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# EDITED TRANSCRIPT

ADTN.OQ - Q3 2024 ADTRAN Holdings Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

**Uli Dopfer** *ADTRAN Holdings Inc - Senior Vice President & Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**George Notter** *Jefferies LLC - Analyst*

**Michael Genovese** *Rosenblatt Securities Inc - Analyst*

**Timothy Savageaux** *Northland Capital Markets - Analyst*

**Bill Dezellem** *Tieton Capital Management - Analyst*

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

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the ADTRAN Holdings, Inc., third quarter 2024 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 statement to reflect the events that occur after this call.

In addition, the financial measures discussed during the course of this conference call are preliminary estimates. They consequently remain subject to the company's internal controls and procedures and are subject to risks and uncertainties, including, among others, changes in connection with quarter-end adjustments.

Finally, during the course of today's call, we will refer to certain preliminary non-GAAP financial measures. Reconciliations of non-GAAP to GAAP measures and certain additional information are also included in our investor 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.

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

Thank you, Rochelle. Good morning, everyone. We appreciate you joining us for our third 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 will take any questions you may have.

We executed according to plan in Q3 and made improvements across several key operating metrics. During the quarter, we continued to grow our non-GAAP operating profit and generated positive free cash flow for the third consecutive quarter. Our quarter-over-quarter performance was driven by further improvements in our non-GAAP gross margin as we maintained our reduced cost structure and grew revenue.



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During the quarter, we also saw signs of further improvement in customer activity and bookings. Geographically, 55% of our revenues were generated outside of the US as we experienced higher demand from both our EMEA and APAC regions. Both the US and non-US regions benefited from a 10% sequential increase in large service provider sales.

Diving deeper into the portfolio details, optical networking solutions added 13 new carrier customers this past quarter as we continue to introduce our optical portfolio to our fiber broadband customer base. As we have previously noted, we had expected our optical networking revenue to bottom in Q3, and we continue to believe that that will have been the case. While revenue was in line with our expectations, bookings continue to accelerate, supporting our optimism.

In our Access & Aggregation Solutions, we began shipping products to 12 new carrier customers. Revenue in our Access & Aggregation Solutions was up outside of North America. However, it was down slightly in the aggregate due to slower sales in the US.

We expect revenue from our Access & Aggregation Solutions to increase in the upcoming quarter. Our Subscriber Solutions category increased 9% quarter-over-quarter. This growth was driven by an increase in sales of our residential ONTs and RGs, which were up 25% quarter-over-quarter and a strong 102% year-over-year.

Within this category, we added 11 new customers to our latest SDG series of Wi-Fi platforms. As demand for fiber broadband continues to grow, we expect to continue to increase our revenue and customers in this category. In addition to residential broadband, we continue to see strong demand for our carrier Ethernet CPE Solutions as carriers connect more businesses with higher-speed fiber services.

Looking ahead, you may have seen our recent press releases announcing customer trials to bring 50-gig PON connectivity to the market. As customers begin to realize the value of converging residential, business, and mobile backhaul into a single network, the breadth and power of our open disaggregated networking platforms will further differentiate ADTRAN from our competition. While 50-gig access technology is still in its early stages, we remind listeners of the ascendancy of XGS-PON, which has quickly become the preferred access technology for PON deployment.

The adoption of these higher-speed access technologies is an ideal match for our broader fiber networking portfolio. As service providers deploy higher-speed access networks, they must upgrade their backhaul networks with a mix of 100, 400, and 800-gig coherent optical solutions.

We currently offer edge optimized transport solutions to address this need. To support these new access technologies, we have a full suite of in-home networking platforms, SMB Solutions, and Carrier Ethernet CPE to address the full range of subscriber connectivity needs.

This complete solution offering from the core to the customer premise is managed by our Mosaic software suite and covers everything from optical networking automation to proactive in-home network monitoring. With it, we partner to help service providers deliver best-in-class subscriber experiences as they automate the scale of their fiber networks.

Transitioning to our operational performance, we continue to make progress with the program we launched last year to improve our profitability and operating cash flow. The results can be seen in our non-GAAP gross margins over the last nine months of 2024, which improved from 38.6% last year to 41.9% this year.

This improvement was directly related to operational efficiencies and lower overhead costs that were driven by both site and product consolidation. This past quarter's performance paired with our improved outlook reinforces our confidence that our long-term operating model of gross margin percentages in the low to mid-40s and operating profit percentages in the low double digits.

