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Viavi Solutions, Inc. (VIAV)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day. Thank you for standing by and welcome to the VIAVI Solutions' Third Quarter Fiscal Year 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Bill Ong, Head of Investor Relations. Thank you. Please go ahead.

Bill Ong

Senior Director of Finance, Investor Relations, VIAVI Solutions, Inc.

Thank you, Christina. Welcome to VIAVI Solutions' third quarter fiscal year 2021 earnings call. My name is Bill Ong, Head of Investor Relations. Joining me on today's call are Oleg Khaykin, President and CEO; and Henk Derksen, CFO.

Please note, this call will include forward-looking statements about the company's financial performance. These statements are subject to risks and uncertainties that can cause actual results to differ materially from our current expectations and estimations. We encourage you to view our most recent annual report and SEC filings, particularly the risk factors described in those filings. The forward-looking statements, including guidance we provide during this call, are valid only as of today. VIAVI undertakes no obligation to update these statements.

Please also note that unless we state otherwise, all results, except revenue, are non-GAAP. We reconcile these non-GAAP results to our preliminary GAAP financials, and discuss the usefulness and limitations in today's earnings release. The release plus our supplemental earnings slide which includes historical financial tables are available on VIAVI's website.

Finally, we are recording today's call, and we'll make the recording available by 4:30 PM Pacific Time this evening on our website.

I would now like to turn the call over to Henk.

Henk Derksen

Executive Vice President & Chief Financial Officer, VIAVI Solutions, Inc.

Thank you, Bill. And welcome everyone and thank you for joining today's call. My name is Henk Derksen, and I'm extremely pleased to have joined VIAVI. I joined from Belden where I spent more than 20 years in various finance and operating roles, and served as the CFO during the last 10 years prior to coming here. I'm very excited to have the opportunity to work with Oleg and the rest of the VIAVI team. I look forward to speaking and meeting with many of you in the coming months.

Now, on to the VIAVI'S results. Fiscal Q3 2021 reflects a strong quarter with VIAVI record revenue and non-GAAP profitability, as well as cash flow for a given March quarter, which is typically a seasonally weaker quarter. Third quarter revenue came in at \$303.4 million, which exceeded our guided range of \$280 million to \$300 million. Revenue grew 18.4% from a year-ago level, exceeding pre-pandemic levels and setting an all-time VIAVI Q3 record. The year-over-year performance reflects the robust recovery from last year's pandemic impact, continued strength in Wireless and Fiber, as well as very strong continued Anti-Counterfeiting demand in OSP.

VIAVI'S operating profit margin at 22.2% expanded 540 basis points year-over-year, and exceeded the guidance range of 18.5% to 18.5%. EPS at \$0.18 reached the high end of the \$0.16 to \$0.18 guidance range, and increased \$0.04 from a year ago. Stronger-than-expected volume in our Asia Pacific region resulted in a shift in the jurisdictional mix of income contributing to a higher effective tax rate of 26% versus our 18% to 20% guidance. Going forward, for the fourth quarter, we expect the tax rate to normalize within the range of 19% to 21% and be approximately 20% for the full year.

Now moving to our reported Q3 results by business segment, starting with NSE. NSE revenue at \$211.2 million increased 12.9% year-over-year and grew 2.2% sequentially, exceeding our guided range of \$189 million to \$205 million.

Within NSE, NE revenue at \$190.9 million increased 16.5% from a year ago, and increased 5.5% sequentially, reflecting the recovery from last year's adverse pandemic impact with increases in Fiber, Cable and Wireless products. The SE revenue decreased 12.1% year-over-year, and decreased 21.3% sequentially, reflecting weak demand for our Assurance and Data Center products. We expect the SE business segment to start recovering in the coming quarters.

NSE gross profit margin at 64.2% was in line with last year's performance and down 10 basis points year-over-year. Within NSE, NE gross profit margins at 64.5% increased 90 basis points from last year, primarily due to higher revenue volumes and favorable product mix. SE gross profit margins at 61.1% decreased 820 basis points year-over-year due to lower revenue.

NSE's operating profit margin at 9.9% increased 250 basis points year-over-year, exceeding the high end of our guided range of 6% to 7%, primarily as a result of operating leverage on higher revenue.

Now turning to OSP. OSP had a strong quarter, with revenue at \$92.2 million, up 33.2% year-over-year, driven by very robust demand for our Anti-Counterfeiting as well as 3D Sensing products. Third quarter revenue at \$92.2 million was within our guided range of \$91 million to \$95 million.

