



an NTT Communications Company

Transcription

ADVA Optical Networking

October 25, 2018

EV00080930

00:00 - Operator

Dear ladies and gentlemen, welcome to the conference call of ADVA Optical Networking for the 3rd quarter 2018 IFRS financial results. This call is being recorded. As a reminder, all participants will be in listen only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty hearing the conference, please press star key followed by zero on your telephone for operator assistance.

May I now hand you over to Mr. Stephan Rettenberger, ADVA Optical Networking's Senior Vice President Marketing and Investor Relations. Please go ahead, sir.

00:41 - Stephan Rettenberger, ADVA Optical Networking's Senior Vice President Marketing and Investor Relations

Yes, thank you and welcome from my side.

This earnings call builds on a presentation, which is available for download in PDF format from our homepage under www.advaoptical.com in the 'About Us/Investors' section. Should you not have the presentation in front of you, you may want to access it on the conference call's page in the 'Financial Results' section of the 'Investor' section of our website and before we lead you through the presentation, as always, please be informed that this presentation contains forward-looking statements with words such as beliefs, anticipate and expect, to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These factors are discussed in greater detail in the 'Risk Report' section of our Annual Report 2017.

Please also be reminded that we provide consolidated proforma financial results in this presentation, solely as supplemental financial information to help the financial community make meaningful comparisons of our operating results from one financial period to another. This proforma information is *not* prepared in accordance with IFRS and should not be considered a substitute for historical information presented in accordance with IFRS.

Proforma operating income or loss is calculated prior to non-cash charges related to the stock compensation programmes, and amortisation and impairment of good will and acquisition-related intangible assets. Non-recurring expenses related to restructuring measures are not included. Unless stated otherwise, all numbers are presented in euro.

We will target to limit this conference call to 60 minutes. As usual, Brian will start and provide our business update and outlook, and the Ulrich will talk us through our Q3 2018 financials. And finally, we will have sufficient time for your questions, which we'll be happy to answer.

Brian, please go ahead with the business update.

03:06 - Brian Protiva, CEO of ADVA Optical Networking

Thank you, Stephan. We will start as usual, on page 4, Q3 2018 in Review.

Q3 revenues reached euro 126.2 million, up sequentially from 123.8 million in Q2 2018, and nicely up year-over-year from 11.2 million in Q3 2017. This is near the mid-point of our guidance corridor, provided on July 19th 2018, of between euro 123 million and euro 133 million.

Moving to the next bullet, our Q3 proforma operating income was at euro 6.8 million, or 5.4% of revenues and was up the upper end of guidance of between 2% and 6% of revenue. As forecasted, we actually amortised more R&D costs than we capitalised, which demonstrates the strength of our results. For the first time in many quarters, we have not only shown sequential growth, but also annual growth. We continued our solid performance and further expanded our growth margins. We were able to, once again, demonstrate continuity, good execution and focus. Notably, our strategic investments are delivering returns. This is our fourth consecutive quarter with growth, whereby strong margins and good profitability are building a foundation for driving greater shareholder returns.

The optical market continues to consolidate, but remains competitive, while the packet edge and synchronisation solutions portfolio are delivering according to plan and are helping us to secure a stable and long-term growth plan.

Moving to page number 5, prospects for Q4 2018. We will continue to strengthen our balance sheet by tightly managing our costs and driving greater growth in some of our highly-differentiated products in both our packet edge solutions area and our edge and NFV portfolio. The forecast for the current fourth quarter continues to point to sequential growth, and again, year-on-year increases. At the beginning of the year, we had communicated the objective of achieving moderate sales growth in 2018 also on an annualised basis. As already described in the previous earnings call, this target has become a real challenge due to the weaker than expected revenues in the first half of the year. Annualised, we will still have to replace strong ICP revenue numbers from one of our larger ICP customers who made large revenue contributions to the first half of 2017. Only in the case of an exceptionally strong fourth quarter, well beyond our financial guidance, will it still be possible to reach or surpass the full year revenues of 2017.

Nevertheless, the positive order intake and the overall positive mood among numerous important customers provide a solid backdrop for a good fourth quarter. In terms of profitability, we remain committed to the outlook for the year as a whole. Measured in terms of proforma operating income as a percentage of sales, the profitability of the group is expected to rise to mid-single digit levels. Every revenue euro means more to us in 2018 than 2017 due to our increasing growth margins. As I mentioned in the previous slide, the optical market continues to consolidate. Coriant, one of the most price-aggressive competitors, has been acquired by Infinera. Our profile as the European headquartered leading innovator with global reach and footprint continues to support revenue growth and differentiation within this market context.

