.1 million at quarter end. For the quarter, we used $36.8 million of cash for operations, mainly due to deal closure expenses and an increase in working capital. Net trade accounts receivable were $302 million at quarter end, resulting in DSO of 82 days compared to 91 days in the prior quarter. Net inventories were $416 million at the end of the third quarter, resulting in inventory turns of 3.1 compared to 2.4% in the second quarter of 2022. Both companies continue to carry a higher level of inventory and raw materials as we build supply to minimize further disruptions given the challenging electronic component market and extended lead times. Trade account payables were $276 million, resulting in a DPO of $71 million compared to $100 million in the previous quarter.

Once again, Q3 was the first quarter, which includes ADVA financials for a partial quarter beginning at the finalization of the business combination on July 15. The fourth quarter, however, will be the first quarter that fully includes ADVA Financials. Integration planning process is progressing well, and we have now aligned our earnings call schedules to coincide on the same day. We've also taken further steps in the integration of our combined IR efforts and will align our key performance indicators as we guide in the future. Going forward, we will provide guidance on revenue and non-GAAP operating margin similar to the guidance measures provided by ADVA.

Looking ahead at the final quarter of the year, the continuing effects of the COVID-19 pandemic, the ability of component supplies to align with customer demand, the book and ship nature of our business, the timing of revenue associated with large projects, the variability of ordering patterns from our customer base as well as the fluctuation in currency rates and any additional required purchase accounting adjustments related to the ADVA merger may cause material differences between our expectations and the actual results.

With that in mind, our fourth quarter 2022 revenue is expected to be between $355 million and $375 million, and we expect a non-GAAP operating margin between 5% and 6.5%. Once again, additional financial information is available at ADTRAN's Investor Relations page at investors.adtran.com.

Now I'll turn it back over to Tom, and we will take any questions that you may have.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Okay. Thanks, Mike. All right. Brent, at this point, we're ready to open up to any questions people may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question call comes from Paul Silverstein with Cowen.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Tom and Mike, the -- last week, Thursday night, you had ADVA talking about weakness in particular in their field test equipment, I assume, directly related to FTTP. And they indicated the weakness was general in nature. I heard that offline, they were saying AT&T, Lumen perhaps some others. It raises an obvious concern. I trust from your comments, you certainly seem to be suggesting that you're not seeing that weakness, but let me ask you the direct question.

Are you seeing -- are any of your customers, especially the larger ones indicating to you a coming pullback, cut back however you want to term it of any nature that would adversely impact due to revenue?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

No. No. The answer is no. In fact, we have, of course, hundreds and hundreds of customers. There are -- I will tell you that at any point in time, some customers are pulling back or moving forward. There are some that are worried about capital. There's always this capital shift that goes on towards the end of the year, which sometimes helps you and sometimes hurts you. But those are in the noise, especially when you take a look at the backlog we have. So those are in the noise. And explicitly towards the large customers, the answer is no.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Mike, if I heard you correctly, I think you said the balance sheet was $111 million of cash having a chance to look directly. Was that the number?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

That's right, $111.1 million.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Let me -- I think you publicly stated that you plan to take out the remaining shares of ADVA with cash. I understand it's not going to happen overnight. It's probably still a year, a year plus to fully accomplish the full acquisition. But it begs the obvious question. You've only got $111 million. If I do the basic back available math, it's about $350-plus million. I think that you need to take out the remaining shares. The direct question would be, I assume you don't want to raise debt financing at these interest rates. That bears the question -- the only way to do it, I guess, would be for you all to do a secondary, no?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Well, that's not the only way to do it, but that is one possibility. We have lined up the debt to do it. The number is a little bit less than what you said. It's closer to 300 right now to take out the rest of them with the current offer price, the put price in the DPLTA agreement that is still working its way through approval by the ADVA shareholders. So the plan has been to do it with that, to do it with earnings from the company, but also there are other options that we will explore.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