Gross profit margin at 60.6% increased 800 basis points year-over-year, driven by higher volume, favorable product mix, and high factory utilization.

Operating profit margin of 43.9%, at the high end of our guided range of 42% to 44%, increased 890 basis points from last year's levels as a result of the aforementioned.

Now turning to the balance sheet. The ending balance of our total cash and short-term investments was \$678.1 million, an increase of \$29.3 million sequentially. Our operating cash flow for the quarter was \$48.1 million. A record third quarter for VIAVI, and an increase of \$9 million compared to \$39.1 million in the year-ago period.

We invested \$8.2 million in capital expenditures during the quarter, compared to \$10.3 million in the prior year. In Q3, we repurchased \$7.9 million of ERV stock at an average cost of \$15.93 share including commissions. In total, as of the end of the third quarter, we repurchased \$76.2 million out of the \$200 million authorized under the share buyback plan announced in September 2019 at an average price of \$12.57 per share. We will continue to be opportunistic in our share repurchase.

Now onto our guidance. We expect the fiscal fourth quarter revenue to be approximately \$300 million plus or minus \$10 million. Operating profit margin is expected to be between 19.5% and 20.5% and EPS in the range of \$0.18 to \$0.20. We expect NSC revenue to be approximately \$227 million plus or minus \$8 million with operating profit margin at 14% plus or minus 50 basis points. OSP revenue is expected to be approximately \$73 million plus or minus \$2 million with operating profit margin at 39% plus or minus 100 basis funds. Our tax expense rate is expected to be approximately 19% to 21%. We expect other income and expenses to reflect a net expense of approximately \$3.5 million.

The estimated fully diluted share count used in our calculation is 243 million shares. This includes an increase of approximately 11 million shares to reflect estimated dilution impact from the 2023 and 2024 convertible notes. The share count without the convert dilution is approximately 232 million shares.

With that, I will turn the call over to Oleg.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

Thank you, Henk, and welcome to our first official earnings at VIAVI. I'm pleased with VIAVI's performance in fiscal Q3 as we have surpassed the pre-COVID levels of business and achieved the new historical highs in revenue and non-GAAP profitability for fiscal Q3 driven by both of our business segments.

The NE segment benefited from continued business recovery led by increased demand for fiber and cable-filled instruments as MSOs and telco service providers resumed their maintenance and network upgrade activities. The recovery was particularly strong in the Americas and Europe. Our 11 production equipment continued to see strong demand driven by 400 GigE and wireless infrastructure customers.

The SE business segments, as expected, came in weaker in Q3 driven by a confluence of two trends: the reduced spending by service providers and existing networks as they gear up for 5G; and the delays in new projects by enterprise customers until more staff is able to return to work. That said, we expect SE revenues and bookings to start rebounding in fiscal Q4. We expect the SE demand to continue to improve throughout the calendar 2021 returning to and exceeding throughout the calendar 2021 returning to and exceeding pre-COVID levels.

Additionally, we expect 5G field instruments demand to start materializing in the second half of calendar 2021 as 5G service providers start ramping up their network build-outs. Longer term, we expect several major industry and political trends to set up NSC for a multiyear super cycle. The carriers recently made sizable investments in spectrum and are now aggressively working on 5G wireless field deployment plans. The 5G market presents VIAVI with new wireless and fiber growth opportunities. Our wireless products are already off to a strong start with solid bookings and business visibility. We are also seeing attractive growth opportunities in Europe as governments there push to help fund the deployment of Fiber-to-the-Home to replace their legacy copper networks. And lastly, the US plans for multiyear investment in broadband outside major cities is expected to present VIAVI with new markets and opportunities for Fiber, Cable, and Wireless.

Now, turning onto OSP. The OSP business segment delivered record revenue and profitability for March quarter led by strong demand for both Anti-Counterfeiting and 3D Sensing products. Anti-Counterfeiting demand is being driven by a combination of global central bank fiscal stimulus, inventory replenishment, and banknote redesigns. Fiscal Q3 saw above seasonal demand by major customers and we expect stronger than normalized demand for anti-counterfeiting products to persist in the foreseeable future. 3D Sensing demands from mobile devices remains strong and is up double-digit percentage from a year ago levels, reflecting the increased adoption and penetration. We expect 3D Sensing revenue in fiscal year 2021 to be up 16% year-on-year. This is a slight decrease from our prior quarter expectations of being up 20% year-on-year driven by industry semiconductor supply chain constraints.