We continue to move forward with our capital efficiency program as we are working to monetize nonstrategic business side assets. We hope to update you next quarter on tangible results as we continue to progress.

In summary, we had a successful quarter in terms of improving our financial positioning while growing our customer base and investing in our strategic platforms as major opportunities in the US and Europe are still ahead of us. While we remain confident in our long-term outlook, we expect more meaningful growth in the current quarter.



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We will continue to -- and we expect more meaningful growth in the current quarter. We will continue to take a cautious approach with our forecast and operating model given the relatively cautious spending we still see from our service provider customers. This approach has proven to be successful over the past few quarters, and we have stabilized our results in a difficult macro environment, and we expect meaningful improvements in profitability once market conditions improve.

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

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**Uli Dopfer** - *ADTRAN Holdings Inc - Senior Vice President & Chief Financial Officer*

Thank you, Tom, and thank you to everyone on the call this morning. I will first walk you through our Q3 2024 financial performance, and then I will discuss our expectations for the fourth quarter.

Revenue in the third quarter was $227.7 million, a sequential increase and above the midpoint of our guidance. Our Network Solutions segment delivered $181.5 million, accounting for approximately 80% of total revenues in Q3 compared to 79% in the prior quarter.

Our Services & Support segment delivered $46.2 million or 20% of total revenues in the quarter compared to 21% in the prior quarter. From a product category perspective, Access & Aggregation delivered $67.1 million or approximately 29% of total revenue, which was down 4% sequentially. Our Optical Networking Solutions was $70.5 million or 31% of total revenues. This was also down 4% sequentially. Subscriber Solutions was $90.1 million or 40% of total revenue, and this was up 9% sequentially.

We had one customer represent more than 10% of our revenue in the quarter. Non-GAAP gross margin during the quarter was 42.1%, an increase of 17 basis points sequentially. The improved gross margin is reflective of our ongoing efforts to optimize our supply chain and supply-related processes.

Non-GAAP operating expenses in the third quarter were $93.3 million, in line with levels in Q2 2024. For the third quarter of 2024, our non-GAAP operating profit was $2.5 million or 1.1% of revenues, which was again above the midpoint of our guidance range. This compares to a non-GAAP operating profit of $1.5 million or 0.7% of revenues in Q2 2024.

The increase in operating margin and profitability was attributable to improved gross margins and stable OpEx. Non-GAAP tax expense for the third quarter of 2024 was $1.1 million. This is a result of the non-deductibility of impairment charges and losses for which no tax benefits can be realized.

Including the $2.4 million dividend attributed to the minority shareholder interest of ADTRAN Networks SE as well as $3 million credit related to an adjustment to the redeemable noncontrolling interest in the non-GAAP interest -- the non-GAAP diluted loss per share was $0.05 negative compared to a loss of negative $0.12 in Q2 2024.

Turning to the balance sheet and cash flow statement. During the quarter, we continued to improve our working capital by $33.9 million. Trade accounts receivable were $172 million at quarter end, resulting in DSO of 70 days. This compares to 75 days in the prior quarter.

Our inventories were down to $282.9 million at the end of the quarter. Accounts payable were $173.4 million, an improvement of DPOs of seven days. The improved working capital resulted in operating cash flow of $42 million compared to $19.9 million in Q2 2024.

Consequently, we generated $23.2 million of free cash flow in Q3 2024. At the end of the quarter, cash and cash equivalents were $88.5 million, a quarter-over-quarter decrease of $22.7 million. This decrease includes the scheduled annual dividend payment to the minority shareholders of ADTRAN Networks SE of $10.1 million and $17.4 million in repurchases of ADTRAN Networks SE shares that were processed during the quarter.

In summary, we have made significant strides in our operational performance and execution. Revenue increased on a sequential basis, we expanded gross and operating margins, and we generated positive free cash flow during the quarter.



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We are seeing improvements in each of our key end markets and are growing our customer base. The continued trend to increase fiber access and optical transport globally is a catalyst that we believe will help us to drive accelerated profitability and increased cash generation.

Turning now to our outlook for the fourth quarter. We expect revenues to range between $230 million and $245 million and non-GAAP operating margin between zero and positive 4% of revenues. Once again, additional information is available on ADTRAN's Investor Relations web page at investors.adtran.com.

