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ADTN.OQ - Q2 2023 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. Second Quarter 2023 Earnings Release Conference Call.

(Operator's 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, 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 costs, freight and logistics costs, manufacturing efficiencies, our ability to efficiently integrate mergers and acquisitions and other risks detailed in our annual report on Form 10-K for the year ended December 31, 2022, and our quarterly report on Form 10-Q for the quarter ending June 30, 2023. 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. The investor presentation found on ADTRAN Investor Relations website has been updated and is available for download. 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, Julian. Good morning, everyone. We appreciate you joining us for our second quarter 2023 earnings conference call. With me today is ADTRAN Holdings CFO, Ulrich Dopfer. Following my opening remarks, we'll review the quarterly financial performance in detail, and then we will take any questions that you may have. I'll start out by looking at the performance this last quarter, and then we will discuss our current market positioning both near and long term. The results in Q2 were within the guidance range that we said on the last call and close to follow what we expected from both a product mix and regional split. By Q1, the revenues in the quarter were led by our Optical Network Solutions and our access and aggregation solutions. From a regional revenue split, the U.S. was 40% and non-U.S. came in at 60%. This split is consistent with the past couple of quarters. Looking across our various market segments, the U.S. regional service provider for one of the strongest customer groups in the quarter, particularly with fiber access platforms as these customers continue to build out fiber footprint in underserved markets.

Due to German capital requirements, we did issue a preannouncement on lower revenue projections for the second half of this year. This lower forecast is primarily attributable to inventory optimization and optical networking solutions as customers adjust their inventory and corresponding bookings. Our access and aggregation solutions along with our subscriber solutions are not expected to see any further forecast adjustments this year due to ongoing inventory scrutiny. The investment thesis has not changed, and we remain upbeat on our industry in 2024 and thereafter. We made great progress this past quarter in executing on the strategic initiatives of maximizing the broadband funding opportunity, being the leading option for Huawei replacement and fiber networking and driving cross-selling synergies with our comprehensive fiber networking portfolio. I want

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to remind our listeners that this success is coming at a timing of unprecedented funding for fiber-based broadband networks and an ongoing shift away from high-risk vendors, led by Europe.

And we have won more Huawei replacement business than any other in our segments. To put it bluntly, we are seeing a reshaping of the vendor landscape across Europe, and we are well positioned to be the largest beneficiary of this market shift. Starting with customer acquisitions. We had our second highest quarter ever for new fiber to the home operators adding 26 new customers in the second quarter. In this past quarter, the growth came primarily in the U.S. with regional service providers. This customer group is benefiting the most from broadband stimulus funding in the U.S. This customer growth has also aligned with our strength in the U.S. with our service provider market and the growth in fiber access platforms that we expect to continue in the second half of this year. Highlighting our continued momentum in Europe, we added another large multinational operator for access, continuing our run of success in the EMEA region and bringing the total large fiber access customers in that region to 7.

Most of these customers have not yet reached scale deployments and even without these contributions, ADTRAN has moved to the #2 position, surpassing Huawei and market share for fiber access platforms in North America and EMEA combined. This underpins our belief that the work we are doing today will lead to significant revenue opportunities as we exit the current environment. Similarly, our vendor replacement strategy for Europe is seeing similar success in the optical transport space. During the quarter, we secured a key metro WDM win with a large multinational operator in Europe, building on the ongoing success we have had in that region. We are also improving our cross-selling capabilities as we integrate our teams and processes. Just this last quarter, we had 2 large service providers expand their business with us. One customer was an existing optical networking customer selecting our fiber access platforms and another was an existing fiber access customer that has now selected our optical network solutions.