To summarize, calendar 2021 is off to a strong start with both NSE business segment experiencing a rapid recovery and expecting year-on-year revenue growth throughout the rest of the calendar year. The OSP Business segment is expecting to see continued robust demand for the Anti-Counterfeiting products driven by a global fiscal stimulus programs and currency redesigns. And 3D sensing is expected to continue to see further adoption and penetration opportunities.

Overall, we expect our principal growth drivers, 5G, Fiber, and 3D Sensing to continue driving growth for VIAVI in calendar 2021. In conclusion, I would like to express my appreciation to the VIAVI team for its continued strong execution in delivering another record quarter and wish all our employees and supply chain partners, customers, and our shareholders to remain safe and healthy as we return to business normalcy.

I will now turn the call over to Bill.

Bill Ong

Senior Director of Finance, Investor Relations, VIAVI Solutions, Inc.

Thank you, Oleg. This quarter we'll be participating at the Needham TMT Investor Conference on May 20th and the Stifel Cross Sector Investor Conference on June 8th.

Christina, let's begin the question-and-answer session. We ask everyone to limit discussion to one question and one follow-up.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes your line of Samik Chatterjee with JPMorgan.

Joseph Cardoso

Analyst, JPMorgan Securities LLC

Q

Hi. Yes, this is Joe Cardoso on for Samik Chatterjee. My first question is actually around the supply constraints that you mentioned for the 3D Sensing business. And actually I'm kind of surprised to hear just given the commentary that we've heard through the earning season thus far that you're not necessarily feeling any of those implications on the NSE business. I'm just curious, A, is that correct? And then B, what are you guys seeing in the NSE business in terms of supply constraints and whether you're factoring any into your forward guidance? And then I have a follow-up. Thank you.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Sure. Great question. So, I mean, we don't have an issue with our supply of 3D Sensing product. The issue here is more on the customer side. If they cannot get all their chips, so to say, as they necessary, they have to reduce their forecast. So that's really where we've seen some reduction in forecast because they just simply cannot meet all their requirements, right? So it's one thing.

Regarding NSE, I mean, sure, there is a – lead times are getting longer and there is shortages of supply. But, I mean, fundamentally, we are not a very big player, relatively speaking. And we know how to manage our supply chain, frankly speaking. I mean, we saw shortages looming on the horizon as far back as October, November, and we took some cash and put a lot of products on the shelf in anticipation of these shortages materializing. And while there were shortages of supply and we obviously chased it and you just basically put more money on the table and you get the necessary products you need, we were able to meet all our customer demands and not miss any of our deliveries. And in fact we think our ability to really manage supply chain well will present us with opportunities to pick up some share while many of our competitors who are cash poor and don't have a good visibility or ability to execute on the products requirements, we think we'll have an opportunity to pick up some share and grab market share for many of our competitors.

Joseph Cardoso

Analyst, JPMorgan Securities LLC

Q

Appreciate the color. And then my second question is on the 3D Sensing business specifically around the Android opportunities there, I think last quarter you highlighted incremental excitement around the Android customer base adopting [ph] at least (18:16) world-facing 3D sensing applications at least going into the second half of this year or maybe into next year. I guess has there been any progress there versus 90 days ago? Is there anything there to be incrementally more excited about? And then on the side of that, it seems 3D sensing applications being adopted into automotive, seems to be getting a little bit more exciting at least from new stories that you're hearing in the press, I guess. What's the opportunity around there and what's your expectations around it materializing? Thank you.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Well, I mean – so I think I would say three months can make a bit of – we've got more information. So I would say today I'm less enthusiastic about Android moving sooner rather than later. I think I'm not going to go into the details. But needless to say it's a very complex technology and people are finding that 3D sensing is not a slam dunk. You cannot just – it's not easy to be a fast follower.

So for various reasons, I think Android may take a bit longer and it'd probably be into next calendar year before we see Android making any kind of major adoption. So I think for now it's very much going to be more of our traditional customer base. That said, automotive continues to progress and we are getting very good traction there. But volumetrically speaking, automotive is not a very big market. I mean, you're selling today, it's a lot of an in cabin coverage, but even if you win 100% of it, you're talking about millions of units whereas in mobile phones, you're talking about tens of millions of units on weekly basis.

