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ADTN.OQ - Q2 2024 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. second quarter 2024 earnings release conference call. (Operator Instructions) As a reminder, today's call is being recorded.

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. This risk and uncertainties could cause actual results to differ materially from those into forward-looking statements, which may be made during the call. We undertake no obligation to update any statements to reflect 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 investor presentation in 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 Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Thank you, John. Good morning, everyone. We appreciate you joining us for our second quarter 2024 earnings conference call. With me today is ADTRAN Holdings CFO, Uli Dopfer. Following my opening remarks, Uli will review the quarterly financial performance in detail, and then we'll take any questions that you may have.

While the quarter came in largely as expected. Financially, we realized non-GAAP operating profit driven by gross margin improvements and substantially lower operating expenses. Working capital was significantly reduced as we continue to decrease our inventory levels. Our non-GAAP free cash flow was positive for a second -- for the second straight quarter, and we grew our customer base across the US and Europe as customers continue to adopt our latest fiber networking solutions. We achieved all of these despite the headwinds that we are all feeling.

Taking a closer look at the results in the second quarter, we had a strong quarter in the US with revenue up across all three categories in this region. On the product mix, we were well balanced in revenue across our three categories with 36% of our revenues coming from subscriber solutions, 31% of revenues coming from Access & Aggregation solutions, and 33% of our revenues coming from optical networking solutions.

Our subscriber solutions category was up 18% quarter-over-quarter with a growth led by our residential solutions that were up 47% quarter-over-quarter. And our Access & Aggregation solutions category growth in the US broadband revenue was offset by declines in shipments

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to our large European customers, following a strong first quarter of shipments of these customers. optical networking solutions was essentially flat relative to the prior quarter.

Taking a closer look at the regional mix, we saw sequential growth in the US across all major customer segments. With these customers purchasing a diverse set of in home broadband access and optical networking solutions. From an investment perspective, we remained focused on our two key strategic initiatives, maximizing our opportunity in the US broadband investment cycle, and taking advantage of the shift away from high risk vendors in Europe.

In the US, our highest growth opportunities remain with small to mid-size operators. Our results this past quarter reflected our continued strength in these customers. In Europe, the biggest opportunity remains with large operators where we are well-positioned with our fiber networking infrastructure solutions.

Diving deeper into these two markets, I'll start with the US market, where we are seeing signs of stability after past couple of years have been more volatile as the past couple of years have been more volatile due to the supply chain crisis, followed by inventory corrections.

As noted earlier, our biggest opportunity in the US is with the small to mid-size operators in the US that really see value and trusted partners that can meet their fiber networking needs from the optical core to the customer premise. This more comprehensive portfolio continues to pick up momentum.

To give you a few highlights, we added 12 new fiber-to-the-prem customers in Q2. Most of this being US regional service providers adopting our latest SDX fiber access platforms. We also had 16 new customers adopt our SDG in-home platforms this past quarter, bringing the total number of customers adopting our latest WiFi platforms to well over 200.

The success in our SDG platforms helped drive revenue growth in our subscriber solutions category this past quarter and is closely aligned with our investment or latest WiFi 6 and WiFi 7 platforms, along with our Intellifi cloud managed WiFi solutions. For both our new fiber-to-the-prem wins as well as the in-home platform wins this quarter, a material percentage of those were actually competitive takeaways.

In our optical transport and packet networking solutions this past quarter, we had 11 existing customers in the US expand their purchases to include this equipment that were previously broadband only customers with ADTRAN. This highlights our continued success in cross-selling our optical solutions into our existing broadband access customer base and the advancements we have made in this portfolio.

In addition to cross-selling success with our optical solutions into the service provider market, we continue to grow our enterprise and ICP customers this past quarter. With a recent launch of our 800-gig transport platforms, 100 ZR pluggables, and several key enhancements to our optical network automation capabilities. We're well-positioned to continue this momentum going forward.

And finally, our long-term differentiation and portfolio synergies are driven by our software platforms. Mosaic One, our flagship software platform provides a suite of SaaS applications to provide actionable insights and proactive optimization tools to reduce network operational costs, while improving the subscriber experience.