So I think we secured the debt just to make sure that we have a backstop that allows us to have flexibility. But as we get closer to those periods of times, we'll make the call as the question comes up.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. And one more, if I may. Tom, going back to the quarterly question of how is the ramp at the various Huawei displacement opportunities, both the ones you've already secured like BT that are already ramping as well as any update you can give us on the number of awards that might have converted -- or the number of RPs or other opportunities that might have converted into awards and the remaining outstanding RPs that haven't yet been awarded? Any update would be appreciated.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, there are a handful that we have won that we are in the process of, say, monetizing that may be a strong -- that may be a tough word, but it's really coming online and then monetizing. I think this quarter, we -- I'll give ourselves some times between where we are now in the end of Q1, we expect roughly 4 new European -- these are all Tier 1s. So these are -- some countries are bigger than others to start ordering and deploying. Now they will take some time to ramp up, but those seem to be going well. Our biggest -- we are launching -- I mentioned in my notes that we're launching the 6330, which is a new generation of disaggregated fiber platform that allows 10-gig and really high density, really low power. It's just -- it's a fantastic platform.

So that's just starting to come out. We will start first production of that at the end of this year is what it's scheduled for right now. We will start -- we will start lab entry, and we've already started lab entry with some of our current generation product. But the key to that being really coming online is the successful deployment of the 6330, which really changes kind of the economics of fiber deployment in that larger space. So those kind of coincide with each other.

But anyways, the hands of them will come online between now and the end of Q1. There are a couple more after that, which will happen probably in the Q3 time frame. And there are -- I asked that question this morning, there are about 4 different kind of very large Tier 1 opportunities that are kind of in play over the next, let's say, 3 quarters or so that haven't been decided yet.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Tom, 4 options that haven't been decided, 4 brand new awards. And then can you remind us the number of awards previously were how many?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

We had 6 Tier 1s in Europe, one Tier 1 here. The 4 -- so we have 2 that were monetized. So that's really those 4, the additional 4…

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

The 4 being new relative to what you previously shared with us.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

No, new relative to what we're shipping. Right. So not new relative to what I'm talking about, basically, of the 6, 4 are coming -- the other 4 are coming online between now and the end of Q1.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Coming online being initial revenue?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Initial revenue, yes.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And you mentioned they're all different sizes. Are any one of the 4 are they a Tier 1 of the type of a BT or DT, that type of Tier 1?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Honestly, nothing is as big as BT at this point in time because they're just -- they're doing a lot of things at one time. They're kind of in the -- I would say they're probably slightly -- some of them, the bigger ones are right in the DT or slightly below that range, but it's a little lumpy. So some of them have some Huawei replacement things, projects that are coming online fairly early. Some of them have them geared towards the end of the year, next year. So it depends on the carrier and then there will be periods of time where they pop up and then go back down to a normal run rate. So it's really hard to categorize them. In the light -- in the total span, BT and DT are still the biggest things out there.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

But Tom, from the way you just described it, it sounds like in the aggregate, those are worth at least in the 10s, I assume, collectively in the $50 million to $100 million type range, if not more.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

I don't know if I would go that far. I would say -- I mean, we think about them in the 10s, yes.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Individually or collectively?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Individually. Individually. Some of them will be 10, some of them will be 8, some will be 15 and someone will pop up to 20 when they do a big replacement.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Operator

Your next question is from Fahad Najam with Loop Capital.

Fahad Najam - *Loop Capital Markets LLC, Research Division - MD*

One, if you look at ADVA is reiterating their full year outlook, then it sounds like for the fourth quarter, your organic guidance is slightly a bit lower than what I would have anticipated given the improving supply chain outlook and the backlog that you're carrying. Can you may be parse out a little bit about what you're seeing in terms of the supply chain dynamics and regarding your ADTRAN organic guidance of fourth quarter? And I have a couple of follow-ups.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, let me take and start at this, and then Mike can take over. I mean, I don't -- I would be surprise -- we have our internal projections of what we think the mix will be. Q4 is coming out pretty much where we were hoping Q4 was going to come out. So, I'm not sure what your numbers are versus kind of what our numbers are, but it's pretty much right in line. We're still assuming supply chain is getting better, but it is not. We're talking about the overall environment. There are specific things that are still difficult, and we're assuming that, that difficulty doesn't cure itself this quarter.

