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EDITED TRANSCRIPT

ADTN.OQ - Q4 2022 ADTRAN Holdings Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to ADTRAN Holdings, Inc. Fourth Quarter 2022 Preliminary Earnings Release Conference Call. Our lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. (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 factors currently known. However, these statements involve risks and uncertainties, including the continued spread and 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 logistic costs, manufacturing efficiencies, our ability to effectively integrate mergers and acquisitions and other risks detailed in their annual report on Form 10-K for the year ended December 31, 2022, and our quarterly report on the Form 10-Q for the quarter ending September 30, 2020. 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, Lisa. Good morning, everyone. We appreciate you joining us for our fourth quarter 2022 earnings release conference call. With me today is Adtran Holdings 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. I want to start by highlighting the importance of the milestone we reported last month in our combination with Adva Optical Networking SE. The domination in profit and loss transfer agreement, or DPLTA, was registered. This was the final administrative step in operating as one company. We can now focus our integration efforts to drive synergies and shareholder value. With that context, going forward, I will just talk about ADTRAN as a single integrated company rather than a combination of 2 different companies.

Our initial motivation for combining with ADVA was due to our belief that the combination would make both companies stronger and more diversified. The key components of our combined value proposition were that we would have a more diverse and differentiated portfolio, a more diverse customer base in both customer type and region and a stronger presence in our focused markets, especially the U.S. and Europe to capitalize on the fiber network and growth opportunities in these regions. The results in Q4 highlight the increased product and customer diversity of the combined company. When looking at the quarter, I will provide some quarter-over-quarter growth statistics on a pro forma full quarter basis to reflect what the performance was in Q4 versus Q3 had the ADVA financials been consolidated for all of Q3. The financials that Michael will review will compare Q4 quarter totals -- excuse me, Q4 totals quarter-over-quarter with a partial contribution from ADVA beginning July 15, 2022, the closing date and year-over-year without ADVA contribution last year.

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With that clarification, I'll start with Optical Networking Solutions. This category was up 7% quarter-over-quarter on a full quarter basis. The growth in Optical Networking Solutions was especially strong in Europe, driving non-U.S. optical networking revenue up 10% quarter-over-quarter on a full quarter basis and helping push overall non-U.S. revenues up 15% quarter-over-quarter on a full quarter basis. This was a record quarter for revenues in Optical Networking Solutions for either ADVA standalone or as part of ADTRAN. We continue to see strong bookings demand in the quarter, and I'll note that the success in the area was positively impacted by the combined company's efforts to address past due backlog in the quarter. Revenue from Access and Aggregation solutions was up 7% on a full quarter basis, driven by growth in fiber access platforms. This growth was held back in the quarter due to delays in operations that resulted from introducing redesigned products to address supply chain issues and delays in 6330 shipments.

Overall, revenue from subscriber solutions were down quarter-over-quarter following a record Q3 performance. Revenue outside the U.S. was 60% of overall company revenue in the quarter, driven by our strength in Europe. The success in Europe was paired with continued demand for our fiber broadband solutions with U.S. regional service providers. We had record demand for our solutions in Q4 from U.S. regional service providers. We continue to invest in innovation in all segments of the portfolio, and we are seeing broad-based demand for our solutions as a result of these investments. We can now step through some of the highlights driving this excitement in our solutions. I'll start with optical networking solutions that led our growth in the past quarter. Unlike many vendors in this space, those success is tied to specific customer segment or regions or our solutions are deployed by a diverse mix of large service providers, regional service providers, Internet content providers, government agencies and large enterprise customers.

These solutions range from multi-terabit transport systems to internally develop optical modules and infrastructure monitoring solutions. We differentiate through operational simplicity, security and tailored solutions that are optimized for our primary use case in the metro edge and private optical networking segments. This solution diversity, customer diversity and solution differentiation provide great balance and positions this category for sustained growth moving forward. This success was highlighted by ADTRAN being the fastest-growing optical network vendor in Europe according to Omdia's latest market share report. We also won the Layer123 networking transformation award in this category in the category of sustainability with our coherent 100ZR transceiver. In our Access and Aggregation solutions, we formally launched the SDX 6330, our industry-leading open disaggregated fiber access platform. This product launch is one of the most anticipated in our portfolio in several years as the SDX 6330 sets new industry benchmarks in density, scalability and power efficiency, driving broad-based demand for this platform from a diverse mix of national and regional service providers.