So, I mean, automotive is an interesting market, but it's still in very early stages of adoption. It's mainly limited to the high-end packages in various cars. And, of course, automotive has their own problem. I mean, they are facing also semiconductor shortages. So but it's not really an issue for us because when you have semiconductor parts shortage, generally automotive customers prioritize their high-end models with the all the bells and whistles like 3D sensing. And so in that respect, we're not seeing any degradation in demand there but it still remains several orders of magnitude, smaller market in unit basis versus the mobile handsets.

Joseph Cardoso

Analyst, JPMorgan Securities LLC

Q

Thank you. I appreciate the color and congrats on the results.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Sure. Thanks.

Henk Derksen

Executive Vice President & Chief Financial Officer, VIAVI Solutions, Inc.

A

Thank you.

Operator: Your next question comes from line of Alex Henderson with Needham.

Alex Henderson

Analyst, Needham & Co. LLC

Q

Thanks, and welcome to the VIAVI call as the new CFO. Congratulations.

Henk Derksen

Executive Vice President & Chief Financial Officer, VIAVI Solutions, Inc.

A

Thank you.

Alex Henderson

Analyst, Needham & Co. LLC

Q

[indiscernible] (21:09) a great place to work, too. I wanted to ask a question on the 3D Sensing commentary, this 16% growth, my math would suggest a pretty significant decline in the June quarter, yet as we listen to the commentary of the prime customer, their results over the March quarter were well ahead of anybody's

expectations on phone sales. And I would think that the inventories would be pretty lean as a result of that and hence some building. So are you saying that basically despite depleted inventories they're unable to get components and therefore that's what's creating some softness in the June quarter? Or am I overestimating the March quarter? Can you give us a little bit of a sense – is the June quarter basically half out of the March quarter?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Well, first of all, I'm not going to comment on or explain the delta between the major customers, right? So I remember whatever was sold in the March quarter probably was built in the September quarter or even early December quarter. So there is some timing. And I think maybe the differences here is more explained by what we thought our expectations were given the traditional seasonality versus the actual forecast. So I think – I wouldn't say it's necessarily – you should read into it that we had significant declines in orders from our customers. I just think we might have been a bit more optimistic in terms of the forecast that we are expecting to see in the – I would say even the March quarter – March quarter was a bit weaker than we thought it would be – and, of course, June quarter is weaker as well. So I think we would just had – for once we had higher expectations on the mobile handset industry than the handset industry has actually given us.

Alex Henderson

Analyst, Needham & Co. LLC

Q

So if I were to strip out 3D Sensing from the OSP business and just looked at the OSP Anti-Counterfeiting piece, it looks like that was pretty close to \$70 million. Is that kind of the range that we should be anticipating it to stay in that's well above the historical? And I think what you'd said in the past was five or six quarters of that sustained higher level, is that the level that we should be thinking or is that too aggressive in a more normalized number?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Yeah, I think \$70 million is too aggressive. Because I remember we said it's kind of – we've said instead of thinking of kind of base business around \$50 million, think of it as a high 50s. I think that's probably still for abundance of caution I would take as a number because, yeah, I mean, maybe there are quarter where a customer wants a big shipment early so you may get north of 60, there may be quarters where they digest you'll fall below \$60 million. But I'd say on average over, say, a four-quarter run rate, I expect to see about, say, high 50s average versus the \$50 million or high 40s, low \$50 million average. So I think I would just leave it at that. But we do expect...

Alex Henderson

Analyst, Needham & Co. LLC

Q

The number is slightly below \$70 million in the March quarter, is that correct?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

I don't – yes, it's slightly below \$70 million. So, I mean, it was a very strong quarter and, I mean, it also led to some atypical cyclical tax rates because of which jurisdiction you accrue the profit. I mean, generally we get a lot of these orders in the second half of the year or middle of the year. So as a result, we have shown a higher tax rate in the March quarter because of where the profits accrued. So, I mean, but we do expect to continue to see significantly stronger Anti-Counterfeiting demand in the foreseeable future. And remember there are still many countries where print works are still shut down because of COVID. And there is going to be significant pent-up demand, and those are big cash countries.