And finally, I'd like to welcome the addition of our new Vice President of Investor Relations, Peter Schuman, who many of you may know. Peter is here today with us, and he will be ramping up his new role. Please reach out to him for any Investor Relations inquiries.

This concludes the prepared remarks portion of the call, and I will now turn the call back over to the operator to begin the Q&A session.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) George Notter, Jefferies.

**George Notter** - *Jefferies LLC - Analyst*

Nice to see the improved results and free cash flow generation. I guess, I'd like to start just by kind of getting an update on where the excess inventory situation is right now. I know that the optical business, I think, was the area that's most recently been struggling with excess customer inventory. But can you give us an update on kind of where that is? And when you think that inventory will be gone and when you expect the business to improve?

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

Yeah. So I think I mentioned in my notes, George, that the -- we did see a pickup in bookings in the quarter, which was good to see because as you know, the bookings have been dropping for a few quarters now. So I think that's directly related to inventory situations at customers.

We still have a customer, I'm not saying that there aren't other smaller ones, but a customer in Europe that has an inventory hangover that we think will last through probably the first part of the first quarter, but I think our expectations are that -- and what we're already seeing from that customer, they don't have everything of everything.

So we're already seeing pickups there. But that's kind of the last big overhang that I'd say is notable. And on the CPE side, I mean, we've had some pretty strong growth there. So that seems to have worked itself out for the most part and same thing on Access & Aggregation.

**George Notter** - *Jefferies LLC - Analyst*

And then I was also curious -- by the way, when you talk about that particular customer in Europe, I think you're referencing more optical inventory as opposed to the product lines.

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

Yeah, everything -- yes, that's correct. Now the other product lines are -- but I won't call this optical. Let me be clear about -- I mean, inventory, but let me be clear about this. We have large customers that buy in chunks, right? So they'll buy a big block of equipment and then they'll deploy it



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over two to three quarters, then they'll buy another big block of equipment. I wouldn't consider that inventory. I consider that just how they operate. And -- but that's an ongoing phenomenon that will always be there.

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**George Notter** - *Jefferies LLC - Analyst*

And then I also wanted to ask about sort of the real estate update. I know you guys said you're going to give people a bigger, I guess, disclosure next quarter. But anything you can say? Obviously, you guys are in the process on the North and South towers. I think there was a sale leaseback option here on the East building. I'm just curious on where that is now.

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

I'd just say it's moving forward. I mean we have interested parties, more than one. I think that the financing of different things, for instance, the sale-leaseback environment has gotten better as well. So we're hopeful we can actually dig into more detail on the next call.

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**Operator**

Michael Genovese, Rosenblatt Securities.

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**Michael Genovese** - *Rosenblatt Securities Inc - Analyst*

It is nice to see the better results. I agree with that. And I want to dig in on the sustainability of the better trends. So this is kind of a broad question, but can you get -- because I want to ask about both North America and EMEA and the big opportunities that you're seeing in front of you, both for existing business, so the kind of key drivers of the existing business and then the new wins that you are going after. So I know that's a lot of questions in there, but I'd love to hear your comments.

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

Yeah. I think it's both. So we have some customers, as you're aware, that are just ramping up. So I would call those existing wins. Some of them are operationalized not at all, right? And then some of them are, as I mentioned before, we expect to be operationalized right around the beginning of the year.

And now that operationalization happens. And sometimes we're talking about a national carrier that's just very country specific. And Germany is an example of that. UK is an example of that, albeit both of those have old carriers as well. But then we also have some multinationals that we're bringing online. So those are coming on country by country.

I mentioned, I think, on the last call that Sweden is one of those larger countries where we have kind of a wholesale swap out that's going to be happening. And although we're already selling to, I think, 3 countries with that carrier, we have another country that is yet to be online.

So we have several of those that will be coming online in the first half with some of them happening right around, let's say, January, February. And then we have new carriers that we have won that are not yet -- one of them I'm just now getting into the lab with. That's a multinational carrier. We expect that the first country there to be deployed will probably be in Spain, and that will happen later on in the year. So it's really a mix.

And then you have -- to really complicate things, you have BEAD coming in, which is also a mix. We have carriers that are current plans are that they're going to be deploying and accessing BEAD funds, and those are existing customers, and we have quite a mix of those that you're aware.

And then we have new customers that are just going to be popping up left and right out of some of them are very new municipalities or whatever that may actually jump into that mix. So I think it's a broad mix of different customers.



