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EDITED TRANSCRIPT

ADTN.OQ - Q4 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. Fourth 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, including the risks detailed in our earnings release, our annual report on Form 10-K and our filings with the SEC. 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. We undertake no obligation to update any statements to reflect the events that occur after this call.

During the course of today's call, we will refer to certain non-GAAP financial measures, reconciliations of non-GAAP to GAAP measures, and certain additional information are also included in our investment presentation and our earnings release. 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, Krista. Good morning, everyone. We appreciate you joining us for our fourth quarter 2023 earnings conference call. With me today is ADTRAN Holdings' CFO, Uli Dopfer. Following my opening remarks, Uli will review the quarterly financials' performance in detail, and then we'll take any questions you may have.

Our fourth quarter revenue came in as expected with operating profitability on the upper end of our guidance range, helped by lower operating expenses and improving gross margins. Revenue, of course, continued to be impacted by macroeconomic factors and elevated inventory levels. Given the environment, we continue to focus on managing our operational expenses and reducing our inventory levels.

Taking a closer look at the results in the fourth quarter, 62% of our revenues came from outside of the U.S., which is similar to the geographical revenue mix in the first 3 quarters of the year. On product mix, subscriber solutions was up quarter-over-quarter due to an improving inventory situation with both RGs, residential gateways and ONTs. The access and aggregation solution category was down quarter-over-quarter due to timing of orders with a couple of our larger customers.

Optical networking solutions continued to be impacted by inventory reduction initiatives with large customers. Coming into 2024, we remain focused on two strategic initiatives, the investment in fiber-based broadband networks in the U.S. and the high-risk vendor replacements centered

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in Europe. These two initiatives have driven us to broaden our presence and strategic relevance in Europe and substantially increase our product portfolio breadth for customers here in the U.S. And while 2023 presented headwinds to equipment suppliers, operators continue to invest in deployment of fiber networks across most regions of the world.

According to the Fiber Broadband Association, fiber broadband deployments in the U.S. set a record in 2023, passing 9 million homes, up 13% year-over-year from the previous year's record of 8.3 million homes passed. These results brought the total homes the U.S. passed to 77.9 million. Even with this impressive growth number, though, nearly half of the U.S. homes are still not passed with fiber.

Similar trends are happening in Europe. In the U.K., full fiber coverage increased by 4.6 million premises in 2023, according to Ofcom, now covering 17.1 million premises. As more homes are connected with fiber-based broadband, enabling multi-gigabit speeds per household, upgrades to in-home connectivity solutions and middle-mile transport are following.

These investments underscore the importance of fiber as a critical infrastructure in the modern digital economy and reinforce the continued push by service providers to connect more customers with fiber and upgrade the capacity of their networks. With several large broadband stimulus programs still ahead of us in the U.S. and Europe, including the $42.5 billion in funding from BEAD in the U.S. that is still on track to begin allocations later this year. We still have an optimistic outlook on the growth for fiber networks over the next few years.

For the U.S. market opportunity, we see real differentiation in being able to provide a complete fiber networking portfolio that spans from optical core to the customer premise and is paired with software applications that simplify and lower the cost to deploy and operate. The value of our offering was reinforced by the 15 additional fiber-to-the-home operators we added during the quarter, increasing the total for the year to 66 fiber-to-the-home operators. These operators are primarily from the U.S. regional service provider segment.

In addition to providing fiber access platforms to these customers, we are having increasing success in bundling software and in-home platforms for this customer segment. We added 50 new Mosaic One customers this past quarter and more than 225 in the past year. Our current total is approximately 380 independent operators. A lot of the interest in our SaaS applications is driven by Intellifi, our latest cloud-managed Wi-Fi offering that is supported by our latest generation of Wi-Fi 6, Wi-Fi 6E, and Wi-Fi 7 platforms in our SDG series. The enhancements that we have made to our SDG series along with the launch of Intellifi helped to drive strong growth with our residential gateways in this past quarter.

To complete our fiber networking offering in the U.S., we have our packet optical portfolio. As we have educated our customers on our full portfolio of solutions, including our latest FSP 3000 solutions tailored towards the need of regional service providers, we have been able to secure dozens of new packet optical wins over the past 6 months that were from customers that had traditionally been broadband-only customers for ADTRAN. We see this packet optical segment as offering meaningful upside for the U.S. market. And as I mentioned, it is a key component of our strategy to offer broader fiber networking portfolio solutions to our customers.

In addition to our portfolio offering, I want to highlight the value that our U.S. customers see in a U.S.-based vendor that not only has R&D support and services teams in-country, but also has a long history of manufacturing solutions at volume in-country.