As we enhance our optical portfolio focused on regional operators, further integrate our solutions under a common management system and introduce our complete portfolio to our customers, we expect to accelerate these cross-selling synergies. On the software side, we added a record number of new customers to our latest Mosaic on SaaS offering. We now have more than 275 service operators that have adopted Mosaic One, up from 200 just the end of last quarter. This growth in SaaS customers helped us significantly grow our recurring software revenues over the past year, and we expect to accelerate this growth in the year ahead. To recap our strategic approach to the market, our plan is to capture new fiber footprint with our optical transport and fiber access platforms in the markets where we see the highest growth potential, led by the U.S. and Europe. We then want to cross-sell our entire portfolio, including attacking our software and subscriber platforms. This past quarter was very successful in helping us continue to build momentum in this strategy.

While we remain very confident in our long-term outlook, we understand that we are still in a period of uncertainty as customers rationalize their inventory and near-term capital plans. As a result, you saw a turn a decrease of non-GAAP operating expense levels during the quarter, and we will continue to reduce our expenses throughout the rest of this year. Overall, the focus on fiber networking, our customer growth and improving inventory situation and operational cost synergies have us positioned to be the largest beneficiary in this historic investment in fiber networks globally. Although near-term headwinds are a reality, they are just that. They are near term, and the outlook remains as strong as ever. With that, I will turn things over to Ulrich to provide a review of the financials. And following Ulrich's remarks, we'll open it up to any questions you may have. Ulrich?

Ulrich Dopfer - *ADTRAN Holdings, Inc. - Senior VP & CFO*

Thank you, Tom, and hello, everybody. I will cover our second quarter 2023 results and provide our expectations for the third quarter. Please note that Q2 2023 results include a full quarter consolidation of the ADTRAN Networks financials, which affects year-over-year comparisons -- 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 investor.adtran.com. In addition, we have updated the investor presentation to the site, which is available for download. Unless stated otherwise, all financials are presented in U.S. dollars. Q2 2023 revenue came in at $327.4 million, within our guidance range of between $325 million and $335 million.

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Revenue was up 90.3% year-over-year and up 1.1% quarter-over-quarter. Our Network Solutions segment accounted for 86.4% of revenues in Q2 2023 compared to 90.7% in Q2 2022 and 87.2% in Q1 2023. Our Services & Support segment contributed 13.6% of revenues in Q2 compared to 9.3% in the year-ago quarter and 12.8% in the previous quarter. Temporary softness in order behavior in the subscriber solutions and experience category, especially with ONTs and Ethernet needs continued in Q2. However, SSME grew 2.4% year-over-year and 2.9% quarter-over-quarter and contributed 24.9% of Q2 revenues. Access and Aggregation contributed 31.4% of revenue and grew 11.3% compared to the year ago quarter and 6.1% compared to the previous quarter. Our optical networking solutions category contributed 43.7% of revenues and was down 3.2% from a record quarter in Q1 2023. On a regional basis for year-over-year, second quarter domestic revenue grew by 24.8% and international revenue increased by 194.7%.

Similar to Q1, international revenue made up 59.7% and domestic revenue contributed 40.3% to total Q2 revenues. We had 1 10% or more of revenue customers in Q2. Q2 non-GAAP gross margin was 38.6% and increased by 216 basis points year-over-year and 132 basis points sequentially. The year-over-year and quarter-over-quarter increase is due to improved purchasing and transportation costs and a more favorable product mix. Our non-GAAP operating expenses were $122.7 million, increasing by 126% year-over-year but decreased by 3% quarter-over-quarter. The quarter-over-quarter decrease was mainly due to savings in the R&D area, partially offset by high legal costs. Non-GAAP operating expenses were 37.5% of revenue compared to 31.5% of revenue in Q2 2022, and 38.9% of revenue in Q1 2023. Non-GAAP operating income was $3.6 million, which translates into a non-GAAP operating margin of 1.1%, which was within our guidance range of between 1% and 2% of revenues.

