Transcription

ADVA Optical Networking – First Quarter 2021 IFRS Financial Results

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22 April 2021

PRESENTATION

00:00:00 Operator

Dear ladies and gentlemen, welcome to the conference call of ADVA Optical Networking for the first quarter 2021 IFIC financial results. This call is being recorded. As a reminder, all participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulties during the conference, please press star key followed by zero on your telephone phone for operator assistance. May I now hand over to Mr. Steven Williams ADVA Optical Networking Director, Treasury and Investor Relations. Please go ahead sir.

00:00:39 Steven Williams

Thank you, and welcome to ADVA's q1 2021 financial results conference call. In addition to this call and the press release, we have posted a presentation, which is available for download from our homepage ADVA.com on the conference call page in the financial results section of the About-Us/investor section. Before turning the call over to Brian, please be reminded that this presentation contains forward looking statements with words such as believes, anticipates and expects to describe expected revenues and earnings, anticipated demand for networking solutions, internal estimates and liquidity. These factors are discussed in greater detail in the risk and opportunity report section of our annual report 2020. Please also be reminded that we provide consolidated pro forma 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 performance information is not prepared in accordance with IFRS and should not be considered a substitute for historical information presented in accordance with IFRS. Pro-forma operating income or loss is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill 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 a business update then Uli talk us through our q1 financials and outlook. And finally, we will have sufficient time for questions, which we'll be happy to answer. And with that, I'll turn the call over to Brian.

00:02:50 Brian Protiva

Thank you Steven. Let's move to page number 4, standard start: q1 2021 highlights. Today, we report the best q1 results in history of ADVA. We've never posted higher revenues in the first quarter of financial year and we've never achieved higher profitability, generated more cash or recorded a better quarter intake. For more than 12 months, the Covid 19 pandemic has caused global turmoil. However, throughout this time, our customers have continued developing and expanding their high performance digital infrastructures using our technology. This network infrastructure has ensured that large parts of the world's economy continue to function even under the most challenging conditions. Our quarterly revenues were up 8.9% year over year and reached euro 144.5 million. Proforma operating income increased significantly to euro 12.9 million, which represents 8.9% of revenues and is euro 14.5 million higher than in q1 2020, furthermore, with excellent cash generation, which allowed us to reduce our net debt by euro 57.1 million over the last 12 months.

The pace of digitization in many countries has increased noticeably as a result of the pandemic. This has had a positive impact on our industry and created numerous new opportunities for us as a company. This positive demand development comes at a time where we see increasing returns on the business transformation that we started in 2019. On the following slides, I will recap the three pillars of our transformation and comment on q1 specific highlights within these pillars.

Page 5, accelerating traction and growth applications. Our investments in new technologies give us access to new markets in which we can operate in a highly differentiated, and that's profitable manner with growth rates above our corporate average. We will address new, high quality applications for communications service providers, and internet content providers, and, especially in Europe in the US, we will seek to take market share from Chinese suppliers. In the context of 5G and wholesale operators, we expect our business with communication service providers to grow. In q1, we showed great strength in Europe and expect that we can gain further market share in this region. Furthermore, we are working diligently with our expanded partner base to help enterprises on their journey to become more digital. We are upskilling our own sales force in applications that drive growth. This is part of an overall strategy to open new markets outside of the traditional carrier market. More and more industries require secure network infrastructure, in the best case a private network and seek a trusted partner for these solutions. In q1, we had great traction with state and federal government projects in Europe and the US. In order to achieve these results, we are leveraging our innovation leadership and synchronization, security, and network operating systems. The revenue contribution from customer segments outside the carrier space is expected to grow from currently around 30% to over 40% over the next three years.