When looking at the Build America, Buy America requirements that are part of the BEAD program, we are already well-positioned to address these needs with minimal changes to our supply chain. Considering the breadth of our fiber networking portfolio and the full suite of onshore capabilities, you can see why the value proposition is unique in the industry and why we are excited about the ongoing investment cycle in fiber networks for the U.S. market.

I mentioned there was a second key initiative for us, and that is a high-risk vendor replacement opportunity that is centered out of Europe. Given the current geopolitical environment, we see the high-risk vendor replacement as gaining momentum, and it is really a question of timing of the phaseout in Europe rather than a question of whether it will happen or won't happen.

Similar to our situation in the U.S., we now have a very strong regional presence in Europe, including a broad support staff and regional R&D resources. We have also greatly enhanced our local supply chain capabilities with the recent opening of our Terafactory in Germany, which was supported by significant backing from the state government in the region.

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The power of our new combined portfolio is most notably highlighted by our recent win in Europe of a Tier 1 carrier who selected ADTRAN specifically for its combined portfolio for meeting the challenges of a new service rollout they are planning later this year.

We continue to make progress with multiple Tier 1s in Europe that have previously selected ADTRAN. Q4 marked the beginning of volume shipments to our largest customer in Germany of the 6330, our flagship product, and our largest customer in the U.K. continues to pass millions of homes per year with fiber utilizing our platform. And with another carrier in northern Europe, we have begun fiber access deployments in 3 countries while being qualified for 4. We are in the lab for certification with yet another large multinational Tier 1 operator that we were selected for large-scale deployments a couple of quarters ago.

On the optical transport side, we continue to progress our Tier 1 opportunities in Europe with one of our recent new customer wins set to begin deployment late this year. We are also investing in significant upgrades to our line systems, pluggable transceivers, muxponder and software platforms to stay on the leading edge of innovation in the metro optical and enterprise optical segments.

One example of our optical innovation is our pioneering effort to introduce coherent transceiver technology at the edge of the network with our 100ZR pluggable. We have successfully completed customer trials with our 100ZR coherent optical pluggable optic, and we will ramp production of these modules this year. The 100ZR lowers the cost by up to 50% or more to provide 100 gigabit backhaul over DWDM to fiber access nodes.

A key need as service providers continue to deploy higher volumes, multi-gigabit residential access services while also delivering higher speed services for enterprise and 5G site connectivity. These edge optimized optical solutions reinforce the portfolio synergies between our packet optical and fiber access solution sets, and they drive more value to our customers adopting these combined solutions under a common suite of software tools.

In summary, we continue to focus on capturing fiber footprint with our upgraded fiber access and optical transport platforms while driving the adoption of our latest subscriber platforms to offer solutions and high value services. While we remain confident in our long-term outlook, we continue to see cautious spending from our service provider customers, driving us to take more cautious approach with our forecast and operating model. As a result, we will continue our focus on becoming a leaner, more efficient, and more profitable company with our best-in-class fiber networking portfolio.

With that, I will turn things over to Uli to provide a review of our financial results, and following Uli's remarks, we'll open it up for questions. Uli?

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

Thank you, Tom. And hello, everybody. I will cover our Q4 2023 preliminary results and provide our expectations for the first quarter of 2024. 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 webpage at investors.adtran.com. In addition, we have updated the investor presentation to this site, which is available for download. Unless stated otherwise, all financials are presented in U.S. dollars.

Q4 2023 revenue came in at midpoint of our guidance at $225.5 million, was down 37% year-over-year, and down 17% quarter-over-quarter. Our network solutions segment accounted for 80% of revenues in Q4 2023, compared to 88.6% in Q4 2022 and 83.9% in Q3 2023. Our services and support segment contributed 20% of revenues in Q4 2023, compared to 11.4% in the year-ago quarter, and 16.1% in the previous quarter.

Access and aggregation contributed 28.5% of revenue, and was down 32.9% compared to the year-ago quarter, and down 32.1% compared to the previous quarter. Our optical networking solution category contributed 38.2% of revenues, and was down 39.5% year-over-year and 26% quarter-over-quarter. Subscriber solutions was down 37.5% year-over-year, but grew 22.3% quarter-over-quarter and contributed 33.4% of revenues.

As Tom mentioned earlier, we continued to face a decline in service provider spending driven by macroeconomic challenges and ongoing inventory adjustments. International revenue made up 62%, and domestic revenue contributed 38% of total Q4 revenue. We had one 10% or more of revenue customer in Q4. Q4 non-GAAP gross margin was 41.9%, and increased by 277 basis points year-over-year, and 155 basis points sequentially. The

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year-over-year and quarter-over-quarter increase is due to reductions in manufacturing and transportation costs, and a more favorable customer and product mix.