We now have more than 400 customers with the majority of those in the US that have adopted our Mosaic One platform, including more than 200 customers that have adopted multiple applications within this platform.

Moving forward, we expect to continue to grow the basic Mosaic -- Mosaic One customers, while also significantly increasing the adoption of additional applications by existing operators using the platform. Moving on to Europe, as mentioned earlier, we remained well-positioned in fiber access and optical transport infrastructure to take advantage of the ongoing build-out of fiber networks in the region as well as the shift away from high-risk vendors.

We continue to make progress towards volume deployments late this year and early next year with multiple large European operators for both our fiber access and optical transport portfolios. In the fiber access space, the global market has been rapidly shifting to 10 gig PON platforms. In

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this technology segment, which is a key indicator for new platform deployments. ADTRAN is already a top two supplier in Europe in terms of port shipments.

We have more than doubled our market share in this segment over the last year and given our funnel of activity and existing awards, we are strategically positioned to grow -- to continue to grow in this market as we move forward.

In the optical transport space in Europe, we have maintained solid market share positioning, while the overall service provider spending on optical transport has been down for the past year as operators deplete inventory. With further consolidation in this market segment, particularly in Europe, the ongoing shift away from high-risk vendors, a significantly enhanced portfolio and our strong regional presence, we feel confident in our ability to become a top two supplier in optical transport equipment to service providers across Europe in the years ahead.

And shifting to our operational performance, as you all know, we announced a program last year focused on improving our profitability and cash flow. The result of this past quarter highlights the success that we are having with this program. Moving forward, we will continue to execute against this program and we look forward to additional improvements in the quarters ahead.

In summary, we continue to make great progress on our operational efficiency and our competitive positioning. It has put us in a great situation to take advantage of the market opportunities we see in the US and Europe. While we have streamlined our operations, we continue to invest in our strategic platforms and these investments are paying off as we see strong adoption of these platforms across the growing customer base. Having a more competitive portfolio, a growing customer pace, key market tailwinds still ahead of us, and non-GAAP operational profitability despite the near-term market headwinds has us well positioned for success moving forward.

While we remain confident in our long-term outlook and we continue to expect growth in the quarters ahead, we still see cautious spending from some of our service provider customers driving us to continue to be cautious in our approach to forecasting and our operating model. As a result, we will continue to focus on becoming a leaner, more efficient and more profitable company with a best-in-class fibre networking portfolio.

With that, I will now turn things over to Uli to go over our financial results and then we'll load up to any questions you may have.

Ulrich Dopfer - *ADTRAN Holdings Inc - Senior Vice President, Chief Financial Officer*

Thank you, Tom, and hello, everybody. I will walk you through our financials of our last quarter and provide our expectations for the third 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.

Additionally, I will discuss certain revenue information by segment and category, which is available on our Investor Relations webpage at investor.adtran.com. We've also updated the investor presentation to this site, which is available for download. Unless stated otherwise, all financials are presented in US dollars.

With that, let's dive into our financial performance for Q2 2024. Q2 2024 revenues of $226 million were similar to Q1 2024 revenues and slightly above midpoint of our guidance but were down 31% year-over-year.

Our network solutions segment accounted for 79.3% of revenues in Q2 2024 compared to 86.4% in Q2 2023 and 80.1% in Q1 2024. Our Services & Support segment contributed 20.7% of revenues in Q2 2024 compared to 13.6% in the year-ago quarter and 19.9% in the previous quarter.

Access & Aggregation contributed 30.9% of revenues and was down 31.9% compared to the year-ago quarter, also down 14% sequentially. Our optical networking solutions category contributed 32.6% of revenues and was down 48.5% year-over-year and down slightly by 1.9% quarter-over-quarter.

Subscriber Solutions contributed 36.5% and was up 0.9% year-over-year and up 18.1% quarter-over-quarter. International revenues made up 52.4% of total revenues and domestic revenues contributed 47.6%. Domestic revenues were sequentially up in all three product categories.