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**Michael Genovese** - *Rosenblatt Securities Inc - Analyst*

So if we could kind of summarize though. So I mean, the guidance is the best sequential growth we've seen for a while in the fourth quarter.

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

Yeah, that's generally, yes, that's generally the base.

**Michael Genovese** - *Rosenblatt Securities Inc - Analyst*

But let's talk about next year. What are you thinking about growth?

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

Yes, that's generally -- I mean what we're seeing right now, it is still -- well, it is -- there -- let me see if I can summarize it in a different way. Our existing customer base is improving. And I would say that the majority of what we're seeing right now in order activity is with our existing customer base, right? And so now I'd consider what we do in the UK as existing customer base. I consider what we do in Germany as existing customer base.

So yes, that's really where you're seeing that improvement. And I think that's just a matter of inventory drawdown, there is without a doubt, a big push on fiber deployment. For most of the customers I talk to, their fiber acceptance rate when they're the first one in the community is very strong. And we're seeing that in our subscriber business. So I would say -- I think your question is new versus old. And I think really, if we're talking about it in the near term, it's going to be heavily driven by existing customers.

**Michael Genovese** - *Rosenblatt Securities Inc - Analyst*

Two more for me. Is there -- I think you said you had 13 new optical customers in the quarter. Is there -- are you seeing any impact from the announced acquisition in the space? The companies that have been acquired didn't seem to do any better in the service provider business. So is share gain from them happening now? Or is that more in the future?

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

I don't think it's moving the needle now. I think -- I know that there are RFPs that have been generated that we're in a more favorable light because of the potential disruption and what happens when you try to merge product lines. But I don't think it's not near -- it didn't materially move that customer base, the add-on customers that we have.

**Michael Genovese** - *Rosenblatt Securities Inc - Analyst*

And then final one for me. I guess, in a scenario if BEAD were to just not happen, I mean, first of all, do you think that that's a possibility now given the election this week? And then secondly, how much would that impact you? How important is BEAD? Would there be other drivers in the US market if that could replace some of that if BEAD were to go away? What do you think about that?

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

There are multiple drivers, not just in the US, but around the world. And the fundamental driver is people want fiber. And so if there's an end-user demand, it's typically satisfied to the extent that it's not a very rural area. And you've got carriers today, some of them have been public about it,



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that are setting up their capital structure to deploy fiber. And you even got private equity coming in to help bolster that capital structure. So I think it's going to be built.

Now you can argue about the elongation of the time line depending on how rural you are. But this phenomenon that we're getting into right now is not a BEAD driven phenomenon. I think BEAD just adds fuel to that fire.

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**Operator**

Tim Savageaux, Northland Capital Markets.

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

I want to focus on the uptick in guidance for Q4 as well, but maybe along a couple of different lines. It sounds like given the commentary on bookings and your previous comments on optical, you might expect that to grow in Q4. But anything to call out there from either a segment perspective in terms of what you see the potential to drive that sequential growth or also US versus international?

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

We are stronger international than in the US with optical. So I mean, without a doubt, Europe is growing. We expect some growth here in the US, too, and that's -- we have added some we'll call it cross-sold customers here in the US, we've started to add -- those are starting to come online. So there'll be some there. But to be honest with you, what's driving that optimism is just we've seen an increase in the booking rate. And that's pretty much across the board.

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

Yeah, that's where I was going to follow up there. So you'd expect similar types of increases across segments, I guess, is what you're saying, maybe a little more biased toward Europe.

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

Yeah, yes. Well, the answer is yes. I mean, if I had to -- and you're asking me to, so knowing as little as I know right now, yes, I would expect all of the segments of the business to be up in Q4.

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

And I want to follow up. I think you made a comment about Q3 about large carriers increasing 10%. And I'd like to get a little more color on that. Is that commentary across segments, I guess?

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

Yes, that's across segments. That's total business.

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

And you mentioned Access & Aggregation down in the quarter in the US. So I assume that large carrier commentary is probably also internationally or maybe European focused.

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

Yes. It's literally, if I look at the large carrier segment, I think every geographic region that we serve was up. Just some were up more than others. Did you get that?

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

I did. Yes, trying to take notes and mute and unmute here. -- Okay. Last one for me, and I think you kind of answered this to some degree with the existing customer. But you are adding a pretty substantial number of new customers.