In the fourth quarter of 2023, we successfully achieved our target with a 15% sequential reduction in non-GAAP operating expenses. Q4 non-GAAP operating expenses were $97.6 million, decreasing by 15% quarter-over-quarter, and 18% year-over-year. We reduced non-GAAP R&D spend by 18%, and SG&A expenses by 11% quarter-over-quarter.

Non-GAAP operating loss was $3.2 million, which translates into a non-GAAP operating margin of negative 1.4% compared to negative 1.9% in Q3 2023. Our operating margin was at the upper end of our guidance range of between minus 7% and 0% of revenues. The sequential improvement in operating margin was attributable to higher gross margin, and the successful implementation of our cost initiatives. The year-over-year decrease in operating profitability was due to the lower sales volume, partially offset by improved gross margins and operating expense reduction.

The company's GAAP and non-GAAP tax expenses for the fourth quarter of 2023 were $64.4 million and $73.1 million, respectively. Given the current environment, the company decided to establish a valuation allowance related to our domestic deferred tax assets during the quarter. Of course, the company will be able to release this valuation allowance as we return to profitability.

Including the $81.6 million tax valuation adjustment, total non-GAAP loss was $82.9 million and a net loss of $85.9 million after adjusting for minority shareholder interest in ADTRAN Networks SE. This resulted in non-GAAP diluted loss per share attributable to the company of $1.09 per share.

Turning to the balance sheet and cash flow statement. Cash and cash equivalents totaled $87.2 million at quarter end. Cash flow used for operations was $23.6 million compared to $6.8 million of operating cash flow generated in the previous quarter. The increased usage in cash flow from operations quarter-over-quarter was primarily driven by lower revenue inflows, partially offset by reduced expenses.

Trade accounts receivables was $216.4 million at quarter end, resulting in DSO of 88 days compared to 77 days in the prior quarter. Inventories were $362.3 million at the end of the fourth quarter, down $11.7 million compared to Q3 2023 and down $65.2 million compared to Q4 2022.

Q4 inventory included a $3.3 million write-off as we accelerated the end of life of certain products to streamline our product offerings. As Tom mentioned earlier, we remain focused on reducing our inventory levels moving forward. Accounts payable were $163 million, resulting in DPO of 67 days compared to 60 in the previous quarter.

In summary, we are still experiencing cautious service provider spending due to economic uncertainty and continued customer inventory adjustments. Given these uncertainties, we will continue to focus on aspects of our business that we can influence, such as managing our operational expenses and reducing our own inventory levels.

We are convinced that the long-term growth drivers for our business are fully intact. We expect that the investment in data-driven infrastructure and the fiber everywhere future will continue, supported by stimulus funding and the desire to reduce exposure to high-risk vendors.

We continue to focus on capturing fiber footprints with our upgraded fiber access and optical transport platforms, while driving the adoption of our latest subscriber platforms, software solutions and high-value services.

Consequently, for the first quarter of 2024, 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. Once again, additional information is available at ADTRAN's investor relations webpage at investors.adtran.com.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) George Notter from Jefferies.

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

I wanted to just ask some more questions about what you're seeing in the marketplace. You referenced inventory digestion. You referenced the macroeconomy. But I know one of your competitors was also talking about BEAD acting as an overhang on current demand. But can you tell us more about what you're seeing? Is there a BEAD effect in your business, or what can you tell us that gives us more detail on demand trends?

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

Yes. Thanks, George. So I think when you were talking about BEAD, we're typically talking about the Tier 3, the smaller carrier space. If I look at OLT shipments, specifically into that space in the quarter, they were actually pretty flattish, maybe slightly down. I would expect it actually probably a little bit to pick up this quarter. So I don't know. I guess you could say, yes, there's an impact, because that's a segment that had been growing 30%, year-over-year for some period of time.

But as to how much of that -- I don't get a sense there's a lot of inventory in that Tier 3 space. I think what we're seeing is real demand. So I would say it's -- for us anyways, it's flattish at this point in time. There are without a doubt some customers that are waiting for BEAD, and then there are some customers that are moving forward. So I would say, yes, I see the impact. But for us, that kind of points back to a flattish number. Did that answer your question?

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

Yes, that's helpful. And then I know there was an effort to look at the real estate portfolio in Huntsville and maybe elsewhere. Any update on where you guys are in rationalizing real estate?