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Q2 non-GAAP gross margin was 41.9% and increased by 334 basis points year-over-year and 37 basis points sequentially. The improved gross margin is reflective of our ongoing efforts to optimize our supply chain and supply related processes. Q2 non-GAAP operating expenses were $93.2 million, down 24% year-over-year and down 9.3% quarter-over-quarter. The decline in operating expenses is attributable to the impact from our business efficiency program.

Year-over-year, we reduced non-GAAP R&D spend by 26% and SG&A expenses by 22%. For the second quarter of 2024, our non-GAAP operating profit was $1.5 million or 0.7% of revenues. This compares to a non-GAAP operating profit of $3.6 million or 1.1% of revenues in the year-ago quarter and an operating loss of $8.8 million or negative 3.9% of revenues in the prior quarter.

Our Q2 2024 operating margin was at the upper end of our guidance range of between minus 3% and plus 2% of revenues. The increase in operating margin and return to profitability was attributable to improved gross margins and lower OpEx.

The company's non-GAAP tax expense for the second quarter of 2024 was $10 million. Total non-GAAP net loss was $18.8 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 $0.24 per share compared to a loss of $0.02 per share in Q1 2024 and a loss of [$0.0] dollars per share in Q2 2023.

Turning to the balance sheet and the cash flow statement. In Q2 2024, we continued to improve our working capital. Trade accounts receivable were $186.2 million at quarter end, resulting in DSO of 75 days, same as in the previous quarter. We reduced our inventories by $34.2 million compared to Q1 2024. We improved working capital resulted in an operating cash flow of almost $20 million compared to $36 million in Q1 2024. Consequently, we generated $3.9 million of free cash flow. At the end of the quarter, cash and cash equivalents were $111.2 million, a quarter-over-quarter increase of $4.4 million or 4%.

In summary, we made significant strides in operational efficiency, positioning ourselves well to capitalize on market opportunities in the US and Europe. Despite near-term market challenges, our competitive portfolio and growing customer base positions us well for future success. While we remain confident in our long-term outlook, we remain cautious due to spending trends from service providers. Our focus remains on becoming a leaner, more efficient and per profitable company with a top-tier fiber networking portfolio.

For the third quarter of 2024, we expect revenues to range between $215 million and $235 million and a further improved non-GAAP operating margin range between negative minus 1% and positive 3%. Once again, additional information is available at ADTRAN Investor Relations web page at investor.adtran.com. We appreciate your time and attention and we are now ready to address any questions you may have.

I will turn now the call back over to the operator to begin the Q&A session.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Hi, John, at this point, we'd like to open it up for any questions people may have.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin our question and answer session. (Operator Instructions)

Ryan Koontz, Needham & Company.

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Ryan Koontz - *Needham & Company, LLC - Analyst*

Hi. Good morning, thanks for the question. On the access weakness here, sounds like a lot of that's coming from Europe, but maybe you can talk a little bit what's going on there in terms of the domestic transition to the SDX, kind of where we are in that transition.

And then in Europe, you talked about a very strong Q1, probably some inventory remaining to be deployed there. But any other color you can give on the European side of things and what might be behind the macro caution in Europe? Thank you.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Sure. Yeah, sure. So I would say that's exactly it. So in the US, we have access actually grew in the US, also all three product segments grew, which is the first time we've seen that in a while, so that was good to see. In Europe is specifically two customers. We had two customers that bought and they tend to buy in chunks. So it's not uncommon for them to come in in a quarter and then come in either the next -- not buy the next quarter and then buy the quarter after the quarter for that, that's just -- that's typical.

And it was specifically -- we actually had two actually that hit in Q1, and that, so those were sequentially down, but that's not indicative of anything other than the fact that that's just the way that they bought it. All the other business, the alt business and all of that was a very solid in Europe for access and ag.

Ryan Koontz - *Needham & Company, LLC - Analyst*

You said the two that hit in Q1, those were not your big ones. These are new newer customers that may be placed first orders or so?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

No. Those were existing customers.