On the next three slides, I will outline my view on our position in our three technology segments.

Page 6, open optical networking. More than two thirds of our revenue are driven by our flagship product, the FSP 3000. Our focus will be to leverage the metro core upgrade cycle at our carrier customers to drive additional optical revenues by expanding the use cases at both at existing and new customers. We are also aggressively pursuing DCI opportunities with open line systems and we are introducing a number of new products for this market segment in the coming months.

In addition, we are going to win new footprint for flexible and programmable 5G infrastructure where we can leverage all three core technologies and our software expertise. We believe for the first time, there will be opportunity for networking equipment manufacturers other than the big three mobile network providers to win real share due to the virtualisation of certain parts of the network and the differentiated technology needed for 5G. The investments are too big and the lock in too great for carriers to solely rely on the big mobile network equipment vendors. See our latest announcement around a TIP-led disaggregated cell site gateway, being supported by Vodafone, Telefónica and Facebook earlier this month.

Our optical business is moderately positive as we continue to win an even greater number of CloudConnect customers. With the addition of our Teraflex features, we will be expanding our CloudConnect product architecture, making winning further footprint that much easier. Our fibre assurance solution allowed us to open the doors with one of the world's largest ICPs, so we are now serving four of the top ICPs with ADVA networking solutions.

And finally, our MicroMux product is shipping with increasing volume. We continue to invest in open and disaggregated optical solutions as well as our software defined strategy in order to support our customers looking at flexible capacity in the network, in order to support cloud-like flexibility in carrier networks.

Moving further to page number 7, physical and virtual packet edge. With respect to our second technology segment, we have a number of opportunities to grow our ADVA packet edge market share. The first and primary goal for 2018 has been to protect our MRV customer base and drive cross-selling initiatives with our NFV solution or other ADVA products. We have been very

successful here. Next, we plan on expanding the customer base for cloud access solutions to offering both physical and virtual packet edge solutions for complete flexibility and secure access. They can choose to use our all-in-one hardware solutions, which lead with price performance, or to use our software solutions over their cloud infrastructure on white boxes to build secure, high-bandwidth and software-defined onramps to data centres or cloud infrastructure. These are cloud-native solutions and can be run on any public cloud. Container-based solutions, in fact.

Furthermore, we plan on accelerating revenue contribution from our Ensemble of software solutions as we see a lot of activity from the carrier landscape and our win rate is increasing. This is based on our comprehensive product strategy, ease of use, secure platform, and some of our latest features such as zero touch service delivery, or provisioning for both carriers and enterprises. We have also introduced a number of new layer three features, increasing our total available market for our packet edge solution. The list of potential customers is growing and our reach is at a never before seen scale. We have positive revenue and margin growth in this area, and we are close to signing significant new contracts in addition to the wins we have already published, such as Masergy, Cloud and Verizon, Colt who all selected our ensemble software universal CPE solution.

Synchronisation, page 8. We are winning multiple footprints and winning rapidly with our synchronisation strategy. So far, we are leveraging our large footprint in the carrier space, but there are a number of other customer segments which we will successfully expand into. We are using our technology leadership and synchronisation to further improve overall corporate margins and win new footprint, where we then can cross sell our other technologies. With the decision for 5G infrastructure builds being made now, we have all the pieces in order to offer a comprehensive portfolio with core, access and sync software insurance solutions which far exceed our competitors. Our recently introduced new products put us well ahead of the competition. We are also developing pure software solutions for sync and timing to address new segments. Accurate and scalable time and frequency synchronisation will continue to grow. This enhances our ability to leverage optical, packet and timing technologies for next gen networks.

My final slide, page number 9, the investment focus moves to the edge. It is important to reiterate that our industry is pivotal to the long-term success of the digital revolution. Digitisation is progressing rapidly across all ecosystems. Applications like the smart workspace, connected homes, smart robots, autonomous driving, augmented reality, artificial intelligence, the Internet of things, all drive the transformation of the network. A transformation that is built on openness, virtualisation and security. And a transformation that moves the investment focus to the edge of the network. The market is coming to our sweet spot. The edge is where ADVA performs better than all competitors. As a company, we have aligned ourselves strongly and invested exclusively in strategically important future technologies, technologies that enable new, digital business models.

