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ADTN.OQ - Q3 2023 ADTRAN Holdings Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the ADTRAN Holdings Inc. Third Quarter 2023 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 factors currently known.

However, these statements involve risks and uncertainties and 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, flight 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, 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 Services 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 very much. Good morning, everyone. We appreciate you joining us for our third quarter 2023 earnings conference call. With me today is ADTRAN Holdings CFO, Ulrich Dopfer. Following my opening remarks, Ulrich will review the quarterly financial performance in detail, and then we'll take any questions that you may have.

Before reflecting on the quarter, I'll start off by addressing the announcement that we made yesterday. We have taken decisive steps to transform our business to a leaner, more efficient and more profitable company. We have already implemented and have recently expanded a business efficiency program focused in 2 key areas: cost efficiency and capital efficiency. On the cost efficiency side, the program includes the discontinuation of legacy noncore products, the streamlining of operations to align with the current market environment and operational savings from site consolidation.

These operational cost savings are expected to generate a 15% reduction in non-GAAP operating expenses from Q3 to Q4 of this year, while preserving our substantial investment in our core products and growth regions. The capital efficiency program portion of the program includes the suspension of the ADTRAN Holdings quarterly dividend and cash proceeds from site consolidation. Regarding the decision to suspend the quarterly ADTRAN Holdings dividend, this decision did not come lightly.

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Although we believe the dividend can be an appropriate value delivery mechanism, we believe that shareholders will benefit both in the near term and long term by redirecting the cash dividend to reduce our debt and interest expense. This assessment aligns with the input we received from our investors as we reached out with a recent survey where we requested input from investors that in total held more than 70% of our shares outstanding. The majority of those that responded to the survey indicated that the dividend is not their preferred use of capital at this time.

Overall, we expect that the result of the capital efficiency program, including site consolidation will produce up to $180 million in cash in 2024, which will be applied towards paying down debt and improving our capital structure.

Coming out of this program, we expect to be a leaner, more efficient and more profitable company and one that can easily navigate market uncertainty and of course, to drive higher returns once we get past these near-term market headwinds.

Moving to the results in the third quarter. The product mix and regional split of revenues were consistent with the first half of this year, pointing out that there are no fundamental changes in demand for the product categories or regions that we're serving. However, we did see slower spending with our midsize and larger service provider customers as they continue to reduce inventory levels and took a more cautious approach given the uncertain macroeconomic conditions. This cautiousness did lead to a general slowdown in revenue for the quarter.

Looking across our customer base, our large enterprise customers and regional broadband service provider customers showed the most stability relative to previous quarters. The large enterprise customer segment primarily consists of government universities, financial institutions and web scale companies purchasing optical network solutions for public and private data center interconnect applications.

The regional service providers continue to be driven by the build-out of fiber networks across the U.S. and the U.K. Taking a long-term view, we are still making good progress on key initiatives around fiber footprint capture, high-risk vendor replacement, fiber network cross-selling synergies and adoption of our software platforms.

These are the initiatives that will drive long-term sustainable growth after the market recovers from the near-term headwinds. Starting with customer acquisition, we added 13 more fiber to the home operators during the quarter. As we bring on these fiber-to-the-home operators, we are having increasing success in selling them our complete portfolio, including our in-home WiFi solutions and SaaS applications while also driving interest in our packet optical portfolio. This growth in the U.S. is well aligned with the broadband funding still ahead of us with large programs like BEAD expected to make impact in late 2024 through 2026.

Looking outside the U.S., we continue to be 1 of the biggest beneficiaries of high-risk vendor replacement initiatives. In this past quarter, we were awarded 2 key Tier 1 Metro WDM projects, which would have likely been awarded to high-risk vendors in the past. On the fiber-to-the-home side, we have multiple large service provider opportunities in the funnel in Europe, where we are well positioned for success considering that we shipped over 75,000 ports of our new flagship OLT platform the SDX 6330 this past quarter, and this platform is an ideal fit for these customers.