And then the second element, I say, remember, as everybody's printing more and more cash to stimulate their economies, remember that cash quantity is going to be out there. That means the replacement volume, if you kind of stretch it out a couple years out, is not going to be at a higher level as well. So net-net it leads to a bigger market for our products even down the road as that initial kind of medium-term higher demand for printing declines.

Alex Henderson

Analyst, Needham & Co. LLC

Q

Okay, I'll get back in queue. Thanks.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Thanks.

Operator: Your next question comes from the line of Mehdi Hosseini with Susquehanna.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Yes. Thanks for taking my question. Perhaps, Oleg, if I were to rephrase the prior question, to what extent your success in 3D Sensing is from share gain?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Well, I mean, we pretty much have majority share as is so, and most of the growth there has to come from market growth, right, the greater adoption. So I think we were expecting Android to be kind of the next adopter of the technology starting kind of the end of this year into next year, and it looks like these plans are going to be pushed out a bit. And there's been a lot of -I'm not going to go into it but there's been plenty of write-ups about world-facing 3D sensing for Android phones in the press which all those rumors are true.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Sure. So the content increase in a given high-end smartphone made by North America-based OEM, is that behind us or are you going to continue to have increased content?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Well, I think the – as you get more, [indiscernible] (27:14) say most of the near-term content increase will have to come from more world-facing cameras penetrating into broader product range.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Okay.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Okay. So, that's one. But I think also a few year – a couple years out as new generation, we're also hoping to win some share in the diffuser space as well. So, there's still plenty of opportunities to win more content platform for us.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Sure. [indiscernible] (27:41)...

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Especially if you consider diffusers.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Yes. Yes. Actually, that's what I was trying to get at...

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Yeah.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

...so thanks for...

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

But there's not a next 12-month horizon. That's more of a further out.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

I see. Okay. You made an interesting reference to NSE. You characterized it as facing a supercycle as you look forward, and this actually makes sense. Over the past two fiscal years, NSE revenues have been kind of flattish. In fiscal year 2019, NSE was up 28%. When you say supercycle, does that imply we're getting into a – like a two consecutive year of double-digit growth? Is that 2020 – fiscal year 2018 and 2019 reflective of a supercycle?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

I don't know about that. Well, I mean clearly – do you remember? This year is an easy compare on the prior, so, yeah, you can have a double-digit. I think I would maybe say more of like a high-single digit growth. And – but the point is you have periodically these big dips and cyclical. I think we're going to see more even the sustainable strength. And the mere fact that – the reason I'm saying it is the customers that were really poor spenders or like really been neglecting are now coming back and looking at significant multi-year spend profiles to upgrade the performance of their network and expand their networks. And also, do you remember, I mean really 5G by itself

cannot happen without significant upgrade to the fiber? So, in a way we are seeing more and more, almost a synergistic pullthrough on a lot of fiber opportunities as customers gearing up to 5G, and it's much stronger than we're even estimating as far back as two quarters ago.

And so, as a result [indiscernible] (29:45), I mean in Europe it's very big because they have a predominantly twisted pair DSL. And as you can imagine, DSL is really, really [ph] incapable (29:56) now to deliver the type of content and bandwidth that even cable can deliver. So, in that respect, to get consumer broadband, you really need fiber. And – but also fiber is the essential element prerequisite for you to deploy 5G down the road. So, we're seeing that strong over there. And in the US, we do expect that rural broadband to result in significant investment in Fiber and Cable and Wireless, a lot of these Tier 2 and Tier 3 cities and the broader communities. And remember, there, it's the mileage that drives the purchases rather than the density.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Great. Thanks for all the detail. Thank you.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Sure.

Operator: [Operator Instructions] Your next question comes the line of Tim Savageaux with Northland Capital Markets.

Tim Savageaux

Analyst, Northland Securities, Inc.

Q

Hi, good afternoon. I wanted to follow up on the supercycle myself. And first, a clarification on what you just said, Oleg, with regard to things looking much stronger than even two quarters ago. Was that a reference to Fiber, 5G, or both?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

That was really, at this point in time, predominantly Fiber and Cable actually.

Tim Savageaux

Analyst, Northland Securities, Inc.

Q

Fiber and Cable. And you mentioned you do have some easy compares. So, it looks like very strong double-digit growth is achieved [indiscernible] (31:31)...