So for looking at the quarter or quarter of the outlook, to the extent that's existing customers, are we looking at '25 -- and I distinguish between net new customers and ramps that haven't -- that have been won and haven't occurred.

Maybe if you look at those two categories, some of the new customers you went through here on the call as well as the ramp of deals that you mentioned that are already in process, it sounds like that should be a -- those should be '25 growth drivers more so than [NPR].

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

Yeah, absolutely. Yeah, the new growth drivers are heavily weighted. Yes, they'll be in '25. I mean the whole key to us is getting -- you know this, you've been following the business for a while. It's all about how long does it take you get through the lab. I mean that's the hardest part, and that's the hardest part to forecast. Having said that, we've got a few that are really at the very tail end of that, that will -- that should happen in the first quarter, and then they'll just be coming on after that. Does that answer your question? I'm not sure if I did.

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**Timothy Savageaux** - *Northland Capital Markets - Analyst*

It does.

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**Operator**

Bill Dezellem, Tieton Capital.

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**Bill Dezellem** - *Tieton Capital Management - Analyst*

Tom, you've essentially touched on this with your answer to several different questions, but I want to very specifically ask you to discuss the meaningful deployments that are ahead of you. And I think that's the phrase that you used in your opening remarks. Would you dial into that as much as you can, please?

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

Yeah. So as you're probably aware, but we have to be a little bit customer sensitive here, but we have talked about a multinational that has multiple countries that were already deployed in three of those countries. Sweden will be the last one that will be coming on hopefully towards in the first quarter of next year.



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We have another very recent win. I don't think it's been publicly announced that will be coming on. It's hard to give a time frame on that because it's a very large carrier. Our first deployment, our first country for deployment is Spain, and then they have properties throughout the world, including South America. And so that's one that will be -- now we have to compete in each of those areas, but that will be one that I think in aggregate, it will be a very good customer.

We also have another carrier that I spoke to before that we expected to be through the lab at the end of this year. That's a Tier 1 carrier, a multinational Tier 1 carrier that I think is progressing really well. In fact, we may already be through the lab and now we're into an FOA. Those are the biggest ones.

We have some carriers both in the UK and in the US that are kind of at a different tier, but they're still material carriers. We have one that is here in the US that has started rolling out with the SDX that has very good growth plans, kind of recapitalized and are moving forward. I would say we have two of those here in the US that are doing that.

And the driver for one of them is it's basically going out and just being first in market. And they are -- without getting too much into the names, I mean, they're very well known for the activity that they've been doing. And then we have another one that's been in market for a long time, a very large Tier 2 carrier that is looking to go and upgrade their network to 10 gig. And all of those are opportunities that will come to fruition in 2025.

So it's a broad mix. And then you got BEAD that just -- it's kind of hard to list the number of customers. We have a very large MSO that hopefully will be participating in a meaningful way in BEAD and then we have a bunch of other carriers as well as Tier 1s, right, in the US. So it's hard to give you a complete list. But in general, I would say '25 is looking good.

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**Bill Dezellem** - *Tieton Capital Management - Analyst*

So Tom, we have followed you all for a long time. And the number of deployments that you're talking about seems significantly greater than what we would normally think of in the past. Is that a fair perspective? And so essentially, we're now transitioning from this difficult drought, if you will, due to the inventory reduction that's taking place across the industry to almost the opposite where the monsoons are coming with many, many deployments. Are we thinking about that right?

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

I hesitate with the term monsoon because I'm just such a -- I tend not to like to trade. But in general, I agree with your sentiment. Yeah. I mean we have never had this many opportunities where we have -- this is not opportunities that were in RFP. This is opportunities that we've won, but we've never had that many come online.

I mean if you look at all of the opportunities that we've talked about over the last year, 1.5 years or so, right, one of them is really in full deployment. One of them has just started in full deployment and all the rest are at different stages, including some that were at the tail end of getting into deployment. So I would say, absolutely, yes.

In the US, I think we've been through somewhat of a slow period. And you've gone through kind of a recapitalization period with some of these carriers, and now they're out and their whole mission in life is to deploy fiber. And as if you follow the industry for any period of time, we have never seen such a wholesale move towards a new access technology ever, right? It's just never been there. And you have government stimulus that may or may not come. I think it's going to be really, really hard to unwind. But I would not say it couldn't be unwound because things that you think can't get done, get done sometimes.