The release of this platform is timely, given the ongoing investment in next-generation fiber access networks and focus on energy-efficient network infrastructure. TheÂ SDX 6330Â will begin shipping for revenue this quarter, and we expect it to be a major contributor to our overall growth this year following orders and project awards from several large-scale national operators and numerous regional operators. ADTRAN is already the second largest vendor in 110 gig fiber access platforms across the North American and EMEA regions combined according to the latest Omdia market share reports, and this product launch is set to enhance our position in this market. In our subscriber solutions category, we have a diverse ongoing spanning -- excuse me, a diverse offering, spanning residential business and wholesale services.

On the residential side, we see continued success driven by growth in 100-gig fiber CPE and multi-gigabit mesh WiFi platforms. These in-home solutions were a meaningful contributor to our revenue in Q4, and we expect demand for these solutions to remain strong as service providers connect more homes with fiber and upgrade the in-home connectivity to multi-gigabit speeds. Similar trends are happening in the enterprise and wholesale space where we see strong demand for our business class routers, virtualized edge platforms, multi-gig enterprise switches and 10-gig Carrier Ethernet termination devices. In the virtual edge cloud space, we recently closed the largest software deal in the history of our company for this segment, underscoring the growth opportunities ahead of us in this area. This subscriber solutions portfolio provides us with the most comprehensive offering in the industry to connect users to all types of fiber networks.

Our solutions are complemented by comprehensive software and services portfolio that simplify the engineering deployment and ongoing operations associated with these fiber networks. On the software side, we see continued demand for our SaaS applications with over 150 service providers already adopting our latest Mosaic One offering and many more expected to begin deploying this platform this year. As we integrate our broader fiber networking portfolio under a common set of software applications, we expect to see this be an additional driver for growth in our software platforms and corresponding networking platforms. This highly differentiated portfolio sets us up well for continued success in our

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key growth markets. We see increasing demand from operators, especially our existing customers in deploying our full suite of fiber networking solutions with our much larger customer base, this significantly increases our near-term addressable market for these solutions.

Long term, public and private investments remain strong with our fiber or fiber networks with many of the key funding sources, including the $42.5 billion BEAD project in the U.S. still planned in the years ahead. Initiatives to reduce the dependency on high-risk vendors, especially in Europe remains strong, and we expect this to be a further growth driver for opportunities in the years ahead. As a more scaled Western supplier with a highly diverse technology portfolio, we expect to benefit from these long-term tailwinds. On the supply chain side, the situation improved substantially when compared to year-over-year. The outlook continues to improve, and we expect this to be less of a headwind for our growth in the near future. Given these factors, we remain optimistic about our growth potential and driving shareholder value. With that background, I'll turn things over to Mike to provide a review of our financials. 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 will cover our fourth quarter 2022 preliminary and unaudited results and provide our expectations for the first quarter 2023. Please note that Q4 2022 results include a full quarter consolidation of the ADVA financials, which affects year-over-year and quarter-over-quarter comparisons. Please be reminded that Q3 2022 incorporated only a partial quarter with ADVA beginning July 15, 2022. Since this is the case, I will refrain from repeating the consolidation effects when discussing the year-over-year comparisons of our results. I will be referencing non-GAAP information with reconciliations to the most directly comparable GAAP financial measures presented in our press release and also certain revenue information by segment and category, which is available on our Investor Relations web page at investors.adtran.com.

In addition, we've uploaded an updated investor presentation to this site, which is available for download. Unless stated otherwise, all financials are presented in U.S. dollars. ADTRAN's fourth quarter 2022 revenue came in at $358.3 million, up 132% year-over-year and up 5% quarter-over-quarter. -- within the lower half of our guidance range of $355 to $375 million. Our Network Solutions segment accounted for 89% of revenues in Q4 2022 compared to 90% in Q4 '21 and also 90% in Q3 of 2022. Our Services & Support segment contributed 11% of revenues in Q4 '22 compared to 10% in the year ago quarter and in the previous quarter as well. Year-over-year and quarter-over-quarter revenue increases were driven by our Optical Networking Solutions category, which comprises 40% of revenues compared to 35% in the previous quarter. Subscriber Solutions & Experience contributed 34% of revenues compared to 35% in the year ago quarter and 39% in the previous quarter. Access and Aggregation revenue share was 27% compared to 65% in Q4 2021 and 26% in Q3 2022.