While some of these vendor replacement initiatives won't produce market material revenue in this year, we are on pace to become the market share leader in both Metro WDM and fiber-to-the-home OLT solutions in Europe within the next 2 years.

We continue to build momentum in our packet optical portfolio in the U.S. regional service provider space, and we are, of course, expanding our footprint of fiber access across Europe. The timing of these opportunities is a good match to -- to enhancements in our optical trans portfolio that are targeted to the needs of regional service providers, including our new coherent pluggable modules.

Our open line system optimized for regional networks and a new generation of cost, space and power optimized optical terminals that are 800 gig ready. For the 100 ZR coherent pluggable module, which is highly anticipated across a broad range of customers, we are launching trials this quarter, and we have already received orders for future deployments.

On the software side, we added 68 new Mosaic One customers in the quarter, the second highest number in additions in any quarter, driving adoption of Mosaic One to more than 300 customers in total. This growth in SaaS has been aided by the recent launch of Intellifi, a cloud-managed

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WiFi solution paired with the launch of our next-generation WiFi 6, WiFi 6E and WiFi 7 platforms that deliver high-performance multi-gig speeds in a compact form factor.

We expect continued growth in both SaaS and our in-home platforms in the quarters ahead given the enhancement of this portfolio and the broader adoption of our software platforms. In addition to our SaaS offerings, we continue to grow our base of recurring revenue associated with hardware and software maintenance and our leading network infrastructure and network management platforms. This portion of our revenue streams offers high margins, more predictability and steady growth opportunities while contributing towards our software-related revenue that generates more than 10% of the total company revenue at this point in time.

In summary, we continue to focus on capturing fiber footprint with our optical transport and fiber access platforms, led by the U.S. and Europe and then drive adoption of our complete portfolio, including subscriber platforms, software applications and services. Despite broader market challenges, we still made progress against these goals. While we remain very confident in our long-term outlook, we are in a period of market uncertainty due to ongoing inventory reductions and more restrained capital spending across our service provider customer base, particularly in the large service customer segment.

This uncertainty led to more order pushouts in Q3 and Q4 of this year, driving us to take a more cautious approach with our forecast and operating model. We are now planning for a scenario in which the current headwinds could persist through 2024. As a result, we decreased our non-GAAP operating expense levels during the past quarter, consistent with previously stated targets, and we have set additional expense reduction targets for early next year.

Non-GAAP operating expenses were reduced 6% this past quarter relative to Q2. And as stated earlier, we expect to see additional -- an additional 15% reduction in non-GAAP operating expenses this quarter as part of our expanded efficiency program.

As noted earlier, we are still focused on investing in products and regions that are core to our growth and in the future and are still achieving our planned cost optimizations with those in mind. For continued focus on customer capture, our continued focus on customer capture in high-growth regions, new product innovation, improving margins and operational cost savings has us well positioned for long-term growth after we navigate the headwinds that are in our market.

With that, I will turn things over to Uli to provide a review of our financial results. And then following Uli's remarks, we'll open it up to any questions that you may have. Uli?

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

Thank you, Tom. And hello, everybody. I will cover our third quarter 2023 results and provide our expectations for the fourth quarter. Please note that Q3 2023 results include a full quarter consolidation of the ADTRAN Networks financials, which affect 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 investors.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.

Q3 2023 revenue came in at $272.3 million and was down 20% year-over-year and down 17% quarter-over-quarter. Our Network Solutions segment accounted for 83.9% of revenues in Q3 compared to 89.5% in Q3 2022 and 86.4% in Q2 2023. Our Services & Support segment contributed 16.1% of revenues in Q3 2023 compared to 10.5% in the year ago quarter and 13.6% in the previous quarter.

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Access and Aggregation contributed 34.8% of revenue and grew 7.3% compared to the year ago quarter, but was down 7.9% compared to the previous quarter. Our optical networking solution category contributed 42.7% of revenues and was down 2.2% year-over-year and down 18.7% quarter-over-quarter.