I mean, really, my comments are really kind of as we move going forward. I do absolutely think that by the half of next year, most of those issues will have been solved. But the environment, although the number of parts is less, the criticality of the individual parts is as high as it's ever been. So we're really expecting an environment that's very similar to what we saw in Q3, which was very similar to Q2. But I don't know what the disappointment is on -- from your numbers because like I said, we're pretty much right where we expect to be.

Fahad Najam - *Loop Capital Markets LLC, Research Division - MD*

Okay. If I may, can you maybe describe a little bit about what you're seeing between the Tier 1 and the Tier 2s, the Tier 3s in North America? I suspect even if we take ADVA comments at face value, which relates to primarily Tier 1s, one of which is not our customer, I still think that Tier 2, Tier 3 CapEx outlook is really solid. So maybe can you just talk a little bit about what you're seeing between the Tier 1s -- the dynamics between the Tier 1s and Tier 2, Tier 3 in the U.S. and also in EMEA?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes. Really no change in EMEA. Just broadly speaking, there's really no -- there's been no change at all in the U.S. I'm not familiar with the Tier 1 that Paul mentioned as far as what their explicit activity is because we don't really sell to that customer. Our other Tier 1 here in the U.S. and not just that, but including the MSO space, really hasn't slowed down at all. So in fact, our Tier 1 in the U.S., we had just started ramping. We've gotten orders on top of that initial ramp. They've upped their forecast for next year. So I haven't seen any slowdown there.

If you go down to the kind of the next tier down, you always see in that space towards the end of the year, movements in capital this way or that way, depending on where they are in their program. So I don't see anything that's systemic there. I have some customers that are doing more other customers that are doing less. But in aggregate, no material change from what we normally see. And all of this, by the way, I still have backlog that everybody is asking me to ship. So it really isn't that impactful over the near term. The longer term, we worry about the recession as much as everybody else does.

We think a lot of the momentum here, there's tiers that a recession would impact. The government spending piece seems to be very, very solid. The kind of larger carrier initiative piece seems to be very, very solid. Most of these people, their definition of success is how they -- how quickly they deploy broadband and the take rates seem to be going way above expectations. Tier 3, no real change in the Tier 3 space either. So I'm not saying that there aren't pockets. I don't know if these pockets are because changes in capital, long-term capital spend or because of kind of

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

nearer-term capital forecasting and where they are with budgets. But in general, the environment hasn't changed. I will tell you, I work like everybody else about what a longer recession would do to the macro economy and then into the vertical that we play in, but right now, I haven't seen it.

Fahad Najam - *Loop Capital Markets LLC, Research Division - MD*

One last follow-up, if I may. So if you look at 2023, you still have this significant seamless ones that are yet to flow. RDOF is still growing. And the cable MSOs are beginning their DOCSIS 4.0 upgrade cycle. So how are you thinking about calendar '23, I know you're mindful of the recession? But shouldn't your -- especially your Tier 2, Tier 3 and Tier 4 customer segments and the cable segment should really be more resilient in the face of the macroeconomic environment?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes. I mean if you think about how recessions impact these things, first of all, broadband is pretty much up there close to electricity. I don't mean to be overstating that and I don't mean to offend anybody, but it's pretty much a requirement. So I think it's a very resilient piece. I think there are pieces where you have companies that are themselves bidding on capital markets in order for funding. Those are the ones that you have to watch out for. I think enterprise spending, you tend to see a downtick in enterprise spending when you have these type of problems.

But the longer-term impact to capital budgets on the carrier side, they tend to take a long time to come to fruition. So I think the depth of the recession is important. If those of you that will remember kind of the last recession was going to be during the financial crisis or at least the last one that really kicks into my head. And the companies -- the company was very resilient during that period of time. And yes, I don't expect to change here. I think we'll just have to watch it, though. The depth is really the thing that I would worry about. And -- but right now, we don't see it.

Operator

Your next question is from Michael Genovese with Rosenblatt Securities.

Michael Edward Genovese - *Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst*

Have you given or can you give the total ADVA revenue that was recognized in the quarter?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes, we can. I'll just give you a percentage of the total. So for the total quarter revenue ADTRAN was 52% and ADVA was 48%.