Optical transition technology delivers the required bandwidth, physical and virtual edge technologies bring the cloud and related services closer to the customer, and our synchronisation technologies guarantee the level of timing needed in high performance networking. All of these things make the difference between success and failure in the digital world. With our innovation specifically, we are well positioned for the future. And with that, I hand over to Ulrich with more details on our financials.

15:12 - Ulrich Dopfer, CFO of ADVA Optical Networking

Thank you, Brian and hello, everybody. Let's move to slide 11.

As already stated, we entered Q3 2018 with revenues of 126.2 million euros. This result is within our revenue guidance range of 123 and 133 million euros, and in percent an increase of 2% compared to Q2 2018 and 13.5% year-over-year. A more favourable customer and product mix combined with cost reductions resulted in a further increase in growth margins to 37.5%. This compares to 36.7% in Q2 2018 and 35.2% in the year ago quarter. These effects are also reflected in the strong proforma operating income of 6.8 million euros or 5.4% of revenues, which compares to 6.1 million euros in Q2 2018 and a proforma operating loss of 0.8 million euros in the same period of the previous year. Also, this result is within our guidance and in fact, at the upper end of our guidance, which was between 2% and 6% of revenue.

Let's move to the next slide. Quarterly IFRS profitability. In Q3 2018, IFRS operating income came in at 5 million euros for 4% of revenues. Net income was at 3.9 million euros for 3.1% of revenues, slightly down from the 4.6 million in Q2, but this was caused by FX effects and slightly higher taxes. As the number of rated average shares outstanding has not changed significantly, diluted EPS developed in proportion IFRS net income to 8 cents per share.

Slide 13, please. Quarterly revenues per region. In Q3 2018, Asia-Pacific contributed 15% of total revenues, representing a total growth of 133% compared to Q3 2017. Americas, after a strong Q2, the region contributed 37% of the total revenues. This is 4.9 million less than in Q2 2018, but 3.9 million up compared the year ago quarter. EMEA continues to be our strongest region and contributed 48% of total revenues.

Next slide, please. IFRS balance sheet. Compared to Q2, overall networking capital is up by 10 million, and ended at 131 million. Inventory increased slightly to 80.1 million and is up from the 76.3 million seen in the previous quarter. Due to a backend loaded quarter, both the account receivables and account payables increased compared to the end of Q2 2018. In Q3, we refinanced the 55 million bridge loan used for the acquisition of MRV with a syndicated loan, providing us additional financing power for further growth. The equity ratio increased from 49.1% to 49.7 %.

Next slide, please. Slide 15, guidance for Q4 2018. We project Q4 2018 revenues of between 126 and 136 million euros with a proforma operating income to range between 3% and 7% of revenues. This guidance includes expected adverse effects from increased import duties to the US. We continue with our upward trajectory and remain committed to a flexible cost and operating model that allows us to quickly adapt to changing market conditions. We will continue to perform detailed reviews of the expected business development in respect to all intangible assets, including capitalised development projects. In case of highly adverse business prospects, such a review may result in non-cash impairment charges in Q4 2018 and beyond. The proforma operating income guidance we have provided today excludes any such potential impairment charges.

With that, I would like to summarise today's call, slide 16. We have good execution and focus; our strategic investments are delivering returns. Q3 2018 was the fourth consecutive quarter with top line growth. Solid profitability confirms that we are on the right track to further scale the business. The forecast for Q4 continues to point to more sequential growth as well as the year-over-year increase compared to Q4 2017, which makes 2018 the year of solid revenues and profitability providing us with a foundation to accelerate in 2019. The global growth drivers, cloud immobility, the preparation of the network infrastructure for 5G and the digitisation of all ecosystems drives the investment focus to the network edge, creating new opportunities for us with multiple-based wins.

Our open, programmable, optical transmission technology offers significant value in terms of capacity, flexibility and automation to network operators, large enterprises, and Internet content providers, delivering the unlimited bandwidth to interconnect the cloud. Physical and virtual edge technologies transform the speed and flexibility for service creation, delivery assurance bringing the cloud and related technologies services closer to the customer. Our traction with our cloud access solution is growing and we are winning more and more designs. And last but not least, our technological advantage in network synchronisation is growing. We are developing a strategic presence with tier 1 network operators and have the most comprehensive and advance technology portfolio to deliver the precision needed in high-performance networks. Our new technologies help our differentiation and drive additional growth.

I thank you for your participation in today's call, and with that I would like to turn the call over to the operator to begin the Q&A portion of the call.