Ryan Koontz - *Needham & Company, LLC - Analyst*

Okay. Sorry. -- And on the -- in terms of your outlook there, in terms of kind of getting Europe back on track, and you've had a number of contract wins we've talked about for a long time. How are those new wins kind of progressing through lab approvals and moving forward with deployment kind of broadly?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

So let me talk just a little about Europe. Europe on fiber-to-the-prem and from a subscriber -- the RGs, ONTs is actually fairly solid. We did have a shift, but that's not indicative of anything other than they bought and then they don't buy and they buy.

So I would say that that market is actually doing fairly well. And on subscribers, it was actually up, I mean it's. So if they didn't buy infrastructures and they bought something to connect up customers, right? So that was actually very good to see. Optical is where the biggest concern is in Europe. And we really didn't see a whole lot of change there.

I fully expect subscribers and access to have a good quarter in Q3. I think the question mark that we have is optical and right now, our expectations are for it to be kind of flattish. But that's where that's where the biggest concern is.

And then -- so you also asked about SDX, and SDX is relatively new with this kind of launch that. We launched a big suite of software for both optical and for the SDX, a little earlier this year, that's just now getting out there. I think -- I wouldn't call it conversions for some customers, if you're a

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Greenfield customer, you typically go with SDX or if you're -- you heard certain metrics. So people still buy the 5,000 and they buy the SDX. So I wouldn't call it a conversion, I would say it's either or just this quarter. We're just seeing like everybody that bought the system this quarter, that was new as an SDX customer.

Ryan Koontz - *Needham & Company, LLC - Analyst*

Got it. Just a quick housekeeping question for Uli on the tax swing. Any color you can share there in terms of how we should think about that going forward? It seemed like had a pretty big effect on the non-GAAP income.

Ulrich Dopfer - *ADTRAN Holdings Inc - Senior Vice President, Chief Financial Officer*

Yeah, that's the usual -- you see this swings throughout the quarter. I would on a non-GAAP basis, expect a tax rate of about 15% to 20%. If you do your modelling on a GAAP basis, then I would expect a tax rate of about 3% to 5%.

Ryan Koontz - *Needham & Company, LLC - Analyst*

Got it.

Ulrich Dopfer - *ADTRAN Holdings Inc - Senior Vice President, Chief Financial Officer*

For the year, right.

Ryan Koontz - *Needham & Company, LLC - Analyst*

Okay. For the year. Got it.

Operator

George Notter, Jefferies.

George Notter - *Jefferies LLC - Analyst*

Hey, guys, thanks very much. I guess I just wanted to kind of get level set on the inventory. Can you just kind of go through the different pieces of the business and kind of give us a sense for where there's still excess inventory, how long you think you'll take to kind of work that off? And then conversely, where are we down with the inventory?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Let me do it from a broad segment and any specific questions, I'd like to come back and ask. So on subscriber, it feels like there is very little inventory out there at this point. The -- we saw a sequential 47% increase in shipments into that customer base, and we expect a strong Q3 as well. So that feels like that inventory piece has worked itself out.

Now maybe not coincidentally, that was the first piece to fall, right? That was the first. So it's not that crazy that it would be the first one to be coming out. On the fiber-to-the-prem, I would say it's similar. There are still pieces where there's some inventory, but there's not a lot. And so the

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inventory situations that we'd see coming going forward, I would think would be largely what we just saw, right, where we have some customers that just buy six months at a time and then deploy it and then buy again, right?

So I don't think that there's going to be -- I would say that's the majority of the fluctuations, but that's just normal business, that's just normal how people buy. And then on optical, there's still some inventory buildup here in the US, and there's still some inventory buildup in Europe. We expect all of those -- our expectations is for those to be depleted by the end of this year. That answer your question?

George Notter - *Jefferies LLC - Analyst*

Got it. That's great. I'm sorry. So you said by the end of this year.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Right. That's correct.