Non-GAAP operating margin decreased by 377 basis points year-over-year but improved by 272 basis points compared to a negative 1.6% sequentially. The third quarter as a quarter-over-quarter improvement in profitability attributable to higher gross margins and lower operating expenses. We're making great progress with the execution of our synergy plan and expect now to realize the majority of our run rate synergies already in 2023. As a result, we expect Q3 non-GAAP operating expense to further decrease. The company's non-GAAP tax provision for the second quarter of 2023 was $4.7 million. The company's GAAP tax was a benefit of $8.4 million. The difference between the GAAP and non-GAAP rates was mainly driven by the jurisdictional mix of the non-GAAP adjustments during the quarter. Closing out our income statement results. Total non-GAAP net loss was $5.2 million and net income of $77,000 after adjusting for minority shareholders' interest in ADTRAN Networks SE.

This resulted in diluted earnings per share attributable to the company of $0.00 per share. Turning to the balance sheet and cash flow statement. Cash and cash equivalents totaled $124.3 million at quarter end. Cash flow used for operations was $16.2 million and improved by $3.7 million compared to Q1 2023. Trade accounts receivables were $239.6 million at quarter end, resulting in DSOs of 67 days compared to 73 days in the prior quarter. Inventories were $416.8 million at the end of the second quarter, resulting in terms of 2.3% compared to 2.2% in the first quarter. Accounts payable were $171.7 million, resulting in DPO of 59 compared to 69 in the previous quarter. Tom explained earlier how customers adjusted their order behavior to the now shorter lead times. Additionally, inflation and the increase in interest rates are leading to more emphasis among our customers on short-term cash flows. All of this is negatively impacting our revenue expectations for Q3. We don't expect any changes to our midterm opportunities and long-term growth catalysts as carriers worldwide proceed with network upgrades to fiber.

Due to the tremendous amount of customer activities related to future projects and opportunities, the tailwinds arising from high-risk vendor replacement initiatives as well as government funding, we anticipate that the current softness in orders are only of temporary nature. Our comprehensive product offerings, architectures and solutions as well as our rich feature road map positions us well in all of our target markets. We will continue our prudent management of non-GAAP operating expenses, anticipating a further sequential decline in the third quarter. For the third quarter of 2023, we expect revenues to range between $275 million and $305 million, and we expect a non-GAAP operating margin of between minus 5% and 0% of revenues. Once again, additional financial information is available at ADTRAN's Investor Relations web page at investor.adtran.com. Now I will turn it back over to Tom, and we will take your questions.

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

All right. Thanks, Ulrich. Julian, we're ready to open it up for any questions people may have.

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QUESTIONS AND ANSWERS

Operator

[Operator's Instructions)

Our first question comes from Michael Genovese from Rosenblatt Securities.

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

Our first question, Tom and Ulrich, when I look at the guidance for the third quarter and maybe what's implied in the back half of the year, given the ADTRAN networks release in Germany. Am I right in assuming that the core -- or I'd say the organic -- not organic, the classic ADTRAN business, the broadband piece of ADTRAN and the subscriber solutions related to that, that the guidance is actually better for the third quarter than consensus and that more than 100% of the lower guide versus consensus is coming out of the optical business. Am I reading that right?

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

Yes, let me phrase it a different way, if you don't mind. So it looks like if you think of a classic ADTRAN, legacy ADTRAN business, access and ag is doing well, and we expect growth through the second half of the year. We expect subscribers. Subscribers -- we talked about the inventory situation with subscribers. That's kind of flattish. And then -- so yes, the majority, if not all, of the decline is in the optical piece. And really, the way that I'd characterize it in the way that we think about it is going through this downturn, the ADTRAN side of the business kind of hit the downturn first, and that may be because we're in access, and that's where it's just kind of a different buying cycle. And then the ADVA piece kind of followed after that. And that was both in the uptick and in the downturn. And I think that's the same thing that's happening right now. So ADTRAN is kind of, the legacy ADTRAN pieces kind of flattening out, and we expect that to turn quicker and then ADVA will follow that. So the premise of your question is correct.