Michael Edward Genovese - *Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst*

Okay. Great. Perfect. And now is this the -- is the ownership structure pretty set? I mean, can you tell ADVA is going to continue to have a separate conference call every quarter and the income attributable to non-ADTRAN shareholders is going to stay about the same percentage? Or will that change going forward?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

I mentioned -- I think I mentioned the DPL -- did I mention the DPLTA timing?

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes, I can. So Mike, there is a plan to work our way to a domination agreement. And I think you might have seen some of the releases that came out with that, that it needs to be approved at the shareholder meeting of ADVA, which is now scheduled for the 30th of November. After that agreement, there's other things that we will be able to do to move the profits away from the ADVA entity and older toward the ADTRAN entities. They will continue to have a conference call as long as they're traded. At some point in the future, there would be a delisting offer and we would actually delist those shares. But that kind of goes back to the same question that Paul asked earlier about our plan is actually to buy up the rest of those shares and then that would be a wholly owned subsidiary of ADTRAN in the longer term.

Michael Edward Genovese - *Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst*

Okay. Great. So you've been asked, I'm not going to ask again about the macro risk to sort of ADVA's European metro and sort of enterprise optical revenues. I think you've answered that pretty clearly and pretty bullishly, I would say. But it looks like overall out there in the supply chain that optical does seem to be the most supply constrained. I mean that's the message from Nokia and others who plan multiple areas that some of these analog parts specifically needed for optical are the most supply constrained. Is that what you're seeing? Because I mean, the performance there looks pretty good. So do you have any insight on how they're managing that maybe better than some of the larger companies in the optical networking space?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

I would say, in general, like ADVA is managing it better than some of the other players in the optical space. They still have -- they still have issues. The majority of the issues that I see and that I think we see collectively are not specific to optical. I think they're -- first of all, there are still these issues associated with power supply, analog devices that aren't specific to the optical space. And then there are kind of key processors. They have some key processors and we have some key processes which are still -- my biggest issue this quarter, it has typically been kind of glue logic. I now have some very specific processor issues, and they have some very specific processor issues that they're working through this quarter.

So I don't think that the issues on the ADVA side are any deeper or materially different than the issues that we're seeing on the ADTRAN side.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

And in the combined company is still affecting our gross margins. I think in the past, I've tried to lay out the impact on our gross margins. And although it is improving somewhat, it was still nearly 3.5 percentage points that was due to purchase price variation, expedite fees and freight costs that have been elevated.

Now, the bright spot so far is that freight is finally moving in the right direction. But the other ones -- there are still a pretty good amount of flow-through of additional costs that we're paying to be able to obtain those components in the time frame that they're needed.

Operator

Your next question is from the line of Ryan Koontz with Needham & Company.

Ryan Boyer Koontz - *Needham & Company, LLC, Research Division - MD*

I wanted to ask about your different product areas? It sounds like, Tom, from your remarks that subscriber solutions is the one maybe outperformed where the upside came from? And is that more demand related? Or is it kind of alleviating of the supply chain constrictions. Can you make any commentary and kind of puts and takes in the quarter and kind of think about the product mix going forward? It would be helpful.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, I think -- I don't have my notes in front of me, but I think I mentioned on last quarter that we saw that the subscriber solutions was probably area where we had the most work to do. We needed to get the stuff to ship and we needed to add more focus into that area to make sure once customers get a network employed, it's really important for them to be actually turn customers on to that network for obvious reasons. So we really focused on that and saw really good movement there, this quarter. So that was, I think, by far, the biggest kind of year-over-year increase for the company. We've always had -- we've had plenty of backlog in that area for a long time. So it was a matter of us. The demand still seems it was still strong, but it was a matter of us kind of clearing out some of that backlog and moving that number in the right direction to help customers. I would call it more of a pro than anything significantly shifting in the space.

Ryan Boyer Koontz - *Needham & Company, LLC, Research Division - MD*

Got it. And are you seeing any help on the kind of share side where you may be able to execute a little better than some of your peers and able to take share in any cases, able to ship?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, but the share is really the way it has been happening maybe a little bit different in Europe, but in general, the way that share happen is, does that share is kind of given to you as you win the OLT business. So as you win the infrastructure piece, then most times, they're going to move forward with your ONTs in many times, if not most times your RG as well. So this was kind of share that we have been winning, and it's just a matter of us being able to monetize that share.