George Notter - *Jefferies LLC - Analyst*

And then just shifting gears a bit, anything on the real estate side of things? I know you guys were looking at rationalizing a portion of the headquarters. Can you give us an update there?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Yeah, we still have interested buyers. I think there's three or four depending on level of interest, and that's still moving forward that processes. Some of them have hired architects to come in. So that's still -- that's still on the plate. It's a difficult thing to forecast when something like that will close, but there's still a lot of interest.

We're moving forward in the process, the real estate selling process. There are some other assets that we've talked about in the past, that are kind of non-strategic assets that we've also looking at selling them and those are moving forward as well.

George Notter - *Jefferies LLC - Analyst*

Great. Thank you.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Okay.

Operator

Bill Dezellem, Tieton Capital.

Bill Dezellem - *Tieton Capital Management - Analyst*

Thank you. I actually have a couple of questions relative to the inventory adjustments, that are taking place? What do you believe that has hurt your revenue this quarter. So if you were to normalize end customer consumption to your reported revenue, what was the delta?

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Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

It's a really hard thing. I'll take a stab at it, but Uli will probably kick me. So I think the best way to look at it -- what you're looking at is what is normalized revenue net any market share losses or gains and normalized for customer changes over time depending on their particular situation. I'm trying to figure out a way to get you a number.

Let me just put it this way. It's tens of millions of dollars, and it's predominantly in optical, is the way to think about it. So that's the biggest impact. Subscriber, like I said, has pretty much worked its way through, and there's little on fiber-to-the-prem. I don't know if that helps you at all, Bill?

Bill Dezellem - *Tieton Capital Management - Analyst*

No, Tom. I think it does. So I'm sorry, please go ahead.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

No. That was it. I mean, just in the two customers, the two large customers that we have, that still have inventories on opticals they typically buy in the tens of million dollars a quarter. And those are substantially down right now, because they're depleting inventory.

Bill Dezellem - *Tieton Capital Management - Analyst*

So basically, tens of millions, essentially times two, because each of those customers would be buying tens of millions more per quarter, would be the [start] to think it out?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Let me be a little careful with that because it's not like they're not buying anything, but I think in combination it would be tens of millions, yes. It depends on quarter-to-quarter, but yes.

Bill Dezellem - *Tieton Capital Management - Analyst*

All right. That is --

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

They're not the only inventory, -- and they're not the only inventory situation out there, they're just the most notable.

Bill Dezellem - *Tieton Capital Management - Analyst*

Right. And then, do you see any correlation between what's happening in the US, where we now have all three segments, showing growth as a leading indicator for Europe? Or is Europe really a dynamic of these two large customers and their very specific excess inventory in the optical arena?

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Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Well, so the optical space, and this is something that may be notable, the optical space -- we have one large customer in Europe, we have one large in the US that are actually hurting our optical business. Having said that, optical was up sequentially, but it was not the best quarter in the world sequentially t0o on the optical space. But the US optical business itself was able to overcome that customer not really buying. So I think it's -- I think it is more -- I wouldn't call it a precursor.

Well, maybe I mean, if you look at the US from a fiber-to-the-prem and subscriber perspective, the US and Europe were very similar except that we had to We had two customers that happen to buy a lot in Q1 and then the rest of those customers picked up in Q2, but those two customers are depleting. So subscriber and fiber-to-the-prem, I think they're very similar in Europe and in the US. I hope I didn't confuse everybody with that answer, but --

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Bill Dezellem - *Tieton Capital Management - Analyst*

I found that helpful. Thank you. It did. I'm going to switch to one additional question on the -- and this is really coming from a point of ignorance that your SaaS business is showing some signs of strength in the US. Is that an opportunity that you have in Europe? Or is the SaaS business really more going to be centric on US?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

It's predominantly, our focus right now is US. And the reason for that is making sure that it is a strong -- kind of strategic weapon that we have in winning market share for big customers. So the majority of the development right now is very much centered on US customers. So it could be yes. And we do have some interest in Europe, but our feature set development, everything is very much focused on the US right now.