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

Sure. We've got -- if you've ever been here, we've got 3 separate buildings here. We have consolidated everybody, and there's just way too much space, kind of post-pandemic, and even maybe a little bit pre-pandemic, as we had hiring going on post-acquisition, we had a lot of resources in Europe, specifically in Poland as well as India. So we had too much space. So we're clearing out the 2 of the towers. That should be done right at the end of this quarter. We have started showing those properties, and that's moving forward. We'd still expect second half of this year for the impact on that.

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

Got it. Any update on what kind of proceeds you might be able to get from that process?

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

Yes. So there are 2 -- I don't know if we've given specific ranges. So there are 2 different paths that we can go down, and we talked about one of those being one that is fairly straightforward to execute on, but we haven't made a firm decision to execute on that. And that's the tower, I guess what we call the East Tower, which we could do a sell and lease back on. On the North South, which is the one we're just talking about, I'm thinking it's in the range of $40 million to $60 million or something like that.

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Operator

Your 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 is the CPE, subscriber and solutions inventory correction over? Is that the right way to think about it?

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

Well, that's the way I'd like to think about it. And the real answer is I can't say -- I don't want to say yes, because I think we sell it to a lot of different people. We happen to have an uptick. We're expecting it to be kind of in the similar range during this quarter. So I would say for our specific inventory, I think we're through the deep part of that. So let me just leave it at that.

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

And can you talk about the -- on access and aggregation, just some of the timing issues some more? And I mean, we've got your first quarter guide sequentially flat, what should we be looking at as we move through further quarters given the timing on access and aggregation?

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

Yes. So we had a couple of customers, and it really was 2, one in Europe, probably can guess who that one is, and then an MSO here in the U.S. that had bought previous to that. I would expect the MSO probably to come back this quarter. The other customers are going to have a decent quarter this quarter. It'll be stronger than last quarter. And then Tier 3s I already talked about they're kind of flattish.

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

Okay. And then finally for me. I mean, just when we look at the overall guide, the midpoint of the guide, at $225, flat sequentially, I mean, you've already mentioned subscriber solutions being about flat sequentially. I mean, should we look at the other 2 optical and access and aggregation roughly flat as well?

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

Oh, yes. Let me just try to add some clarity there. Subscriber solutions, flattish is probably a good guess. It's probably a little conservative, but it's a good guess. You would expect access to be up just based off of the very specific customer thing I talked about. Optical is what we would expect to be down, as I specifically mentioned. So I talked about inventory and optical. I really didn't talk about inventory corrections impacting subscriber and our fiber-to-prem business that much, and that was on purpose. So we still think there's inventory in the optical space. We think the other 2 are easing up. And if I had to look at the mix between optical and the other 2, I would expect the other 2 to be up on a sequential basis and optical to be down.

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

Okay. And just for gross margins, does that mix make a difference for gross margins? I mean, I have a hard time thinking that gross margins would be quite as high in 1Q as in 4Q. Could you just help out with that?

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

The real shift there would be between -- is really what is the infrastructure piece of the fiber-to-prem, which is actually pretty good gross margins, versus the subscriber piece in opt-in-prem. So yes, I mean, that's just some variability we have to get through. I really don't know where that will end up until we get to the end of the quarter. We also have some easement coming in our inventory costs. We're continuing to do better than we expect to do on gross margins. So the trend itself kind of helps us along in that math.

Operator

Your next question comes from the line of Ryan Koontz from Needham & Company. Ryan? Ryan, are you on mute?

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

I was on mute. Sorry about that. Yes. I wanted to unpack gross margins in the fourth quarter a little bit there. Really nice improvement, along with a higher mix in CPE, which usually is a headwind on that line. So can you maybe unpack the kind of puts and takes there? You talked about transportation costs being down, and I haven't heard that elsewhere too much. So any comment would be helpful.

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

Go ahead, Uli.

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

The transportation cost comment was mainly related to the comparison for Q4 2022, where transportation costs were still extremely high.

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

Yes. But I talked about transportation costs specifically, just kind of the positive of that. So any other comment you want to give on Q4?

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

I'm thinking on the sequential improvement, Uli.

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

The sequential improvement is mainly driven by customer and product mix.

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

Yes. And that includes a higher mix in CPE. So I guess that implies stronger shipments to smaller customers that maybe have better margins. Is there something about that?

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

Well, the CPE is made up of several different things, and some of it depends on the actual customer itself. A 10-gig CPE versus a 1-gig CPE, for instance, makes a difference. And I will tell you, just the infrastructure business in general has been tending upwards, I think just because of the nature of the competitive environment right now. So I think that has actually benefited. And then we continue to work down kind of higher price bill of material parts into lower price bill of material parts without expedite fees. And those have all just been positive attributes coming into, really, over the last couple of quarters.