Page 6, expanding software and services. Software services have always been an integrated part of our solutions portfolio. However, in the early years of our company, we had little focus on breaking these areas out, licensing our management software, or developing standalone software solutions. We evolved and by 2019, we were able to increase the share of software and services to 20% of our sales. In 2020 the contribution increased further to 23% and of our almost 1000 engineers about 60% now work in software development. In addition, we are leveraging new tools and products, such as our state of the art software licensing platform, our ensemble software solutions are getting stronger, and especially the newly launched network operating systems ensemble connector and ensemble activator have high growth potential. Furthermore, and as I mentioned on the previous slide, our new partners for enterprise IT have started to build us a pipeline for software business. As important we are also expanding our competencies in our service portfolio to bring new professional services offerings to the market. We are combining the use of highly skilled engineers able to address differentiated services with AI and ml capabilities in order to upgrade and expand our customer services opportunity. Software and services have a high attachment rate with our existing customers and will continue to support our positive margin development. In q1 Software and Services jumped to more than 26% of revenues, we plan to continue to grow this contribution to more than 30% over the next three years.

Page 7: new revenue streams through verticalization. ADVA has always stood out for open solutions that work well with technologies and solutions from other suppliers. We've also built an open ecosystem on the supply side so that we always have access to the best technologies from a wide range of best in breed suppliers, which we then integrate and support within our system solutions. At the same time, it is important to maintain control over crucial parts of the value chain. This includes components and subsystems that either ensure additional differentiation on the product side and thus increase competitiveness or decisively improve the cost base of our own solutions. We've started numerous activities in the field of photonic integration. These include optical transmitter and receiver modules, as well as highly integrated multiplexing solutions, which we successfully market. These pluggable modules are required in our own systems and provide added value for neighboring technology areas such as switching, routing, and 5G RAN technology With the activities in the field of photonic integration, we are sustainably improving our cost base and opening new markets. The revenue contribution from these modules is expected to grow to over 10% over the next three years, and to 15% by 2025. This should be one of our strongest growth areas. Earlier in q1, we had announced expansion of our

MicroMux™ family of portable multiplexers. The new nano version is now going into production. We expect nice revenue contributions from new OEM customers interested in the product over the coming 12 months.

And to my last slide, page 8, macro dynamics, opportunities, and challenges. As stated in our previous earnings call, we've experienced some nice tailwinds on the demand side. The pandemic accelerates digitization efforts in many regions and countries while at the same time we observe a trend around globalization. The realization that communications infrastructure is an invaluable asset for all economies and companies has also prompted a rethink in politics and business. Rather than just delivering cost effective bandwidth, the focus is increasingly on security and creating a trusted network infrastructure. This change in perspective comes at a time when years of industry consolidation have reduced the number of credible players in our space, limiting the choice that operators have. For ADVA, this new dynamic creates additional opportunities. Our profile as a Western network equipment supplier with a European American corporate culture, strong innovation and a solid business model is being perceived extremely positively. In a network operating environment that increasingly favors local value creation and secure technologies, we can open new doors and gain market share in Europe, the USA, and other parts of the world.

While the demand environment continues to be strong, we also have our challenges to conquer. Since the beginning of the COVID-19 crisis, production and supply chain complexity has increased substantially. Higher transport costs and bottlenecks in various components currently require a lot of flexibility and agility. More specifically, we see a number of shortages and longer lead times from the semiconductor component suppliers. We are working with our customers on extended forecasting so that we can secure the necessary quantities of the required components at an early stage. Nevertheless, the current boundary conditions will result in temporarily larger inventories and longer delivery times for select products in our portfolio. ADVA has already demonstrated the necessary flexibility and agility in the last 24 months to solve both trade war challenges and the pandemic. And we will continue to do so moving forward with component shortages. Much of the savings that we are realizing in travel and events are being reinvested into inventory accruals and freight costs. So a natural hedging is occurring. In summary, business is good, challenging and interesting. Order entry is very strong and Uli will now walk us through the financials. Thank you very much.

00:13:43 Ulrich Dopfer

Thank you, Brian. And welcome also from my side.

Let's move to slide 10: Q1 2021 key financials. Revenues in q1 2021 reached 144.5 million euros up by 8.9% from 132.7 million in q1 2020.