On a regional basis, for year-over-year, fourth quarter domestic revenue grew by 41% and international revenue increased by 30%. The International revenues make up 60% of our revenue and domestic revenue contributed 40% of Q4 2022 revenues. Customer diversity continues to be a focus with 110% of revenue customer for the company during the quarter. Q4 non-GAAP gross margin was 39.1%, improving by 3.7 percentage points year-over-year and 1 percentage point sequentially. Gross margin was positively impacted by higher software sales, product mix and improvement in supply chain expenses with the year-over-year partially offset by unfavorable currency developments. While supply chain constraints lessened during the fourth quarter, we do anticipate challenges and remain focused on managing higher component costs, freight expenses and expedite fees in the near term. Our non-GAAP operating expenses were $118.6 million, increasing by 123% year-over-year and 9% quarter-over-quarter, which were primarily driven by increased labor costs related to the first full quarter of expenses, partially offset by lower contract services.

Operating expenses were 33% of revenue compared to 34% of revenue in Q4 2021 and 32% of revenue in Q3 2022. We remain on track with our synergy plans and expect total savings of $52 million which will be realized with 43% in 2023 and 57% during 2024. Non-GAAP operating profitability was $21.5 million, which translates into a non-GAAP operating margin of 6% compared to 1% in Q4 of 2021 and 6% in the previous quarter. The year-over-year improvement in operating profitability was driven by higher revenue volume at more favorable gross margins. The quarter-over-quarter remained flat with improvements in gross margins being offset by higher operating expense. Other income on a non-GAAP basis, significant increased year-over-year and quarter-over-quarter, primarily due to unrealized gains on foreign exchange forward contracts. We entered into a euro-U.S. dollar hedge arrangement to provide payment security of future euro-denominated payment obligations.

The company's non-GAAP tax provision for the fourth quarter of 2022 is currently expected to be an expense of $15.9 million or 50%. The company's GAAP tax is expected to be a benefit of $57.5 million or 255%. The difference between the GAAP and non-GAAP tax rates, primarily driven by changes in our valuation allowance as the company released the majority of its valuation allowance against its domestic deferred tax assets during

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the fourth quarter. Closing out our income statement results. The non-GAAP net income was $15.7 million and $9.9 million after adjusting for minority shareholder interest in ADVA. This results in diluted earnings per share attributable to the company of $0.12 per share. Following the DPLTA on January 16, 2023 and beyond, ADTRAN will absorb all of ADVA's profits and losses. However, the net income attributable to common shareholders of ADTRAN will be reduced by the recurring cash compensation paid to the minority shareholders as part of the DPLTA agreement. This recurring annual compensation for the minority shares outstanding amounts to EUR 0.59 per share.

Turning to the balance sheet and cash flow statement. Cash and cash equivalents totaled $108.6 million at quarter's end. For the quarter, operating cash flow was $812,000, mainly due to the higher inventory levels and business combination expenses. Net trade accounts receivable were $279.4 million at quarter end, resulting in a DSO of 72 days compared to 82 days in the prior quarter. Net inventories were $427.5 million at the end of the fourth quarter, resulting in terms of 2.4% compared to 3.1% in the third quarter of 2022. The company continues to carry a higher level of inventory and raw materials to minimize further disruptions given the challenging electronic component market and continued extended lead times. Trade accounts payable were $237.7 million, resulting in DPO of $67 million compared to 71 days in the previous quarter. Looking ahead to the first quarter of this 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 fluctuation in currency rates and any potential additional required purchase accounting adjustments related to the ADVA merger may cause material differences between our expectations and the actual results.