Ryan Boyer Koontz - *Needham & Company, LLC, Research Division - MD*

Got it. Super helpful. And just a quick clarification on Jim's comment earlier -- Mike's comment earlier about 350 basis points impact in the quarter from supply chain expedites and such? Is that what I heard?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

That's correct.

Operator

Your next question is from the line of Paul Essi from William K. Woodruff & Company.

Paul Essi;William K. Woodruff & Co;Analyst

I want to talk a little bit about ADVA's competitive position. I know that they've concentrated their focus on the core of the edge where some of the larger players have not put as much resources in that area, mostly concentrating on the long haul. I was wondering how this is going to affect ADVA's competitive position down in that space from basically the core to the edge, given their spending? And also, how does the encryption and their security expertise fit into this, first of all?

And then secondly, if maybe -- I know you touched on it, Tom, maybe you could give us a little bit more color on this 100 GR that you jointly developed and what that might mean for revenues going into '23 and '24? And also who the customers that you may be selling that to? And also, if you could touch a little bit about the access wave as well? And I had a follow-up.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Okay. That's a bunch of questions. All right. So let me -- I'll cover the A&S piece first. So A&S is actually stands for ADVA. What was it, Mike? ADVA…

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Network security.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, ADVA Network Security. So when we combine the companies, we, of course, had to have government approval from both -- from several different countries. And ANS was a piece of that negotiation with the German government in order to make sure that the technology that is being used by various entities within the German government remained at the right security level for them to be able to continue to use that. The technology that's coming out of that group is something that can be used by the entire company, although there's still kind of a real wall between what's done for different countries, not similar to what happens here in the U.S., by the way.

So this was a means for us to be able to continue that development continue Germany, which is an important customer and actually allow us to get to another level of security within the government to actually enhance sales. So over time, we think it's a very good move. It's a very profitable move as well, and they really have differentiated security in that vein. So this was just -- it was part of the merger. It was something that I think was going to happen anyway because I think it made sense for ADVA. But it kind of opened up different revenue streams and different technology streams that we wouldn't have had in the past.

In relation to how these things flow and what ADVA's focus has been, I tend to think of them as last mile or metro edge is kind of where there are kind of hotspot is in relation to optical. The reason they were a good fit for us is that's exactly where our customer base is looking at augmenting at this point, their network as they kind of finish out these last mile networks that they're building, I shouldn't say, finish out because we're a long ways to go. But as they increase the capacity requirements of those last mile networks, they need to be able to aggregate and efficiently transport that traffic. So that's kind of where their sweet spot was. And we're already seeing cross-selling opportunities across both companies where they dovetail each other. They have a very good product, a very competitive product. And we feel good about where that's at. Mike, you got the information on the 100 GR?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes. That product actually is commercially available next year. So I really can't tell you what the revenues are at this point, but it will fit in for service providers as well as MSOs is the market that it's targeted toward. But we'll have more information to come on that as it's released.

Paul Essi;William K. Woodruff & Co;Analyst

Okay. The other follow-up question, again, is on the SaaS subscribers. Is there anything that you can share with us? I think you were at $1 million, $3 million, $4 million something like that at the end of June. Can you talk to that at all and give us a little flavor for how that's going, maybe some hard numbers?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Well, you can think about SaaS subscribers, let me put it in a way that we actually have the numbers for. So you can think about SaaS subscribers as a fallout to SaaS carriers, right? And our SaaS carrier growth was up 31% year-over-year this quarter. And that's been about the rate that it has

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

been ticking along at. So, SaaS customer growth will typically outpace SaaS carrier growth because, in fact, it will outpace, right, because you have new carriers coming online, plus you have the older carriers being more mature and adding more subscribers to their network.

Paul Essi;William K. Woodruff & Co;Analyst

Okay. I was trying to focus on the actual number that your customers have signed up of their subscribers. Do you have anything available on that? The actual paying customers that flows up to you guys.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

I don't have the growth rate on that number, Mike. I know it's well in excess, you mentioned before, and I mentioned before, it's over $1.2 million, and actually, it's closer to $2 million at this point, but I don't know If I have that. I don't have that number in front of me.