This is within our guidance range of between 143 million and 148 million euros. Proforma gross profit was 55.3 million substantially up by 30.9% compared to q1 2020. We made further progress with our business transformation strategy and were able to increase our software and service revenue share to 26.1%. Additionally, the network synchronization business continues to perform on a high level. And finally, the favorable customer mix contributed nicely to our margin.

This quarter was also record q1 in terms of proforma operating income. We achieved 8.9% of revenues up from negative 1.3% in q1 2020. This result was at the top end of our guidance range of 7 to 9% of revenues.

In addition to the strong gross profit, this substantial margin improvement is also due to lower operating expenses. Net income reached 11.2 million significantly up from a loss of 7.2 million in the year ago quarter. Our q1 2021 net income exceeds 50% of the net income for the full year of 2020.

Earnings per share increased from negative 14 cents to 22 cents. Cash generation and deleveraging was once again outstanding, and we reduced net debt by 84.3% compared to q1 2020. Excluding IFRS 16 this corresponds with a net cash position of 16.4 million euros. I will discuss this later in more detail.

Let's move to the next slide please. IFRS versus US GAAP comparison. For the purpose of transparency, and due to the fact that most of our peers report in US GAAP, we edited this slide to provide our analysts and investors an enhanced comparison. As mentioned before, this presentation contains certain unaudited analysis, the US GAAP numbers here have not been audited. So the main drivers for the differences between the two views, IFRS versus US GAAP, are the capitalization and amortization of r&d expenses under IFRS. If we calculate under US GAP, our gross margin would be approximately 6 to 7 percentage points higher on average. For q1, the difference would have been 7.2 percentage points, GAAP gross margin would have been 45.5% compared to 38.3% under IFRS. Applying US GAAP on the other hand, increases our opex, since we would not capitalize a portion of our r&d expense. The overall impact on proforma operating income depends on the fluctuations in the timing of r&d capitalization and amortization and can vary from quarter to quarter with US GAAP being higher in some and lower in other quarters.

Next slide please. Regional revenue developments. EMEA revenues significantly increased by 47.4% year over year, now representing 66.6% of revenues. We had a very good quarter with private enterprise networks and federal government projects. And also the carriers continued to be strong. Americas are below expectations and decreased 33.9% year over year, now representing 25.4% of revenues. The US dollar to euro exchange rate was 1.21 versus 1.10 in the year ago quarter, which explains a part of the decrease. On top, we experienced some temporary softness with a few accounts due to more aggressive inventory management and the adoption of next generation equipment. Since we saw a booking surge in the past quarter, that also continues in q2 we expect Americas to return to growth soon. Still, with the significantly grown EMEA revenues, we expect the revenue share for 2021 to be more weighted towards EMEA. Revenue in the Asia Pacific region was stable, and the region now represents 8% of our q1 revenues.

Moving to the next slide, cash flow and balance sheet. Q1 2021 was also a record quarter when it comes to cash generation. We achieved a free cash flow of 15.1 million euros compared to negative 6.2 million in q1 2020. Our cash balance reached 79 million and increased by around 26 million year over year. This is the result of outstanding q1 profitability as well as lower capital expenditures. With a debt leverage ratio of 0.6 times EBITDA and an equity ratio of 53.3% we have a very solid capital structure and further solidified our investment grade credit metrics. For the first time of the company's history, our q1 ROCE is positive. And with 12.4%, even in the double digits. We are on the right path to exceed our capital costs for the full year and drive value creation.

Let's go to my last and final slide outlook. We had an excellent start to the new fiscal year, we achieved a record q1 with revenues, margins, and cash generation that were never experienced before in the first quarter of a fiscal year. All macro economic trends continue to be intact and provide us a firm tailwind, focus on security aspects in the data transmission and concerns on the use of Chinese technologies are further success factors for our development, particularly in the EMEA region, but also others.