Bill Dezellem - *Tieton Capital Management - Analyst*

And are there development challenges besides language to taking that offering to the European continent?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

No, it has more to do with interfaces to back office -- existing back office systems, right? So there's -- and there's some of those actually are kind of cross border, but we're very much taking the priorities based off of what the majority of US Tier 2s and Tier 3s need.

Bill Dezellem - *Tieton Capital Management - Analyst*

Right. Thank you. Appreciate the time.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Okay.

Operator

Tim Savageaux, Northland Capital Markets.

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Tim Savageaux - *Northland Capital Markets - Analyst*

Hey, good morning. A couple of questions here. First, you'd mentioned kind of the buying patterns among your big European guys, one big quarter and then maybe one or two off. But as you look into your Q3 guide, what are your expectations there? What are you modelling with regard to what you're going to see out of your big European guys?

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

We're not expecting a huge uptick. I think we'll see that later in the year. Now there's two different ones, and they don't necessarily buy at the same cycle. So it wouldn't be that surprising to see one of them come in stronger in Q3. But at this point in time, that's not in our expectation. Needless to say, based off of the environment, we're trying to -- we're trying to continue to make our guidance number. So there's a little bit of conservatism in that.

Tim Savageaux - *Northland Capital Markets - Analyst*

Got it. And that's kind of where I was heading next, which is you're looking for three flat quarters here around the $225 million on a level, composed quite differently, I think, from a geographic and product standpoint. My question was going to be, is there any reason to think there could be an uplift here into year-end as you stand here now? And you kind of spoke to that there, and I think may have said maybe, but please go ahead and expand upon that if you could.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Well, I think what we're trying to do and maybe it's a nuance that's too nuanced. You see us continuing to tried to tighten the range of the numbers. We had a very broad range coming into the year because it was so difficult to see how the customers were reacting on kind of a monthly basis, right?

That has gotten better. Visibility has gotten better. The surety within our forecast, it's gotten better. The biggest unknown for us right now is really kind of the optical space and has that bottomed out or where's the bottom of that? And when does that actually start adding? On the subscriber and fiber-to-the-prem space, we feel very good right now. So the direct answer to your question is we're hopeful that we'll see an uptick this quarter and we're probably even more confident about fourth quarter than third quarter. That's where we sit today.

Tim Savageaux - *Northland Capital Markets - Analyst*

Got it. And you keep setting me up here with your answers. So on the optical side, i was very intrigued by your commentary, your aspiration for top two in Europe. And I had a couple of questions around that, which -- and also the cross selling that you mentioned in the US, obviously, a lot going on with Lumen these days. Historically a big customer of yours on the Access side. And this kind of segues into another one of your comments around strategic changes in the landscape.

I guess the broader question there is what kind of opportunities are you seeing anything anecdotally in real time, coming out of the planned merger of Nokia and Infinera? Obviously, big Lumen shop there at Infinera.

So I wonder if you might see any opportunities there as they go about building this giant data center network. But more broadly, is it really the merger that drives you to target that top two position in Europe, which is -- which would be pretty meaningful? So kind of all over the map here question wise, but I think you know where I'm going.

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Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

Well, I think the way we look at when we were -- when we've been bidding in Europe right now for optical gear, there were really -- there was always Nokia. There was always Ciena. There was always Infinera and there was us. And there will be one less.

And I think our technology is very competitive in the metro and regional space that we play in. I think we win our fair share. I think our fair share, just on a percentage basis goes up. And I think we have very deep relationships with a lot of those large customers in Europe. So I feel good about Europe. US, I don't know if that's going to be any new inroads or not necessarily -- there's any time that you did have a merger like that, there's potential disruption, so we'll have to see how that plays out.

Tim Savageaux - *Northland Capital Markets - Analyst*

Okay. Thanks very much.

Thomas Stanton - *ADTRAN Holdings Inc - Chairman of the Board, Chief Executive Officer*

At this time it looks like I think we're out of question. So I appreciate everybody joining for our conference call, and we look forward to talking to you next quarter at this time.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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