Subscriber Solutions continued to struggle and was down 54% year-over-year and 24.7% quarter-over-quarter and contributed 22.6% of Q3 revenues. As Tom mentioned earlier, all 3 revenue categories were impacted by constrained customer spending. Regionally, year-over-year, third quarter domestic revenue was down 34.3%, and international revenue declined 6%. International revenue made up 59.1% and domestic revenue contributed 40.9% of total Q3 revenues.

We had one 10% or more of revenue customer in Q3. Q3 non-GAAP gross margin was 40.3% and increased by 220 basis points year-over-year and 170 basis points sequentially. The year-over-year and quarter-over-quarter increase is due to lower purchasing and transportation costs and a more favorable customer and product mix. Our cost synergies are starting to show the expected effects. Compared to Q3 2024, which was a quarter with only a partial contribution, our non-GAAP operating expenses were $114.9 million, increasing by 5% year-over-year.

However, compared to Q2 2023, non-GAAP operating expenses decreased by 6%. We reduced non-GAAP R&D spend by 4% and SG&A expenses by 8% quarter-over-quarter. Non-GAAP operating expenses were 42.2% of revenue compared to 32% of revenue in Q3 2022 and 37.5% of revenue in Q2 2023. Non-GAAP operating loss was $5.1 million, which translates into a non-GAAP operating margin of negative 1.9%.

The quarter-over-quarter and year-over-year decrease in our operating profitability is due to lower revenues, partially offset by increased gross margins and operating expense improvements. The company's non-GAAP tax provision for the third quarter of 2023 was $6.8 million. The company's GAAP tax was a benefit of $16.6 million. The difference between the GAAP and non-GAAP rate was mainly driven by the jurisdictional mix of the non-GAAP adjustments during the quarter.

Closing out the income statement results. Total non-GAAP net loss was $13.7 million and a net loss of $10.8 million after adjusting for minority shareholder interest in ADTRAN Networks SE. This resulted in diluted loss per share attributable to the company of $0.14 per share.

Turning to the balance sheet and cash flow statement. Cash and cash equivalents totaled $116.1 million at quarter end. Cash flow generated from operations was $6.8 million and improved by $23 million compared to the previous quarter. Trade accounts receivables were $229.3 million at quarter end, resulting in DSO of 77 days compared to 67 days in the prior quarter.

Inventories were $374 million at the end of the third quarter, resulting in terms of 2.0% compared to 2.3% in Q2 2023. Inventory includes the write-off of $21 million as we accelerated the end of life of certain products to streamline our product offerings. Accounts payable were $148.9 million, resulting in DPO of 60 compared to 59 in the previous quarter.

As Tom mentioned earlier we decide -- we have taken decisive steps towards a much leaner and more efficient company. Furthermore, we have taken measures to delever our balance sheet and strengthen our capital structure. For this reason, we implemented and expanded a business efficiency program, which consists of a cost efficiency program and a capital efficiency program.

With the cost efficiency program, we are expecting annual savings of $90 million by the end of 2024. The key initiatives of the program are: global workforce reduction site consolidation, including partial sale of owned real estate, which will reduce operating costs and increase efficiency and then accelerated end of life of certain products.

First results of the cost efficiency program will already be effective in Q4 2023. We estimate to reduce our non-GAAP operating expenses sequentially by 15%. With our enhanced operating model, we are expecting to return to non-GAAP profitability latest by Q2 of next year and to generate positive free cash flow.

As part of the capital efficiency program, the company yesterday decided to suspend the quarterly dividend generating annual cash savings of $28 million, which we will use to contribute on the execution of our business efficiency program and to repay debt. In addition, we are executing

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our site consolidation program, which will include divestiture of certain company-owned real estate. In total, we expect to generate cash of up to $180 million, which will be used to repay our existing debt borrowings and improve our capital structure.