Bookings are at an all time high. Our business transformation strategy develops well and contributes nicely to our margins, allowing us to progress on our goal for exceeding 10% proforma EBIT margin. Of course there are still risks in the supply chain as Brian mentioned earlier. As in many industries - the current bottlenecks in the semiconductor industry confronts all telecommunications equipment suppliers with challenges. Nevertheless, we already demonstrated our flexibility and agility during the pandemic and we are working closely with all of our customers and suppliers to ensure product delivery. There could be revenue shifts during the year but we do not expect any negative impact on our full year outlook. With this excellent q1 in the bank, and more visibility into q2, we now believe that our proforma operating income of 10% is achievable. For the full year 2021 we now expect revenues of between 580 and 610 million euros and a proforma EBIT margin of between 6% and 10%. We maintain the 6% at the lower end of the guidance range in case of any supply chain related adverse business effects. With that thank you, and I now hand over to the operator to open the Q&A session.

Q&A

00:22:32 Operator

Thank you. Ladies and gentlemen, we are now starting the question and answer session. If you'd like to ask a question, please press zero and one on your telephone keypad. Your question will be answered in the order they are received. If you're using speaker equipment today, please lift the handset before making your selection. One moment please for the first question. We have a first question and it is from Simon Scholes / First Berlin Equity Research. The floor is yours.

00:23:07 Simon Scholes (First Berlin Equity Research)

Yes. Good afternoon. I've a couple of questions. Firstly, on the module business. I was wondering how far behind you see your competitors in developing comparable products? And on just on the outlook for q2, you said in the in the release yesterday that q2 got off to a very good start. I mean, presumably you haven't given guidance for q2? Although you did give guidance for q1 because of the uncertainties about revenue shifts. I was just wondering if you could comment on that?

00:23:48 Brian Protiva

So I'll take the first one, the module business and how far behind. I'd say that, first of all, it's a very complex technology for the multiplexing, pluggable, that's highly complex stuff. And the markets, not that big that we see any competitors at all right now. So that's going to be an interesting one to watch. But we'll be well ahead of anybody else, because we're going to have a full family here over the next 12 months, from very low bit rates all the way up to high bit rates. And for every cut lifting node when you look at 10 gig, 100 gig 400 gig. So good strong differentiation. And it's not a market that's you know, half a billion dollars in size, which is going to attract a lot of other players. The secondary though, there's already lots of competition for CFP2s and CFPs, 100 gig, 200 gig and ultimately 400 gig. But what we see there is that we still can drive cost out through photonic integration, silicon photonics and some of the things that we're actually enabling. And we'll be a part of that industry. There'll be lots of competition, but it's still benefiting gross margins, still giving us opportunity to drive revenues to third party players, specifically outside of the direct competitive environment. And therefore, it's not that easy to give you a very consolidated answer. That's the module business. And maybe Uli can answer the q2 question.

00:25:32 Ulrich Dopfer

Sure. So, we walked away from the quarterly guidance last year, because we believe that, you know, the quarters do not reflect the nature of our business. So for us, it makes more sense to focus on mid and long term. That's why we provide a yearly guidance and also our midterm goals and targets. We provided a guidance for q1 because we knew q1 2021 will be extremely good and totally different than any other q1 we have seen in the past. So we do not want to provide a particular guidance for q2, due to a few reasons. So you heard earlier that we have record order entry levels. I mean, we have an order pipeline that is bigger than we've ever seen in the past, however, we have on the other hand, as Brian explained and I tried to explain, we have the semiconductor crisis, you know, that may have an impact on quarterly revenues. So I mean, we could provide a guidance, but it would be such a huge window, that makes no sense. And this doesn't give you any additional information. So that's why we agreed that we that we would focus on a yearly guidance, and not provide a quarterly guidance for q2. However, you know, you can expect with how the yearly guidance looks, that I guess q1 is a pretty good basis for q2.

00:27:08 Operator

Our next question is from Alex Henderson. The floor is yours.

00:27:15 Alex Henderson (Needham)

Thank you very much. I was wondering, you said your order entrance is strong. Could you translate that into a book to bill number was it, you were earning a book to bill well .... ? (recording broken, gaps) quantification of how much, that would be great.