We continue to focus on the supply side, related cost challenges and our merger integration. We see signs of normalization in the cement conductor supply chain and expect our backlog to moderate and to decrease inventories over the upcoming quarters. We will continue to focus on cost management and operational efficiency while investing in key areas to drive growth. We're confident that our strategic plans and disciplined execution will enable us to deliver strong financial performance and create value for our shareholders. With that in mind, we expect that our first quarter 2023 revenues will 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 web page at investors.adtran.com. I'll turn it back over to Tom and to take your questions.

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

Thanks, Mike. Lisa at this point, we'd like to open up to any questions people may have.

QUESTIONS AND ANSWERS

Operator

The question-and-answer session will be conducted electronically. (Operator Instructions) We'll take our first question from Michael Genovese with Rosenblatt Securities.

Andrew King

This is Andrew King on for Michael Genovese. First off, just not sure if I missed this or not, could you break out the revenue contribution from ADVA versus ADTRAN organic?

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

Yes. So the ADVA contribution on a U.S. dollar basis was $202 million.

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Andrew King

Got it. And then I'm not sure if I missed this detail this quarter, but I know that last quarter, you had mentioned that on gross margin side, you've seen approximately 350 basis points of impact from supply chain. If you could update that number for this quarter? And then if you continue to see the supply chain improvements that you saw through this quarter, how much of that would you expect to gain back through the year of FY '23?

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

Yes. The first part is a little easier than the second part on that question. So let's start with the easy one. So compared to the 350 basis points for this past quarter, it was 260. So roughly 2.6 percentage points of impact is still out there. So you see it's going in the right direction. We expect that it will continue to move in that direction, but it's not going away over the near-term quarter. So I think there'll be -- there's going to be a hangover for a while there, just of extra purchase price variation and costs that we have paid to secure components that some of that is remaining on the balance sheet. I think we've said before that we're starting to see freight and logistics cost dropping as more capacity has come online and rates have reduced a bit, but that's -- it's still a bit elevated from where it has been in the past. So I can't tell you exactly what's going to happen in the future, but we do expect it to continue to move in the right direction.

Andrew King

Got it. And then if I can just sneak in one more quick one here. You sort of saw a trend that sort of defied the industry this quarter, which is your book-to-bill remained around 1 and your backlog looks like it came up about 2% sequentially. So I mean what do we have to see in the improvement in supply chain to see that backlog start to get released and come back down to historical levels? And how much of that do you expect to be released over this next year and this next quarter?

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

Yes, you're correct about the book-to-bill. So we still have a very strong order entry coming in. I think over the next 3 quarters, hopefully, we don't know exactly -- some of these are down to you're missing 1 or 2 components, many times one component on a bill of material of 200 components. So those are getting better and better. Unfortunately, those ones where you're missing one are still probably the most problematic. So I would expect it to get materially better throughout this year. We're going to try to really -- we're managing kind of focuses on longest lead, longest things in our backlog right now and really trying to clear those out and then any customer impacting pieces. So that will get materially better through the third quarter, I would think.

Operator

We'll take our next question from Ryan Koontz with Needham. Thanks for the questions.

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

Tom, I wonder if you could expand on the strength in Europe? It sounds like ADVA had a great quarter there. And what sort of applications are driving that success with their service provider customers that they highlighted. Can you also update us on where ADTRAN's kind of progress with ADTRAN's core fiber wins are progressing in Europe? That would be great.

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

Well, in Europe, I will tell you for the Optical Solutions piece, that was actually pretty much across the board. Metro networks, private networks. It was just broad strength as you're seeing people upgrade their networks now to handle new speeds, not only in the access space, but if you're a

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corporation or whatever, the amount of information flow is growing dramatically right now. So there wasn't really one particular highlight, I would say it was across the board. On the access piece, we have on the ADTRAN fiber access piece, we have several awards that are in play that we expected to get closed this quarter. Actually, I think all of the ones that we have talked about as being in the works are at this point through lab trials and completed. So we'll see those pick up. Really, the gating factor there is our ability to supply product. I mentioned in my notes that the 6330 got delayed to this quarter. Many of those customers are waiting on the 6330, that's our newest best kind of differentiated, really great platform that a lot of these awards were premised on. So we have to get that out the door and we expect to be shipping that towards the tail end of this quarter.