22:32 - Operator

Thank you very much. Ladies and gentlemen, we will now start our question and answer session. If you would like to ask a question, please press 01 on your telephone keypad now. Your questions will be answered in the order they are received. If you are using speaker equipment today, please lift the handset before making your selection.

One moment please, for the first question.

We received the first question. It is from Tim Savageaux, Northland Securities, your line is now open, sir.

23:16 - Greg, Northland Securities

Hi, guys, this is Greg in for Tim Savageaux, Northland Securities today, thanks for taking my questions.

First, I was just wondering if you are seeing any disruptions or opportunities from the Infinera-Coriant merger?

23:28 - Brian Protiva, CEO of ADVA Optical Networking

I think it is a little bit early to see, definitely we have heard from some customers that they are wary just because commitment to which products, therefore there should be some opportunities for us and for all competitors in the market space because of that acquisition and, clearly, I think the period is going to go for one to two years of opportunity.

23:53 - Greg, Northland Securities

Okay, understood.

And second, I was just wondering if you could provide some colour on the timing of 600G ramping.

24:01 - Brian Protiva, CEO of ADVA Optical Networking

What we had said is, you know, we are demonstrating products this quarter to customers, we will have initial shipments next quarter and then Q2, moving into Q3, we will start to have volume shipments of the 600 gig per wavelength capability. Everything looks really good and the data shows that we have specs that are superior, far superior, to anything else on the market presently.

24:34 - Greg, Northland Securities

Got it, thanks.

And then, just finally, could you provide some detail on the extent to which the synchronisation business can continue to improve your gross margins looking forward?

24:43 - Brian Protiva, CEO of ADVA Optical Networking

Well, it is a much smaller market than the optical market and the packet edge, so clearly, fewer competitors, and therefore it is higher gross margin because it is also much smaller deals. That will continue, and I think, as of now, all carriers are making decisions presently, they have been doing it for about a year and a half depending on which country you are in pretty much will be through all these new service provider decisions within the next 6 to 18 months, you know, 6 to 12 months. And everything that we are winning is solid gross margin and we are going to go after other verticals efficiently, I think, because our technology allows us to expand into utilities, finance markets all sorts of things, autonomous driving, all sorts of different verticals, including the ICP space. We like it, but it is a small niche market. We want to build this business to be a 100-million-dollar business, but it is step by step and it is not a potential to grow to 500. It is going to be nice growth for us, it is going to be a nice leg to stand on, it is going to be higher growth margins and nicely profitable for us.

25:53 - Greg, Northland Securities

Got it, thank you.

25:57 - Operator

We have no further questions for the moment, as a reminder, please press 01 on your telephone keypad if you would like to ask a question.

Next question we received is from Mirko Maier, LBBW, your line is now open, sir.

26:15 - Mirko Maier, LBBW

Hello, thanks for taking my question.

First, I will start with something for Ulrich. Income from capitalisation of R&D was negative in Q3, so is this something we have also to assume for Q4 and perhaps also for whole year 2019?

And a second question on margin. In Q3, could you split the effect between your change in the customer product versus the cost reduction in the margin improvement please?

26:49 - Ulrich Dopfer, CFO of ADVA Optical Networking

Hey, Mirko! Nice to have you on the call.

First question, I would assume for Q4 it may be for your modelling for the next year 0 income from capitalisation. For the year, of course, it is a little bit early to say, but just for the modelling I guess you are on the safe side.

27:10 - Mirko Maier, LBBW

Okay, great.

27:15 - Brian Protiva, CEO of ADVA Optical Networking

The second one is margins. I think margins have been increasing over the last four quarters. Product and customer mix is a big influencer, clearly. We can have quarters that go down, but in general the cost-reduction piece of it is one important piece coupled with innovation. We are in a very competitive industry, so we need all pieces, both innovation of new products with a much higher bandwidth or differentiated products coupled with cost reductions to increase gross margins. Right now, we are thinking, we have said, our average of the second half of 2018 will probably be similar to our average going into 2019 and that, probably, margins will be a little bit lower in Q4, but that is still to be seen in the ball park. We are stabilising and you can expect to continue those gross margins as quickly as we have had over the last four quarters.

28:22 - Mirko Maier, LBBW

Okay, but the customer and product mix is the bigger share of margin development than the cost reductions until now.

28:33 - Brian Protiva, CEO of ADVA Optical Networking

I think I would like to say it differently, it is that over the last four quarters, new product introductions and cost reductions have helped us to secure steadily increasing gross margins, but product and customer mix can mean that any given quarter, our margins do decrease or increase based on that mix. I cannot really weigh it like you are asking it, because it is two different models.