00:27:32 Brian Protiva

We haven't disclosed actually book to bill ratios, but I guess our statements were well in excess of 1, and that was, you know, strong. And that's been for a while. So but we haven't gone to issue, you know, issuing that data, I think maybe Uli and I need to look at that going forward since we're not doing quarterlies. Maybe that's actually an addition that we should move to going forward. So let us look at that, but strong. I mean, it's good numbers.

00:28:13 Alex Henderson

The second question is relative to the semiconductor side of it. Was the revenue held back as a result of the sudden shortages in q1 and if so, can you quantify any dollar value or euro value around that?

00:28:32 Brian Protiva

You're asking a very difficult question now, because the industry, it's evolving quickly, and there's lots of moving parts out there. There's even things like decommits out in the industry right now. So a lot of people are, you know, planning with stuff and all of a sudden things are moving. Therefore, it's tough, I have a rule of thumb would be something like, you know, we've been working with something like 10 to 20 million over the last quarters, because of the pandemic, I would say the silicon shortage is probably a 20 million nut, that we have to, you know, deal with, handle overdrive. And since we have very good order back log, you know, overdrive, let's say shipping and dispatch to compensate for some of that stuff, but it's a big one. And I think most companies are facing that, some are being more transparent than others on that one. But it is probably, you know, in excess of 10% of the number and now you've got to manage that. And again, there's a bunch of levers that we as an organization could pull to offset that and we'll just see how successful we are and how bad the crisis gets. You know, some people are saying that it gets worse into q2 and stays all the way into next year. I can't imagine that because all the other crises that we face, you know, don't seem to last that long from a supply chain perspective. But let's face it and work with it. I think

ADVA is very agile, very close to our suppliers, good relationships, working relationships, executive relationships, and I think that will help us if the crisis gets bad. So I can't give you too much more detail than that right now and let's manage it and monitor it together.

00:30:21 Alex Henderson

So it sounds like a, you know, something like a 20 million euro kind of number, 10% kind of number. So if I were to look out into the second quarter, two aspects of this, one is the impact larger in the second quarter? And second, have you already got in hand - you know, I know you haven't given guidance, but relative to your expectations for the quarter, do you have in hand visibility to the components for the second quarter to get you to that? And the flip of that is, would that then limit any upside to that number, assuming that you can't get any more than what's already baked in?

00:31:04 Brian Protiva

So lots of detailed questions there, Alex, and I'll try to do my best to answer them. My sense is that is the crisis is getting a little bit more acute moving into q2 than it was in q1. But ADVA has never had higher back backlog, giving us more leverage than ever to drive and manage that. So, you know, I feel comfortable with q2, but you've got this risk out there. And the one thing that we can't judge is, this decommit issue. Is it going to happen? People are saying, Hey, I'm being decommitted products, you know, left and right and stuff. So I, I guess it's a really complicated one, but I would say ADVA's, incredibly well positioned to handle it based on where we are at as a company. So there's that risk, we've had risk over the last year, we've always managed it, actually over the last 18 months, and we've managed it extremely well. And it's my plan, as an organization to manage it extremely well, we're all over it. Very close to it. So I can't quantify like, oh, expect, you know, Q2 to be harder than q1? No, that's not what we're saying at all. What we're saying is, you know, we feel comfortable, we are reaffirming our annual guidance, we feel comfortable, we're going to manage this somehow. But the risks are there and therefore we, you know, wanted to make sure that you guys as an analyst community, and our shareholders know that there are risks there. But ADVA is prepared.

00:32:44 Alex Henderson

One last question, and then I'll cease the floor – on the tech.

00:32:51 Brian Protiva

Excuse me - acoustically? I did not hear that. You're breaking up. You're breaking up. Alex, can you start from the beginning again?

00:33:08 Alex Henderson

Yes, let me let me try it better. Is that better? So one last question on the technology side, Ciena went out with it... (broken up) They're going to launch soon. There's a lot of talk around open line systems. And there are a lot of people saying they're going to outsource components, chips to other people like Infinera looking for partners on the XR. Can you talk about, you know how the 400 gig ZR impacts your open line systems is impacted. And whether you would be a buyer of components from other players now that Cisco is acquired Acacia, and how are you thinking about that supply chain impact thing?