Ultimately, we believe that this business efficiency program will benefit all our stakeholders and will increase shareholder return. Consistent with our industry, we expect for Q4 similar trends compared to Q3 and anticipate that the ongoing macroeconomic challenges and higher inventory levels at our customers will continue into 2024, affecting our customers' ability to invest. We expect our industry being challenged through the first half of 2024.

To address these challenges, we are concentrating on aspects we can influence, specifically managing costs and enhancing operational efficiency. We are actively working to reshape our business at its core and we remain committed to implementing our strategy aimed at bolstering our strong position in fiber access and optical networking.

For the fourth quarter of 2023, we expect revenue to range between $210 million and $240 million, and we expect a non-GAAP operating margin between negative 7% and 0% of revenues. Looking beyond 2024, I would like to discuss with you our midterm financial target model, which builds on our enhanced operating model. We expect to be ideally positioned based on our existing customer base and continued success of new customer wins. Our comprehensive product and software portfolio. The future tailwinds arising from government funding and high-risk vendor replacement initiative.

And most importantly, the strength of the global ADTRAN team. We are targeting to achieve a sustainable non-GAAP operating margin in the low teens for the year 2025. This comprehensive and forward-looking financial model is designed to guide the company's growth enhance the financial stability and ensure a prosperous future for all our stakeholders.

Once again, additional financial information is available at ADTRAN's Investor Relations web page at investors.adtran.com.

Thank you for attending our call. I will now turn it back over to the operator, and we will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of George Notter from Jefferies.

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

I guess I wanted to ask about the excess inventory that's out there. If I go back, I think, 3 months ago, you guys were looking at the CPE pieces of the business kind of kind of running that inventory off by the end of the year. And I think on the optical side of the business, I think you thought maybe you could run it off by Q1 of next year. And now based on your comments, it sounds like that inventory is larger and it's going to linger for longer.

Can you talk about what you're seeing in the marketplace? Where is that inventory? And why is it a surprise to you in terms of the depth and duration of the correction.

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

Yes. George, at this point in time, I think it's -- there's -- it's a little opaque. It's exactly what is inventory versus what is kind of capital constraint. Actually, people trying to lower their expense level.

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I think the inventory levels on the CPE side, I don't think that they're high, but I think people are just starting to run leaner and leaner. And I think it's very similar on the optical side. What we've seen is we don't see a lot of inventory out there, but what we're seeing is projects actually just being moved. And as you probably know, the -- the WDM portion of that business. A lot of that is project oriented where they do an upgrade. And we're seeing those upgrades, and we literally saw that through the quarter where they were moving these upgrades into next year.

So it's not -- you wouldn't call that inventory, right? That was literally just a movement from 1 quarter to another. And that's kind of where -- that's kind of what we're seeing.

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

Got you. Okay. That makes sense. And then .

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

I would say at this point is -- let me just read it, I'd say at this point, it's probably more environmental than inventory.

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

Okay. And then maybe also, I guess you mentioned that 1 bright spot in the business was regional service providers. I think in quarters past, you guys have given us some compares on the fiber-to-the-prem OLT side of things.

Can you give us any sense for how that business was growing with regional service providers quarter-on-quarter or year-on-year?

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

Business? Yes. The OLT business in the U.S., let's say, Tier 1, Tier 2, Tier 3, the regional service providers was actually -- I don't have the number in front of me, but I've seen the number and it was actually up sequentially and year-over-year. So that is a bright spot, that piece.

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

Got it. Okay. Can you give us a sense for how big the U.S. regional service providers are as a percentage of sales at ADTRAN now?

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

Do you know Uli that.

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

About 30% -- 30%, 35%, the mid-30s.

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

Okay. Great. And then last one, I think you mentioned on the call that software is now more than 10% of sales. Can you talk about that? What I assume we're talking about Mosaic or are there other pieces here? Is it mostly in SaaS and recurring models? Is it in perpetual license model? Just talk a bit about that software business and what we're talking what we're looking at there. Yes.