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

I just want to follow up then quickly, I think there's 3 pieces here in the business, and I want to follow up on each of them. So for Access and aggregation, can you just sort of characterize how the European Tier 1s who have already started to deploy. So like we're thinking about the U.K. in particular, maybe Germany, I'm not sure. But how those are looking in the second half of the year, how the European Tier 1s are?

Ulrich Dopfer - *ADTRAN Holdings, Inc. - Senior VP & CFO*

Very strong in the second half. Europe in general will be strong in the second half.

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

And then could you characterize for us just in the CPE subscriber Solutions. I mean, how far are we towards this inventory correction being done? So a quarter later, sort of where are we with inventory in CPE.

Ulrich Dopfer - *ADTRAN Holdings, Inc. - Senior VP & CFO*

Not great visibility there. So tough to put a real number on it. It feels like we're just kind of bouncing around the bottom. I mean it feels like still a lot of inventory in the field, but there are specific projects that we're winning. And actually, there's some incremental market share that we are picking up, and we'll start shipping in the fourth quarter. That's kind of still offsetting what the original flow was. So I would say we're kind of just flattish and I don't expect a real change in that through this year. So I would expect that to carry forward all the way through the end of this year.

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

Really, any growth you see in that and, to some extent, even offset of slowness as being offset by just new wins.

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

And then I guess, just any color you can help us sort of understanding how on the optical piece on the ADVA piece, that this sort of inventory correction sort of hits all at once. So just any color on -- I mean, it's such a big magnitude, just more color there. And is this across U.S., Europe, enterprise service provider. It seems like the whole business is being affected. So I'd just love some more color there. And then my real final last question, which I'll leave you with here, and pass it on -- any early thoughts on '24, do you think that you'll -- should be a strong growth year in '24? Or that these issues will kind of make the visibility of '24 hard to say.

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

Well, yes, I mean -- and that last question is a really good question. The first on the timing, that's not dissimilar to what we saw in the ADTRAN, if you can remember. I mean, it -- the impact on the subscriber piece came very quickly. If I look back and if I look at the aggregation, the aggregation product line went through a very similar phenomenon. The difference was the magnitude of the new customer wins offset the decline, let's say, to some extent, offset and, to a large extent, offset the decline that we were seeing in -- because of inventory corrections from existing customers. So I think the phenomena was similar. So on the optical piece, we're adding customers right. I mean I have no doubt, if I take a look at the new customer wins over the last 6 months, it's probably the biggest and I'm looking at all here, but it's probably the biggest we've ever seen in such a short period of time. We're adding new customers.

As you know, those customers take a long time to turn on. And so it just doesn't have -- and it doesn't have the same runway that we did on the access and ag, which kind of grew market size wise at a different pace earlier. So I don't think there's a change in kind of the way that the impact is being felt. So I think that answered that. And then as far as next year. So yes, for next year, look, I mean, I mentioned that the majority of the customers that we have out there are either very slowly online or just coming online, and that's just on the access piece. There's still a significant number of opportunities that are out there that haven't been awarded yet. We're picking up with 26 customers or something like that this quarter. So sooner or later, that eclipses, the slowness in the existing base. And I think that the slowness in the existing base on the access, I would expect that to recover the quickest.

So on an AG, we should have a fantastic year next year. Service subscriber, I'm worried about the magnitude of the inventory and kind of -- because that inventory is not just ADTRAN inventory, that inventory is, everybody's inventory because customers do swap RGs and ONTs routinely. So that one is just more difficult to get. I'm willing to say expect that through this year, it's very difficult to call in into it. I don't think it last into the second half of next year. It could be still some hangover in the first half. In aggregate, though, that's a relatively -- if we're at the bottom, which we believe, then it will just be kind of hanging out there. And then on the optical piece, look, it could actually -- I could see the bottom I would expect in the second half when we actually see a rebound. I would expect it -- I don't hear again. I don't expect it in the -- to be as long as the second half of next year. So if you look at that in aggregate, you got 2 pieces of business that come online at latest in the second half and kind of a different trajectory than the bottom that we're starting to feel right now. And then you get access and ag that's going gangbusters. So I expect next year to be a solid growth year in aggregate.