00:34:04 Brian Protiva

Well, first of all, we've always had modules come into our business and take a part of the business, whether it was 10 gig 100 gig now at the 400 gig level. So it's different this time, it's all the same footprint. But you know that is not quite true and we can go into detail some other point, Alex, but we see this as just one part of the industry opportunity. We are the leader in open systems, we have the best platforms. We have business in all of our customer segments in this area. We look forward to it because we believe that we can actually take market share with our OLS capability and most companies are going to want one throat to choke and yes, we will purchase 400 gigs ZR, we do not intend to make those, because we see that as a mass market and will become a commodity. And therefore that's not one of the areas that we intend to necessarily spend our time and energy on. There's a number of other things we're spending our time on in other nodes and speeds and feeds

And, and different modulation formats, you're going to see a lot out of ADVA. But we see that as, not an area that we need to spend time on. But we see ourselves going to, you know, 800 gig and 1.2 1.6 gig etcetera, or terabits per wavelength. So we see a lot coming. We see ourselves benefiting from this transition. And I'd say we don't need to manufacture the products ourselves. That's different than Ciena's strategy, and somewhat different than Infinera's strategy.

00:35:49 Michael Junghans (Commerzbank)

Thank you, gentlemen, for taking my question. So a couple of them. First, on your order entry, you just made the clear remark that order entry has been very strong so far, presumably showed by the current security concerns around Chinese tech suppliers. Could you please elaborate, which customer groups and which regions are now giving you these current tailwinds? And do you see any temporary demand headwinds, which might somewhere pop up in the course of the year? That is the first question.

00:36:24 Brian Protiva

Uli do you want to take this one?

00:36:29 Ulrich Dopfer

I can. So interestingly, and I tried to make it clear in my part of the presentation, we had a very strong order entry from the North American Region, from the Americas. So also, of course, from EMEA, EMEA continues to be extremely strong, Americas the order entry was more carrier based, in EMEA region it's a little bit more balanced, strong carrier, but also strong enterprise business.

00:37:02 Michael Junghans

Okay, understood, and then the second question is about your, the lower end of the pro forma margin guidance. So could you elaborate on the short term risk, which would have to come true altogether, so that you would end up on the lower end of your guidance here? So kind of what are the short term risks that you see you to the downside, which you would regard as the most likely that could occur as we progress towards the end of the year?

00:37:33 Brian Protiva

So let me draw a picture, and then you fill in the pieces over here, Uli. So the picture would be there's clearly problems in the supply chain, there's decommits, and there's massive increases in prices in the industry out there, on a global level, where you'll see this impacting many companies, regions and industries. In the case of that, that, you know, we are only able to get out 580 because we're having, you know, challenges, actually being able to service our customers with their growth opportunities. Point 1 and point 2 is that we'd have to spend extra dollars to source products through brokers, limited competitive bidding environments, open auctions, etc. So there's a scenario out there that this truly doesn't get under control, and that we have a global issue. And, you know, we see it in some industries, in the car industry we hear, you know, some issues surrounding that, but they went from starting slow to, you know the (unclear 38;56) vehicles that are booming and not having planned correctly, and having all these challenges that actually shouldn't be hurting the communication space nearly as much. Now let's see what happens. But that's the environment is that extra costs come at us from left and right. And we're not able to get out what we should be able to get out, according to our order entry in our backlog.

00:39:33 Ulrich Dopfer

And that's why we left what Brian just explained we left the lower end of our guidance at the 6%, I guess without a semiconductor crisis, we would have most likely increased that lower end of the guidance to up you know, and maybe even the revenue guidance, but of course we need to bake this risk into our guidance and that's why we left the low end of the profitability guidance where it was.

00:39:58 Michael Junghans

Yeah, understood, could you elaborate on the measures that you have taken to protect your gross margin, especially given the short term risk that you see, especially on the supply side of things here on the sourcing side?