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

Yes. So we don't have that breakout, but I can talk to you just kind of in general terms. So it does include all of that. The software piece there are 2 ways that we actually -- let's say, 3 ways.

We do perpetual licenses. We do software and software maintenance, right? So we have long-term maintenance contracts on that software which is typically a larger company model. And then we have our SaaS products, the most notable 1 being Mosaic. I would say if you look at recurring versus nonrecurring, which is kind of the big metric that we look at. It's about it's about 1/3, maybe 1/3 to 40% is recurring, and then the rest of it is nonrecurring, and we're doing everything we can do to move that to change that metric.

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

Got it. Okay. I appreciate it.

Operator

Our next question comes from the line of Michael Genovese from Rosenblatt Securities.

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

So I think in prior quarters, recently, we heard about the sort of larger U.S. Tier 1 and Tier 2 order softness. It seems as I look through this at the most meaningful change, with sort of inventory correction, order softness spreading to the European customers. Is that -- I mean, I don't know if spreading is the right word, but that's kind of the incremental change was the European demand getting softer. Is that -- is that a fair read?

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

I would say that's probably the environmental -- yes, that's the environment because the U.S. is already soft. The larger carriers in the U.S. were already soft. So I think we saw it in Europe and then probably more impactful on the optical side of the business. So we saw that increase. Now we kind of expected that to increase coming out of this year, not as much as it did. We really did see a lot of projects, predominantly in the U.S. -- I mean, excuse me, in Europe that just kind of shifted into next year.

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

Okay. And then if I could -- that's helpful. If I could go back to the regional service provider, when George was asking the question, what was coming to my mind is that it was really sort of Tier 3 focused question and -- but I guess it sounds like from your answer that your definition of regional includes Tier 1s, Tier 2s and Tier 3s. Can you.

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

No, no, no, on includes depending on -- I mean, the Tier 3 RSP number on OLTs was actually up. I think -- I don't think Tier 2 really affected it never includes Tier 1.

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

Got it. Okay. That's also helpful. And then, I mean, just basically, it seems like for the actual -- the third quarter, right, I mean, the weakness was really in subscriber solutions. But it must be the order intake more for Optical and somewhat for Access and Aggregation in the third quarter must have been disappointing, right, to get to this fourth quarter guide.

So -- so I mean I would say that Access and Aggregation and Optical have held up, but we're -- it seems like we're kind of -- I mean, we're expecting those to be much softer in the fourth quarter. I just want to verify that.

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

The answer, yes. I mean, we expect the same kind of pressure. Optical will be -- right now, our expectation is Optical will actually be farther down than where we expect Access and Aggregation to drop as far as on a percentage basis. So that's really -- and like I said, the project move-outs are probably the biggest thing that you can highlight as far as our kind of relooking at Q4. And then just really no rebound and no bounce up on any of the other pieces of the business.

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

Okay. Well, that's -- I would appreciate the really helpful responses. Thank you, Tom.

Operator

Our next question comes from the line of Ryan Koontz from Needham & Company.

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

I wanted to maybe come at this a different angle here, Tom. As we you're talking about capital constraints at providers here, tightening spending? And I think about that as probably as affecting the OLT business, where you have all the capital intensity around labor, putting the fiber in the ground.

And why wouldn't customers be more focused on success-based spending and lighting up helps in their existing footprint. And so why aren't we seeing CPE rebound given the customer constraints?

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

Yes, that's a really good question. And I think -- and I would agree with you. I mean there are things that are more easily moved out than other things, right? And new footprint expansion is typically one of the things that's just easier to move. Same thing with some of these WDM projects.

I think some of it is just kind of what the plan build was. So I mentioned we shipped just a ton of ports out of the SDX but that was planned for a long time, and there was part of that expansion. But I will tell you that even in that case, where we're shipping SDX ports.

A lot of it is to add more ports to kind of existing footprint. So it's kind of increasing your homes pass on that existing footprint. So they're not -- so I think even in those cases, they're trying to minimize the capital and labor cost with adding to their commitments on their homes passed.