But it does not all change the underlying driver, which is people want fiber connectivity and they'll pay for it. And so I think the premise of your statement is correct. I hope it's a monsoon. I'll be -- I'd love to go out and sit in the rain.

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**Operator**

Ryan Koontz, Needham & Company.

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

Most of my questions have been answered, but maybe, Tom, one last swing at the US broadband business, and let's call it your run rate business, not new customers, not BEAD related. But just think about '25 with your existing customer base. What is your view on that? Are there some setbacks there?

Are there still some of these Tier 2s that are going through a recap or going through a PE acquisition that are still sounding like softer next year? Or do you think your run rate business from '24 to '25 looks pretty stable and can see some growth.

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

Yeah. All right. So taking BEAD out is kind of a BEAD takeout because it's hard to know how much of the environment is being impacted today by BEAD anticipation. So it's kind of an unknown probably weight that's on the market that if BEAD doesn't happen, then that weight goes away, right?

So I do think you have people that are thinking, "Hey, let me figure out what BEAD opportunities I'm going after and how aggressively I have to bid before I kind of set in stone my entire capital plan." So that weight is on there today.

So if you take BEAD out and say that BEAD is gone and that weight is gone, I guess, maybe the easiest way to answer it is I don't know of any customer today that's a material customer to us that I would expect softer. I don't see softer. There may be some that end up being (multiple speakers)

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

No, I'm (inaudible) that the BEAD goes way, but it certainly could be delayed, right, with the change in administration and it could move completely out '25.

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

It could. But I think -- I do believe, and I could be wrong here, but I do believe the BEAD weight on capital spending is already in place. So softer would be difficult. I mean you can only be softer for so long before you have a problem, right? At some point in time, somebody is going to overbuild that. Unless it's a really real rural area, right? I think there is just a demand driver that is somewhat of a kind of constant pressure on getting something built.

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

Yeah. And of that run rate business that you have in the US this year, how is it kind of roughly split between Tier 1, Tier 2, Tier 3 for you? Can you remind us?

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

This year, it has been definitely more Tier 2, Tier 3, less Tier 1. I think you understand the reason.



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

Yeah. And then on the optical side, can you remind us where you're seeing the most traction for the products that you acquired through ADVA? Like which -- where is your wheelhouse? If you look at that big optical business, what applications are you seeing the most traction with? Is it more like --

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

It's metro edge. There is some growth on the enterprise side for secure optical, but it's metro edge, large enterprise. And in metro edge, I would lump backhaul of aggregation networks. That's our sweet spot. We're strong in pretty much all of Europe, including the large carriers. And then it's being introduced into the Tier 3, and we're seeing positive movement in the Tier 3 space here as people start to figure out how they're going to backhaul their networks.

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

One last question here. Can you update us on your thinking around the minority shares in terms of where that is now on the balance sheet and what your thinking is forward? Are you seeing redemptions? And I know the -- what can you comment that you can share with investors about what your plan is there?

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

Yeah. I mean so there's a bunch of shareholders. There are some fairly large ones that we stay in contact with. I don't think the mindset on those investors have changed. The typical redemptions, we do see redemptions from time to time. We did see a redemption, but it was a very unique case.

This last quarter, really no change. I mean we -- right now, our mission with our capital plan, to be honest with you, is pay down our debt. When we pay down the debt, we have the ability then to figure out what we want to do over time, we plan on taking those shares and taking them off the market, but that's -- our first thing right now is just get rid of our debt.

**Operator**

George Notter, Jefferies.

**George Notter** - *Jefferies LLC - Analyst*

Just a quick one. I noticed that your DSO calculation was down, I think, five days. Is there an improvement in linearity here? Or is there improvement in collections? Or what drove that?

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

Uli.



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**Uli Dopfer** - *ADTRAN Holdings Inc - Senior Vice President & Chief Financial Officer*

Yeah. It's just -- essentially, it's customer mix. And then, of course, we put a lot of effort in collections also, but it's just the result of how customers fall and how our shipments fall. Sometimes in our industry, it's usually quarters are pretty much back-end loaded. And sometimes it moves the needle in the one or the other direction.

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

Yeah. I think linearity probably got a little bit better, George, but I don't think it materially changed. I think it's still back-end loaded.

Okay. All right. It looks like we are out of questions. Thank you very much for joining us on the call this morning, and we look forward to talking to you next quarter.

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**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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