Operator

Our next question comes from Greg Mesniaeff from WestPark Capital.

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

Tom, you referenced several times the Huawei replacement situation that's playing out both in Europe and I guess, to some extent here in the U.S. Can you give us some sort of color on what inning we're in, in that process? I mean how much of a tail do we have left for that?

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

So basically, if you're in Europe, maybe we should do a heat map on kind of where Huawei is still in because I think we could do that with just public data, which would give you a better feel for it. But the way to think about it, if you're in Western Europe, and you're still using Huawei, then you're still yet to be -- then you still have work to do. And my sense is we're probably in process right now. So that's either awarded RFP or contract, my sense is we're probably -- it's -- I mean, it's got to be less than 30%. So because in each of these countries, you have multiple carriers. And usually, in those cases, you have one carrier that's made a move, potentially but not the entire carrier base within that customer. And I would say that's kind of the way I would see access. And then you have the optical piece, which is later. It has just absolutely started later. And some of that may be inherent capacity that they had into their network. But we really saw a big movement in, let's say, activity and awards 6 months ago. And where we saw that a year -- at least a year ago on the access fee. So I would say they're not as far into that. So I hope that answered your question.

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

So we're talking at least several quarters out.

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

Yes. Yes, definitely. Without a doubt, absolutely. Just even on the access piece, it's still several quarters out. And for the win... That's for the wins, and then you still have to operationalize them. So yes.

Operator

Our next question comes from George Notter from Jefferies.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

I wanted to ask about lead times in the optical business. Can you just give us a sense for where lead times are now and maybe where they were at the peak of the supply chain crunch. And I'm just curious how those are changing.

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

Yes. Maybe a good rule of thumb is think about it as 12 months, 4 months. General... I mean there are some that are longer, and there are some that are shorter, but I think in general, that's... That's a good rule of thumb

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George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. And then do you expect those lead times to shorten from the performance level going forward? Does that make sense?

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

In aggregate, probably not because some of the -- your way, George, some of these optical components just take a while to build. So I think a comfortable -- if you give me the latitude of 3 to 4 months, that's kind of historic. So we're kind of in that range right now.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

And then are you letting customers reschedule deliveries, I assume so. Is that fair?

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

Yes, that's fair. Yes. Okay. It doesn't help me if they have a bunch of inventory. It may help me near term, but it does'nt help me long term. Right. So yes, customers reschedule .

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

And then the other question, I was just curious about your thought process on the minority interest. Obviously, there's a piece of the ADVA business that, I guess, directionally, you're looking to take out over time. Any new thoughts on how you handle that, how you finance it, what the pacing would be.

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

So we're not in a hurry to actually retire that investment base. We initially -- depending on interest rates and things, we were looking at doing that earlier, and that's what kind of earlier in the overall process with where things sit right now, I think we're comfortable letting that sit out there and looking at it again, it is something that comes up in our Board meetings, but it's something that we're just comfortable where the current situation is right now.

Operator

Next question comes from Ryan Koontz from Needham & Company.

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

I wanted to touch on the OpEx. You talked about cost cuts. I assume these are primarily synergy-related cost cuts you've talked about historically and looking to pull those in. Can you give us any color there on kind of the slope of the curve down here and what you might expect to say exit '24 on OpEx run rate?

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

Yes, kind of easy math is kind of rule of thumb, think about 5%, 5%. 5% next quarter, 5% again quarter -- and our exit out of the year will be at that level.

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

And on the U.S. side, it sounds like some kind of ongoing strength in access and aggregation as you look across your kind of Tier 1s, 2s and 3s. It sounds like that you saw some strength in some Tier 2s executing or is that what I read in the RSP regionals?