Operator

Your next question is from the line of Tim Savageaux with Northland Capital Markets.

Timothy Paul Savageaux - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

I want to make sure I get this one in there, which is if we can address kind of where you expect the tax rate to go over time and kind of bouncing around, but that's not my main question, but I want to make sure I don't forget it. What I did want to focus is on the kind of ADTRAN organic front has been discussed before, it looks like subscriber was driving the growth. You actually saw access and aggregation down a bit, both sequential and year-over-year. I wonder if you could address dynamics there for the quarter.

And then as you look at the guide, it looks like organically, you're guiding down a bit sequentially from an ADTRAN perspective. Is that just really normalizing that supply catch up on the subscriber side? Or how do you expect things to break down between -- do you expect any growth on the access and aggregation side in Q4.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Let's start with the tax.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Go ahead.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

And we can move to the other piece. So you're right, our tax rate has bounced around a lot as we've gone through the quarters this year, and you saw the 42% effective rate there on a non-GAAP basis in Q3. I would expect that going forward that for the year, I'm estimating that it's probably going to be about in the high teens, which is a little lower than what we had said previously. So probably high teens, some are sub-20%. But to get to that rate for the year, I think for Q4, we will still have an elevated tax rate that will be something similar to what we saw in Q3.

So if you look at the total year and adjust that out you actually end up with something that's probably also in the low 40s again. And then as moving into the next years, I think you're a lot better off to try to model it somewhere at just under 20%.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

In relation to the guidance, I mean, the guidance is basically flat, which is, as you probably know, if you follow us, typically, we see it down Q4. So like I said, it's pretty much in line with what we expected it to be in relation to aggregation. We have a lot of irons in the fire there. We have backlog that would allow us to actually materially grow that number from this space. We're also trying to still get a lot of CPE out the door, a lot of the subscriber solutions pieces out the door. And then we really have a ramp-up of the 6330, which is kind of a critical ramp-up for us, which should start at the end of the quarter. So I mean, we have a lot of different ways to get there, but I can't tell you especially what that aggregation number is going to look like at this point.

Operator

Your next question comes from Paul Silverstein with Cowen.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

It's another bite at the apple, Tom. 3 questions, if I might. ADVA, going back to macro concerns, ADVA, correct me if I'm wrong, sort of they have gone -- they've derived about 30%, I think, of their revenue from enterprise with the bulk of that, I believe, being in Europe, consistent with them being headquartered in Europe and having done a good job in Europe historically. One would think that European enterprise would be most at risk from macro. Again, it doesn't sound it from your guidance, but I got to ask, any signs of weakness? And then I got 2 other quick questions.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

No. And a lot of that is kind of their Ethernet product. And just no. The answer is no. I mean from any way you look at it. I won't tell you that it won't be impacted, but I would tell you, we haven't seen that impact yet.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

All right. Going back to -- Mike, going back to the Mosaic SaaS number you gave or the SaaS number, that was a number of carriers? Was that the 31% year-over-year increase your referencing, the number of your service provider customers that have adopted? Is that what number...

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

That's correct. And breaking that down to subscribers is -- I mean we can't do that. We just haven't done that.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Right. And I assume also by extension of that, if we spoke in terms of revenue, you can't share with us. Well, I assume the number is very small at this point.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

If I look at my software and service number, which includes contracts associated with software and maintenance, the numbers beginning to be -- yes, the growth rate has been solid for the last 2 years, but I don't think it's going to be too far to where we actually start just breaking those numbers out so you can see them. I'm looking for stability, and I'm looking for longer term. The key -- as I want to be confident about the growth rate and kind of where we are with that product line before I start and making sure that, that we're in a mature place there, and I don't think we're quite there yet.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And Tom, my apologies if you said this in the past, but is it over $10 million or well less than $10 million a quarter?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

No, no, no. Dollars?

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes. I assume it's...

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, it's over -- our software and SaaS number, let me see if I...