00:40:17 Brian Protiva

Well, you know, I mentioned some of it, in this year there's going to be longer pandemic challenges, and therefore, we are saving money and travel and events that we didn't plan originally. So there's some natural hedging. So that was my I think, my last statement in my presentation, I did that on purpose. Just to say that, you know, what we have taken into account that maybe we have extra costs that should will come our way. And that's hopefully been offset just with the savings that we have. Could they go beyond? Yes, it could go beyond. And we need to be prepared for that. What are the steps that we're taking, clearly, we're trying to order and fill, let's say the pipeline accordingly from a supply chain out 6 to 12 months in advance, and in the past, it was more in the two five months area, and sometimes, you know, off a half a year in the future. So that could yield then some more risk as well in the ultimately, if we don't get it right, from the product metrics. Now, it's just certain silicon parts. And, you know, we have a lot of other costs, chassis and optical parts, etc, etc. So we have to manage it closely. So how are we doing it? We're managing it incredibly closely, it's an executive driven program. We're very close to our suppliers. We're having all sorts of initiatives, we're ordering off into the future and managing that and we're planning conservatively from an opus perspective. All of those flow into our managing of the crisis, if it's a small crisis, and/or a large one, it's a similar strategy.

00:41:58 Michael Junghans

Understood. Okay, thank you. I go back to the queue for now.

00:42:15 Tim Savageaux (Northland Capital Markets)

Hi. Good morning from me. And want to follow up on the order strength, especially your commentary around US or North American carrier strength. And that's very much in line with what we've seen out of some of the big US carriers in the last couple of days, including this morning, in terms of much stronger than seasonal, kind of start to the year and increases in overall spending levels. Although obviously, your revenues are still down pretty sharply in q1. And I think you made some comment about returning to growth. And I don't know the context in which you meant that. But you had been running kind of in the 50-55 million euro, quarter range in the Americas previously, till things dropped off a bit. Can I assume that's probably where your orders were in q1? And do you think you can get back to that level as we work throughout the year in calendar 21, in terms of Americas revenue, given that order strength. Thanks.

00:43:30 Brian Protiva

From an order perspective we're quite strong, we're quite strong as a whole. And America was relatively the strongest, but like, Uli already said EMEA was also quite strong. So positives there. Yes, we believe that we'll return back into that same level, at some point, because we haven't lost any customers, we continue to win a deal here on a deal there. We don't see a massive shift. But we do believe that we should be back in that same range of business opportunity going forward. But work to do to get there. And hopefully it goes fast. But let's continue plugging along, I guess my assessment is that, you know, the US carriers, they take a lot more money in their hands to drive big programs, large infrastructure investment dollars to build out, where the European carriers tend to go steady as it goes, they don't have the same massive programs and they spend similar year in year out good times, bad times and evolve, just almost like incremental spending versus program spending. And I just think it gets the ability for the US carriers and service provider group to actually pulled back for a period of time because they do have a lot of bandwidth available in their networks. Planning for radical growth going into the future, essentially and therefore I think they can pull back for a period of time and I think they did. And, Tim, as you said, we saw that in some of our competitors' numbers as well, it seemed that the US was weak for a number of players in this industry. And they all are along the same lines, I believe is that it's going to return, business is going to be good. In fact, the US is coming out of the pandemic, probably faster than other areas and regional areas. One because of the willingness to get more aggressive early, with pandemic going on and 2, because of vaccinations, etc. So I feel that it is going to come back and steady as it goes. And then I just believe that we, companies specific, have some really interesting products, and have some opportunities to drive growth nicely if we're able to deliver on our innovation roadmaps as further upside. So I guess that's kind of the framework, I'm looking at coming back to steady state business, opportunities to win market share in some of these other interesting application spaces, you know, back to our business transformation, and some of them outside of the telco space. So that's why I'd assess it.