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

Got it. That's helpful guys. And one kind of broader question, maybe stepping back from the European opportunity with Huawei displacements. How would you characterize Huawei's position in the European continent today? I mean, outside of your specific projects you've talked about winning, like, were they still competing? And how would you kind of characterize the competitive environment relative to the Chinese suppliers?

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

Honestly, they're almost -- you just don't -- you don't see them that often. And when you do see them, it tends to be a pricing exercise versus a real award exercise. And I would say, if you look at it on a year-over-year basis, the number of carriers that are saying, this is not just a near-term problem, but this is a longer-term problem, to the extent that they award business to kind of a high-risk vendor, then they have to worry about, well, when does that equipment need to come out? And when can I quit taking software drops from this company? And I would -- that momentum is doing nothing but getting stronger.

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

And so, in terms of new bids, they're not competitive, but in the kind of run-rate business, they're still seeing a fair amount, I would think, of sales into the legacy footprint?

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

What you're seeing happen is, in the legacy footprint, if somebody has open slots in shelves, then they're liable to fill those open slots right now until they get through an award process or get through -- until they have an alternative. But open slots are still being filled in a large part of Europe. But new shelves coming in, you just don't see an awful lot of that. And we have some very specific opportunities where they're literally talking about taking equipment out.

Operator

That concludes our question-and-answer session -- I'm sorry. Your next question is Tim Savageaux from Northland Capital Markets.

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

Okay. Glad I was able to sneak in there. A question, I guess, about -- well, the access and aggregation market in Q4 or segment was down pretty good sequentially. And you talked about Tier 3s being flat. It sounds like that's a reference more to Q1, or could I get some clarification on that? And I know that Tier 3 also includes subscriber. So as you look at that decline in Q4, what would you -- would you attribute that more to a couple of large customers? Or does that flattish kind of also hold in Q4 versus Q1?

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

Yes. There's a nuance there that you've got to understand for it to all kind of click in there. So yes, without a doubt, the biggest issue was 2 specific customers that we had previously shipped a significant amount to. I don't consider that inventory problem. I consider that as they buy kind of in 6-month increments, right? That's just the way that they buy. So that impacted us.

If you look at access and ag, access and ag was down, but it's made up of several different things. It's made up of switching components that are sold into fiber-to-the-prem and sometimes outside of fiber-to-the-prem. And it's also made of optics, so pluggable optics that actually go along with the product. If I look at OLT shipments -- and this is a kind of a -- we're getting down into the weeds here. But if I look at OLT shipments into the Tier 3s, they were flattish. And that was in Q4. So in Q1, I'm expecting similar -- maybe slightly up, but I'm expecting something similar to that.

But if you look at optics, those vary pretty heavily by quarter-to-quarter. And the optics portion of that, the actually pluggable piece was down in Q4, and I would expect it to come back up a little in Q1. You can think about that as more inventory-specific things, by the way, right, where they may have some optics, but don't have the actual hardware components, the active hardware components in the OLT. Did that clarify anything for you?

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

Got it. Yes that's super helpful. Thanks. And just continuing on that, if you look at the competitive dynamics, and I know you discussed that with regard to some of the Huawei replacement. But again, specifically in that U.S. rural broadband market, I guess, what are you seeing there from a competitive standpoint in terms of the potential for competition to intensify here in kind of a flattish market environment or any other dynamics that you'd be willing to comment on?

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

Yes. It's pretty similar to what we saw most of last year. I mean, it's -- that market is predominantly us competing against Calix, and then in some cases Nokia. Don't see -- we're kind of the 3 that are actively in that market with Calix is who we run up against most. And the dynamics there really haven't changed. Software is a much bigger part of the story. That's why I mentioned the Mosaic One and kind of our take rate on Mosaic One has been fantastic.

We also launched a very, very good offering in our Intellifi, which is our managed Wi-Fi specifically for that segment, so -- but the dynamics really haven't changed. They're about the same. There's -- everybody's kind of getting positioned. There really haven't been any awards yet through the states, where I think Louisiana is the first one that actually has cleared all of the paths to start to get funding, and then they have to go through an award process.

So I think everybody is trying to touch every customer that's kind of potential in there. And then as the money starts flowing through, we'll start seeing who's actually winning these customers. At this point, I think we're out of questions. So I appreciate everybody joining us for the call and look forward to talking to you next quarter.

Operator

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

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