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

Super helpful. And just as a follow-up, you mentioned a large software win. Do you have any color on that you can share? What type of customer or what type of application?

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

Yes. That was the largest -- so we have NFV solutions, which are kind of by feature solution. That was our largest NFV win to date. So that was using the Ensemble platform.

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

Got it. So that's like a business DMARC, like a universal CPE type model?

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

Yes, that's correct.

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

And it'd be finally -- shipping up to -- has been around for awhile...

Operator

We'll take our next question from Greg Mehmet with WestPark Capital.

Gregory Mesniaeff - *WestPark Capital, Inc., Research Division - Research Analyst*

I was wondering if you can discuss the Huawei replacement cycle, if you will. And where are you seeing the greatest amount of activity, I assume it's in the U.K., but -- and also how much of that was a contributor to your revenues in the quarter?

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

I think that's a good question. I probably should have pointed that out on what's going on in Europe with our optical solution set, too, because a lot of that activity is driven by the fact that you have carriers or even enterprises that have nont-rusted vendors in their network that they're having to remove. The activity, you can view it a couple of different ways. If I just look at flat out orders, then you're right, U.K. is the strongest they were kind of ahead of the curve early on and made a decision a couple of years ago that they needed to migrate away. But almost all of the carriers, if not all of the carriers at this point in time are doing something, let's say, all of the major carriers at least. I talked about the fact that we had won 5

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additional carriers in Europe. Most, if not all of those were in. In fact, I would say all of those were impacted by what they're having to do with their vendor space and that either kicked off this award or accelerated awards. So it's -- and that's also happening in the optical solutions space as well. And I think that's why we're starting to finally see this activity or I shouldn't say finally, but we're seeing this activity really kind of pick up because people are being forced to make decisions.

Operator

We'll take our next question fromÂ Paul Essi with William K. Woodruff Company.

Paul Essi

Well, thank you for taking my question. First question is residential SaaS. I was wondering if you could give us an update on that. And also with the WiFi 6 chip kind of getting freed up, do you expect that to maybe give us some idea how quickly this thing can grow in '23.

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

Yes. So it is a hot area. I mentioned that our subscriber solutions were down on a quarter-over-quarter basis, but we had a really kind of super focused on trying to clean up some of that backlog in Q3. Demand hasn't lightened a bit on -- in that product area, both for RGs and ONTs. In fact, I think ONTs may have actually set a record this quarter. They were very, very strong. On the SaaS front, I'd also mentioned we crossed 150 customers. I will tell you, carrier customers. All of those, of course, have subscribers that are tethered to them. We are working through the backlog of onboarding these customers. So I guess as we're probably of that $150 million, we're probably about 50% of those are online now. We're very close to being online. That backlog continues to grow. Our SaaS customer count continues to grow at over 30% kind of on a year-over-year rate and I was actually at that rate again this year. So a very good uptick on that. And I would say software in general was a positive note. I mentioned the Ensemble piece. But just from a revenue perspective, all of that's coming in line and we're very happy with what we did this quarter.

Paul Essi

Okay. I was -- you had 2 million end subscribers, not service providers, but end subscribers at the end of September. Do you have an idea where you were at the end of December.

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

Yes. It's actually we're over $2 million. And when I say that number, we were over $2 million. We're still over $2 million, that continues to grow. I don't know, Mike, if we want to give much more color at some point, that gets the word we can want to break that number out. We haven't gotten to that point yet. But let me just say it's well in excess of $2 million.

Paul Essi

Okay. Another question. On the middle mile, can you talk a little bit about what your strategy is in the states and what you're seeing out there and what we might expect this year and next as far as new orders?

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

Yes. That's actually been a positive or a real -- the reception in the U.S. has been very positive. We have already started -- we've already booked deals. In fact, we probably have already started shipping deals where the introduction of the combined company's assets being brought to U.S. carriers have kicked them into buying decisions that were either ongoing, and we were able to secure it or it's kicked off buying decisions. Most

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specifically in the RSP space here in the U.S. that's we've seen very good reception, and I think we're in the early days of that. Europe, it's going exactly the way we planned. We've gotten some introductions from the ADVA customer base with ADTRAN equipment. We started really joining our forces in the way we're going to customers from large carriers without a doubt, it's making an impact on how we're presenting to them what they're asking for. I think it's -- I think really on the customer space, I can't think of a single negative on the customer side.