You're absolutely right on subscriber. We expect just from the business and on the homes past ports that we're shipping now to see an uptick in that business in the first half, but we just haven't seen it -- we just haven't seen it yet.

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

Fair. Okay. That's helpful. And regarding your guide for Q4, and I heard your comments, it sounds like some of this real tightening is starting to impact Europe. I wonder specifically, I heard from another vendor about some changes in the regulatory climate in Germany as it relates to some of the fiber broadband subsidies.

And are you seeing any of that impact in your German customers included in your guide? Or is this just unrelated and driven by just pure capital conservation.

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

It's just pure capital conservation. But that is spotty. So like if I look at, let's say, Germany, that business on fiber-to-the-home, we expect to pick up even in the near term. And that's just because of where we are with 6330 lab approvals and where they are with homes passed.

Now project-related like optical business, we expect to continue to slide. So those are the 2 pieces. And in Germany, actually, we would expect a stronger -- we expect a stronger Q4 and actually Q1.

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

Okay. Great. And Uli can you remind me of the revolver terms you guys have right now? Any planned changes in that structure?

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

No, the terms are still the same. No change.

Operator

Our next question comes from the line of Tim Savageaux from Northland Capital Markets.

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

A couple of questions about the Q4 guide. It looks like based on a separate report, out of the kind of legacy ADVA, but that's expected to be flattish into Q4.

I don't know if that's a lot of decline in optical and some strength in enterprise. But -- so it would seem based on that, that most of the weakness is coming from the kind of legacy ADTRAN side. I wonder if you could confirm that and talk to whether that has a geographic focus to it in Q4?

And kind of as an aside to that, maybe ask the same question about regional service providers for your Q4 guide as you answered earlier for Q3, which is -- I don't know if you expect that to grow in Q4, but do you expect it to outperform.

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

Let me get on the first piece, and I'll ask Uli. I'm not sure how we're getting -- how we're coming to that number. But our expectation right now is the optical piece of the business is going to be down materially. That's the biggest drop. So -- and so that's the legacy ADVA piece of the business, which we do expect to be -- that's kind of the big change as those project movements. Uli, you want to touch.

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

It's going to be further down. And if you recall it, last quarter, the ADVA side of the business updated the yearly guidance down to the low teens for the year. So I don't know where you got the read from the ADVA or ADTRAN Networks that side will continue to be on that level where it's currently at. So again, the yearly guidance for the ADTRAN Network (inaudible) is in the low teens.

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

What I'm reading here is high single digits to low teens. So taking the midrange there. But really, we're on the bottom end of that range. That's fair enough.

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

Like Tom said earlier, Yes. like Tom said earlier, the order entry was disappointing on the ADTRAN on the Optical side. And the pushouts were actually the big mover, right, the push outs into next year from many of the projects that were originally scheduled for the fourth quarter.

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

Okay. Well, then it sounds like on that basis that you could have some decent expectations for regional in Q4, but I just wanted to follow up on that question.

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

Yes. It's been relatively consistent. OLT shipments have been relatively consistent, just ongoing. And they're not -- there was a period, not that long ago, where they're growing 30% or 40% a year. But at this point in time, they're kind of just flattish and we're okay with flat right now, needless --to say so. I don't have that exact number, but I would expect them to operate the way and behave the way that they have been behaving. Does that get your question?

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

Yes. Great.

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

Okay. At this point in time, it looks like we are -- we have no more questions in the queue. So I appreciate everybody joining us for the call today. We hope to very soon be able to have these calls be a little bit brighter. I just want to leave you with the solid sense that we understand the environment we're in. We're making the changes in the way that we operate the business in order to be able to weather the environment that we're in. That will absolutely play -- that will absolutely help us and accelerate the growth coming out of this period of time, but we're committed to getting it done. So thank you, everybody, for joining us today.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect.

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