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Well, it is over $10 million, but that is not just SaaS.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, that includes software.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

That's the whole software category.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Software and SaaS is over $10 million, yes.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

All right. I'll move on my last question. Mike, on the gross margin progression, you all have seen a more significant recovery than most, but you will also -- you were also on the more severe end in terms of the impact of supply chain, the initial impact in getting hit. My question here is, looking forward, any thoughts on how far, how fast you can get back to the low 40s from once you came. And I understand how there's a in the mix. But their margin structure, if I remember, on a like-for-like basis, using U.S. non-GAAP was actually a little bit better, I think, than your margin structure.

And one last point in connection with the question. Correct me if I'm wrong, but subscriber solutions has got a lot of different products, including software in there, but I assume the dominant revenue is from your relatively lower margin or absolutely low-margin O&T platforms that you referred to as being a big part of the year-over-year growth, which is counter given nice rebound you saw. I guess another way to state is you put up strong growth or strong covering gross margin, notwithstanding what I would think would be the negative the drag effect of that big increase in O&T revenue, which is encouraging all of the things to be equal. But any insight you could share Michael, what happened in the quarter more importantly...

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Let me take the first -- let me take the step of that, which is on the second part of your question. First of all, that is fairly insightful. Yes, we did shift a lot more CPE on purpose. And yes, we were able to come up with pretty decent gross margins on what is typically a very low gross margin mix. I would tell you that has been absolutely helped by the software sales associated with that piece, which was impactful. And then there's a secondary help, which is some of the functionality, including things like 10-gig are also helpful. But in general, it was a pretty good quarter from a gross margin perspective for subscriber solutions. Mike, I don't know if you want to cover the first part of...

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes. So Paul, some of it was mix, but you heard me say that there's about 3.5 percentage points of still headwinds. I think when I reported last quarter, I was at about 4.6%, if I recall, a 4.7%. So it's definitely moving in the right direction. The biggest improvement so far has been in freight and logistics where rates are starting to fall and things are starting to free up as far as paying extra fees to be able to get components. I think you heard Tom say there are fewer issues, but there's still some big issues that all have to be resolved and worked.

So I think overall, that's moving in the right direction. We're seeing fewer and fewer of the broker buys and excessive payments to be able to get components. Now some of that's still on the balance sheet. So it will, for ones that we may have purchased in prior quarters at higher costs. That will bleed off over time as we go. But I think you saw a pretty good improvement in the quarter, moving in the right direction. We do have a different headwind, but we've had for some amount of time, and that's just the FX issues that are out there with the euro and the pound sterling when you roll those back to dollars.

And if you try to just look at that over the last quarter and say what was the effect on gross margin on that one. It's almost 2 percentage points, maybe a little bit less than that. So I think that one has somewhat stabilized at this point. But I think over the last quarters, we've seen that whole flow on the downward trend with the dollar strengthening as well. So, I think we're just learning how to manage it all better as we go.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Mike, I know you didn't give guidance for gross margin, but any thoughts given all those puts and takes, any thoughts on whatever gross margin you could generate in Q4?

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

I think it may be just a bit stronger sequentially. I'm not expecting much.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes, think about it kind of in the same range of where we are right now.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Very close.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And how about 2023?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

Yes. I think your question was when do we get back to 40. And I think I'm pretty confident as we go through next year, we will continue to move in that direction and sometime in 2023, barring any kind of other craziness that happens. We should be -- we should have some mix improvement, even though SSE was pretty good. It's still not the same as what we get on the access and aggregation side. All right. Anything else, Paul?

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Well, Tom, just to be clear, relative to Mike's statement, you expect to get back to the low 40s at some point in '23?

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

I think you said improvement. So I'll let Mike answer that.

Michael K. Foliano - *ADTRAN Holdings, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

Yes. I think 40-ish or slightly above, yes.

Thomas R. Stanton - *ADTRAN Holdings, Inc. - President, CEO & Chairman*

And some of this is just kind of unknown with what happens to the supply chain. But we're definitely hitting in the right direction.

Okay. At this point, I see we are past time. So I appreciate everybody joining us for our conference call this quarter, and we look forward to talking to you next time. Bye-bye.

Operator

Ladies and gentlemen, thank you for participating. This concludes today's conference call. You may now disconnect.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.

©2022 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