28:59 - Mirko Maier, LBBW

Okay, great.

I was on a call from Nokia just a few minutes ago and they were very bullish on their Q4 when it comes to the 5G network rollouts. How is this playing out at ADVA, perhaps this is also a bigger part from your revenue improvement in fourth quarter or is this something we have to wait until next year, 2019?

29:32 - Brian Protiva, CEO of ADVA Optical Networking

If I am Nokia and I'm not bullish (on 5G), I am in trouble. I think they better be bullish.

I think ADVA is much more stable and the reason is because of exposures to many different, you know, the network layers as well as different use cases. 5G is one of our growth parameters. It is now starting to be rolled out depending on the region, step by step, but it is something that is going to take 5, 6, 7, 8, 9 years from a volume perspective. It is a good growth vehicle for ADVA starting, yes, a little bit in Q4, but it is an evolving issue. It becomes a lot higher in 2020 clearly, or 2021, than in the end of 2018. I like it, opportunity is there, and as I indicated in my presentation, it is going to be much harder for the Nokias and Ericssons and Huawei to go in to carriers and solution sets. It all comes to me, because the carriers themselves have to take costs out, they have to have simplification of their networks, the number of small cells or remote radio heads increases radically, investment dollars are going up unless they save money on the network investments. What it means is new structures, new technologies, open RAN, virtual RAN, lots of opportunities for third parties to come into that market segment and take market share. We believe that it is a huge opportunity, much bigger for some of the others outside of the business looking on in than it is for the large OEM suppliers. I think they are going to fight very hard to keep their market share moving forward and you might have seen our announcement move forward with the Vodafones, Telefónicas, and Facebook for a distributed cell site gateway where it is going to be monetising pieces of the network with the support of large carriers, giving us more opportunities, more market segments to grow into. Very interesting area, we are not as dependent as Nokia is on this space. It is starting to evolve - I do not see a major uptick or a big step up in Q4 specifically in 5G, but it is slowly evolving.

31:49- Mirko Maier, LBBW

Okay, great, thanks.

And they have all [inaudible] some component shortage in optics and routing, that is nothing you have to deal with?

31:57 - Brian Protiva, CEO of ADVA Optical Networking

I think that we are doing a lot better. I think we told you from a supply chain issue that things, standards, passive components and various other things were short in supply. We feel much better about that moving forward for the rest of this year. I think our strategy was the right one on how to manage it and we are [inaudible] is full and the delivery schedules and dates are decreasing again for now.

32:24- Mirko Maier, LBBW

Okay, great.

And then, the last question to your ICP customer segment in the United States. In your report you have mentioned your investments and your direct sales. Has anything happened in the recent months [inaudible] did you bring some new customers in this specific area that you could share with us?

32:48 - Brian Protiva, CEO of ADVA Optical Networking

Specifically, ICP, we won the fourth, one of the big ones and a direct contract for fiber insurance, our first step into that account as an example. We won a major insurance company, we are winning multiple different enterprise accounts, so yes, we are winning deals as we speak. We believe we are in the middle of a nice pipeline build in North America, so we see North America as one of our regions of strength through our direct sales organisation in Q4 and moving into 2019.

33:24- Mirko Maier, LBBW

Yes, but pipeline is not revenue. How did the timeline [inaudible] field play out?

33:32 - Brian Protiva, CEO of ADVA Optical Networking

As I said, Q4 and 2019.

33:34- Mirko Maier, LBBW

Okay.

33:35 - Brian Protiva, CEO of ADVA Optical Networking

We believe the flow of order entry in the North America is increasing nicely for us in this quarter and into next year.

33:46- Mirko Maier, LBBW

Okay, great. Thanks.

33:52- Operator

Thank you, next question we received is from Robin Brass, Hauck & Aufhaeuser, your line is now open, sir.

33:58- Robin Brass, Hauck & Aufhaeuser

Yes, thank you. Hello, everybody.

I have two questions. One again on ICP. What is the current share of revenues in ICP and what is your, let's say, outlook going forward? Do you think that this is slightly growing as a percentage of revenue or what would you say is your gut feeling for 2019?

And the second question. I didn't hear something wrong. I think when Ulrich gave the Q4 outlook you mentioned also US trade tariffs. Was that correct? And how exactly would you be affected by any trade tariffs at the moment?