00:46:19 Tim Savageaux

Great. And just to follow up on that briefly, I mean if you go back, maybe to the beginning of the year, or I guess the capital markets day was fairly recent, but still maybe a month ago, as you entered the quarter, would you say the, you know, to what degree were you surprised by either the magnitude of the continued strength in EMEA, or the rebound in US orders? You know, in terms of your initial expectations, I guess one of those factors was more positive than you might have thought

00:47:03 Brian Protiva

Two factors: One is that we were well above what we planned. That's clear from our statements here, two factors, I believe. One is we outperformed our plan. But the second factor on top of that, I do believe that there's some customers that are out now looking at saying, you know what, there is a semiconductor shortage out there, I'm ordering in advance. So we've looked at that data and information, we're still outperforming on our order entry plan. So all good. Giving us further stability is you know, if people are now placing advanced orders, giving us further stability out into the future, so all positive.

00:47:54 Paul de Froment (Kepler)

Yes. Hi. Do you hear me well? Yes? I have two quick questions. The first one is, regarding the synchronization business. Did you observe a specific shift in the order book in q1? Or is it sales growth comparable to the other quarter? So that's my first question. And the other one is the same but for the software in the cloud access division. What is the feedback? The trend in the other increase in q1? Thank you.

00:48:41 Brian Protiva

I'll take this one, maybe. I'd say steady as it goes. Nothing extraordinary.

I think from a planning perspective, maybe a little bit better than planned perspective. But we were conservative from a perspective, and then the software, I think there's lots of potential and we are looking at some very interesting large opportunities. But when it gets down to it and when you look at the bits and the bytes, it's contributing, but it's not where it needs to be for us for the investment dollars and actually, the opportunity the market size is quite large. So we continue to plod along. We are winning some deals here and there. We've got competitive bids out there for some quite large deals. But I would say as steady as it goes for both of those areas in q1.

00:49:43 Operator

We have a follow up question from Michael Junghans and the line is now open.

00:49:59 Michael Junghans

I have two follow up questions. The first is on your capitalization rate of development expense. So do you see good chance that this ratio will stay roughly unchanged throughout the year? And if not, why would you make this assumption? And the last question is a housekeeping one. So currently you came out at a tax rate of roughly 6% for q1. So what would be a fair tax rate assumption for the full year? Thank you.

00:50:29 Ulrich Dopfer

I will take this Brian. So capitalization rate should stay the same, I guess what's most important is that the level of capitalization and amortization should almost offset I guess, currently in our framework we assume a slight negative impact. So we would amortize more throughout the year, then we capitalize that it's, you know, around a million probably. The second one is the tax rate, yes, tax rate is low and will remain low throughout the year. And this is due to the fact that we are finally able to make use of some of the NOLs we have in the SE, and we generate much more profits in the SE, we can utilize that. So I would assume, in your model for 2021 a tax rate that is just below 10% for the year.

00:51:22 Michael Junghans

And I just didn't get it acoustically. So about just below 10%, one zero, you said? Okay. Thank you. And for the medium term, it would be a fair assumption to assume conversions back to like 20% from 2022, onwards to ...

00:51:48 Ulrich Dopfer

(interrupts) 18%, maybe 20%.

00:51:58 Operator

There are no further questions. So I hand back to Brian. The line is now open for you.

00:52:06 Brian Protiva

I have two comments. One, I'd like to highlight that you guys I mean, our performance EBIT are rock solid because we're actually and again, you look at that from our US GAAP what the performance EBIT was in q4 and q1, it's actually quite a bit higher than the IFRS results. And the reason is because we're actually like, Uli just said, the whole r&d capitalization process is costing us EBIT, for many years that helped us and everybody complained that it was helping, now it's hurting us. So I hope that we all complain the other way around now. So one comment, 2 second comment that I don't think we maybe highlighted just enough, no question, is our cash generation was outstanding from an annual number, but also in q1. I think that's fundamentally important to us, you'll see that as long as we can go get our numbers you'll see us really focused on strong cash generation and in general, thank you for the interests. Great questions, and we're available to follow up. Go ADVA, ciao.

00:53:15 Operator

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