Paul Essi

Okay. And if I could one more sneak one more in. Your German security company, what business was put inside of that? And what is your strategy for going after new business? Who's your target market? And what might we expect revenue wise in that? And also, will that be broken out going forward?

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

Mike, do you want to cover the breakout of the ANS revenue.

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

Yes. We don't break it out today. If it grows larger, we would actually break it out, but it's not reported separately today. The customers that we're focused on mostly there are government customers who have high security requirements, mostly in Europe, but they can actually sell elsewhere as well. The products, I think you know, Paul, that are in there are all around high-level encryption and security technologies. So it's things that governments are using for their own private networks to ensure secure communications.

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

I think you can think about it just so you can scope it is less than $50 million. It's probably hits in the multi tens of millions. And we fully expect it to grow, but it is very focused and it's targeted.

Operator

We'll take our next question from Tim Savageaux with Northland Capital Markets.

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

Hey good morning, I wanted to get a quick one in on the tax rate. It's been pretty volatile. So Mike, I wonder if you have any expectations for Q1 or the year. And then on to a more substantive question. Tom, you mentioned you couldn't think of any negatives on the customer side. Maybe we could explore that a little further. It seems like one of your U.S.-based competitors has seen a pretty good size win at Deutsche, which given the strength that you saw in the quarter with ADVA, I assume that's your largest customer for the quarter? Or at least in competition. I wonder if you could talk about that competitive environment more broadly? And if I have time for a follow-up. Jump in there, please.

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

Well, I will tell you, everybody has to have 2 vendors. And what I should say most companies have to have 2 vendors. I would say with our position within that account, both from a relationship side, but really more specifically from the technology side where.. given the possible scenarios of what could have happened, we're happy with where we are. I think we're in a good position there. So as you know, that used to be a 3-vendor account with us, Huawei and Nokia that is materially changing, and we think we're in a really good position. So hopefully, that answered that question, Mike, do you want to put...

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

Sure. Thank you you're right that we've had some pretty big volatility on our tax rate. The 50% that we ended with in the quarter there is driven just by a lot of the international taxes that are coming from the business combination and then with the global intangible low tax income rolling across that, we've had some increases there. Now our non-GAAP rate for the year was 21.7%. So maybe just slightly higher than we had expected. The last quarter was really making up for some benefits that we saw earlier in the year because of the changes that happened in the tax code. Looking ahead at what we're expecting for 2023, I would say our non-GAAP rate should be in the low to mid-20s percentage rate. And we should have a lot less volatility going forward. Now that the valuation allowance has been mostly eliminated. I think that changes in the valuation allowance caused some swings in that non-GAAP rate as well. So I think it should settle out a bit into that low 20-ish percentage rate.

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

Tim, that answer your question?

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

Sure, guys. If I could maybe follow up real quick. And this is just about the stand-alone ADTRAN performance in the quarter, you were down double digits sequentially and kind of flattish year-over-year. And you broke out the subscriber solutions maybe driving some of that. But either you are -- you talked about strength in U.S. rural. So anything in particular outside of the -- and maybe it is just the new product stuff driving that within the ADTRAN stand-alone numbers.

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

Yes, the biggest kind of impact or the thing that we didn't expect was we launched -- I mentioned the 6330, which was supposed to start shipping in Q4. It's now targeted towards the end of this quarter. So we had a little misstep there and both supply and then just getting all of the things in that we need to get done in order to finish up these lab approvals. So that hurt some. And then we also had some redesigns on many of them in 60. The predecessor to the 6330 called the 6320, and we had some issues getting those out the door. That was the biggest impact to us and actually drives what the performance that you're talking about. Those will be -- 6320 is now up and shipping. So that's kind of pass us. 6330 will still have a little bit of work to do.

Okay. All right. I think that's the end of our question session. So I appreciate everybody joining us today, and we look forward to talking to you next quarter. Thanks very much, everyone.

Operator

Thank you. That does conclude today's presentation. Thank you for your participation, and you may now disconnect.

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