34:34 - Brian Protiva, CEO of ADVA Optical Networking

The first point we said, you know, high single digits to maybe 10% on any given quarter. I think we are staying consistent in that range. We do have some things, and I think the fibre assurance opportunity is not going to fundamentally change that, it just adds. We have a direct contract and we are now starting to work for cross-selling into some of the areas where we have larger revenue sales, which is good, so we have four direct contracts and then we are bringing the latest technology like the Teraflex to market. We hope to compete very effectively with that product to win further share there. If we win with the Teraflex, we will grow that percentage in share. If not, I think we would stay in the high single digit to 10% range, but like I said, there is an opportunity for us if we perform well to increase that in 2019.

That is the one point, and the second is the tariffs?

35:29- Ulrich Dopfer, CFO of ADVA Optical Networking

The tariffs, I guess everybody, Robin, who is importing components from China into the US is impacted by the tariffs. For us it is probably half a percentage point in gross margin as a whole in the quarter depending on how it falls, but in this range.

35:43 - Brian Protiva, CEO of ADVA Optical Networking

That is a very mitigated number. We were able to - only a portion of our products are manufactured in China, we also have in Europe and distribute them in a global supply chain strategy, always have had that. We are able to move things around quite nicely, point one.

Point two, we are mitigating as we speak, and the products that would hurt us the most, the volumes get shifted and then we have a long-term platform if it gets worse next year with 25% to make sure that our exposure actually decreases from the .5% in this quarter by 50% in Q1 and continues to decrease throughout next year. It will not have a major impact, but a smallish impact in our numbers, but that is part of our guidance.

It has been included.

36:38 - Robin Bras, Hauck & Aufhaeuser

Okay, thank you very much.

36:43 - Operator

Thank you. We have no further questions for the moment. As a reminder, please press 01 on your telephone keypad if you would like to ask a question.

We received a further question from Andrew Schmitt. Your line is now open, sir.

37:06 - Andrew Schmitt, Signal AI

Thank you. I have a question about the 5G opportunity. You talked about selling in the TIP-based product. Do you see that as primarily a hardware opportunity where you couple that with software from, let's say, Cumulus or do you see that as an opportunity to also put in also some of your layer-2, layer-3 software on top of that commodity hardware?

37:28 - Brian Protiva, CEO of ADVA Optical Networking

We have our own software platform, and in this case, it is ours. We do work with Cumulus, though, for the Voyager and have the first projects, and the way you would envision the model is that we can source - let's say it is essentially kind of a white box. We can source that product from Edgecore or others that can build the product because it is all public open source type of specs, pop our software architecture on that and we can offer it in around a service wrap about all the logistics, the support, the services, etc. A carrier could buy it from us like they buy apps or products in thousands or even ten thousands of units. It would be very professional, very competitive, very price-competitive because also the hardware costs will be driven down annually and there is no tie-in. There is independence of that. And then there will be a number of different software platforms on top of that, I imagine. Again, we were announced as the partner, first to market, etc. And why are the carriers doing it? Because they are spending far too much money on cell site gateways. And when they look at the build of the 5G infrastructure, they want a very specific product and they want to spend half of what they are spending today because the volumes are going to double, triple. There is an incentive from an industry to drive more efficient models. And ADVA is going to be - it is not eating our lunch in any way or form. We are moving from the layer-2 market and the NFV edge universal CP into that cell site gateway. It is a very natural progression for us.

39:13 - Andrew Schmitt, Signal AI

And also, you talked about North America being an area of strength going in to Q4 and into 2019. Is that specifically from the large ICP sector or is that coming from some of your more traditional large enterprises or small and medium enterprises when you are talking about those direct sales?

39:32 - Brian Protiva, CEO of ADVA Optical Networking

Broad-based. It's broad-based across the board and we wonder if we will have a joker, you know, we are not planning for that. We think we can grow nicely as an organisation, but the joker would be that we do go expand the percentage of revenues in the ICPs.

39:50 - Andrew Schmitt, Signal AI

Thank you.

39:55 - Operator

Thank you, there are no further questions at the moment. As a reminder, please press 01 on your telephone keypad if you would like to ask a question.

There are no further questions. I hand back to the speakers.

40:16 - Brian Protiva, CEO of ADVA Optical Networking

Thank you very much for your participation. I look forward to talking to you as individuals through IR, CFO or with me directly. And we will talk latest end of February. It is our largest break from a financial call perspective. Please reach out to us, thank you very much.



40:37 - Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded, you may disconnect.