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

Yes. Yes. That business. Actually, just on a sequential basis, it was up kind of high teens. So definitely and then they buy a lot of subscribers stuff. No subscriber was still down, but just the access and ag the LPs and stuff has actually had a really good quarter.

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

And how are lead times there on the kind of OLT type products you're rolling out? I know you've got there some product transitions there. So any comment...

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

Yes. I mean it's a good point. It is still a bare. It is still -- and it's not that we can't ship them. It is -- so somebody talked about the European business Well, that European business is predominantly our new products, 6330, -- and so the magnitude of the RAF that we're doing in the second half on that 6330 is pretty organ's probably the biggest ramp the company has ever gone through. I mean we're literally going to be shipping tens of millions of that this quarter. So and some of that is gated by product availability. But I wouldn't call it a supply chain issue. I would call that just a significant ramp.

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

Got it. And how about the U.S., how are the SDX product...

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

U.S. I think... Yes, U.S. we're doing okay. I mean there is some tightness in -- the U.S. customer base is kind of traditionally TA5000 based in port combo cards are -- I am gated by supply there. But here again, I wouldn't call that a supply issue. I am just gated by just the sheer number that we're actually shipping there. Access and Ag general is just doing really good.

Operator

Our last question comes from Bill Dezellem from Tieton Capital Management.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO & Chief Compliance Officer*

I want to circle back to the guidance. And what changed that you didn't anticipate? I guess that's what I'm really trying to get my head wrapped around is how did this end up surprising you given that you had the inventory correction on the historic ADTRAN business. Why wasn't it more obvious that this was the next year to drop?

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

Yes. And we touched on it on the last call. So the real drop in the ADTRAN business, the significant drop in the ADTRAN business was subscriber solution. So it was really RG ONTs. And we saw that also on the ADVA business, but it was on here again kind of the subscriber of the last point, which was at the IP Ethernet nets. We didn't see that big of a drop on access and ag and looking at access and Ag, we were adding new customers -- have been adding new customers. And some of that is new customers coming online. Some of that is just different pieces. So I would say the surprise was the number of push-outs in the quarter and then just a substantially slower order rate from quarter-to-quarter. It was maybe not as

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bad, but it was kind of felt a little bit like subscriber. So it was kind of in between that. So it was a -- it was the kind of halting of -- and when we go and talk to customers, I mean so the slide out is not just existing orders. The slide out is also customers that were saying, "Hey, I want to start this quarter. And now all of a sudden, they're saying, "Hey, we've gone back and we want to start next year. We want to start Q1 -- and that was it wasn't so much the number of customers. It was just that it was fairly significant customers that were doing that.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO & Chief Compliance Officer*

And Tom, using that last comment, customers that were just starting their program and choose to move it to Q1 from Q2. Do you think that's specific to lead times being shorter and therefore, they didn't have to plan a as far or something totally different?

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

No, no. I do think that, that is different. I do think that in that particular case. So first of all, there's weight on both, right? So there's wait on inventory and then waiting on project starts. And if you -- the other thing that's different about the optical business is there's a significant amount of that optical business that is project related. And those projects don't necessarily last multiple years. They sometimes last 1 year, they sometimes last 6 months. So they go in, upgrade their footprint and they're done, right? So it's not subscriber add base like it is with fiber. So what we saw is explicit, I can think of like 2 right now that literally we're going to start in Q3 and now are starting in Q1. And they didn't have inventory. So yes, that was literally kind of a rethinking of their capital for this year. I think that handles our question queue. So I appreciate all of you guys joining us on the call today, and I look forward to -- let me just make sure because I think last time I left some people hanging out there, -- that's all I see. Julien, do you see anybody else in the question the question queue?

Operator

No, we have no further questions in queue.

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

All right. With that, thank you, everybody, for joining us today. We're really not happy about the news that we had to deliver, but we do think this is a -- and we'll answer any question anybody has. This is a near-term issue that I think is a broader issue than just ADTRAN. We'll get through this issue and then all of the thesis that we've been talking about will come together. So thanks very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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