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

For March quarter, yeah. So, I mean, in the near-term, it's double digit, single digit down the road. And when I say supercycle, I mean let's put it this way, whenever you have a technology node transition, it usually has a two to three-quarter bump. When we talk about supercycle, you're looking really more like four to six to eight quarters, a higher level of demand, more evenly spaced, maybe lumpy here and there, but it's fundamentally higher level of spend than you've seen before.

Tim Savageaux

Analyst, Northland Securities, Inc.

Q

Understood. And would you sort of characterize that as a market growth rate? And I ask because you're obviously layering in your kind of new entry into the Wireless field test arena. Theoretically, that might enable VIAVI to deliver above market growth. Is that the [indiscernible] (32:28).

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

So, I'm not...

Tim Savageaux

Analyst, Northland Securities, Inc.

Q

...you're guiding for?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Yeah. So, Wireless, to me would be an icing on the cake. I'm talking about the mainstream NSE business. It's like Fiber or Cable, things like that. And that's the kind of base driver. The Wireless, to us, is a higher better business because we're a newcomer in the market, so if we succeed it will be a much – kind of the – an incremental growth on top of it.

Tim Savageaux

Analyst, Northland Securities, Inc.

Q

Got it. And last question from me. I mean if you come in on kind of what you saw, the carriers in the March quarter, it looks like not only these budgets increasing, but they may have gotten an earlier start in terms of order activity than normal. Have you seen that and have you seen that kind of continue here through the calendar second quarter?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

A

Well, I don't know if it's normal. I mean let's put it this way. Throughout the shutdown, remember when they did a hard shutdown in March last year and everybody kind of sat staring at their navel in the June quarter, then in the September quarter they started looking, oh, maybe we should be doing something. Let's start planning. And more of it was taking place in December quarter. And now this year, I think a lot of them have fully-baked, well-founded plans for clearly understanding because – what needs to be done to the network. I mean one thing this work from home and shutdowns have demonstrated is the really poor quality of the consumer broadband, right? And I think we're going to continue to see quite a bit different mix of traffic going forward. There's going to be more working from home. I do believe people will come back to work, but the mix will not be the same as prior to it.

So, I think there is a lot of good understanding of the network upgrades and rebalancing that needs to take place. And if you overlay on top of it the 5G, it all goes hand-in-hand because you cannot have 5G without robust broadband fiber network. And you cannot really keep your customers satisfied and tried to upsell them new services if you don't have a very strong broadband offering. And with the convergence of 5G, I mean with things like cable and other and consumer broadband, you now have potential new entries and competitors coming into the wireless space, namely cable companies and others. So, I mean there is – the increased competition is driving some of the more conservative traditional service providers to really take a deeper look at their networks

and provide – spend some real money and maybe get out of some of those media acquisitions that we've heard about in many years.

Tim Savageaux

Analyst, Northland Securities, Inc.

Thanks very much.

Q

Operator: And your last question comes from the line of Meta Marshall with Morgan Stanley.

Q

Hi. This is [ph] Eric (35:32), on for Meta. Thanks for taking our question. Maybe just a quick one on regional development. Are you expecting any impact from potentially weaker India on kind of the OSP or NSE side?

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

Well, I mean it's probably too early to tell. I mean we do – India is a – is not a very big market for us, but it is a growing market for us. And I think there may be some delays, but if anything I think India will continue to the programs that we are doing in India over longer-term in Fiber and some of the other applications are, at this point, still looking pretty good. I mean, obviously, a lot can change in the next month or so. But at this point in time, India, it's more strategic in nature for them to implement these infrastructure upgrades, and so far we see things proceeding as planned.

A

Got it. That's helpful. And then maybe if we could just double click on some of the comments you made around the world, broadband opportunities, trying to understand, does that – do those opportunities for you differ based on potentially those funds being allocated to newer alternative providers to kind of view it as neutral regardless of where funds go, or do you have better positioning in maybe some of the more traditional providers?

Q

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

So you're talking about China or?

A

Within the US, the world broadband.

Q

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

Oh, within the US. It's – well, I mean clearly the traditional, the big ones are very much into it. But also I'd say Tier 2, Tier 3 are getting, I mean the people with whom we've done relatively limited business with this whole rural broadband, they're now looking at significantly upgrading their offering. And in many cases, many of them are looking to upgrade their fiber networks in the hope of leasing their lines to various wireless service providers. So,

A

we are seeing a renewed level of investment and demand from what I would call as Tier 2 and Tier 3 service providers.

Q

Got it. That's helpful. Thank you.

Oleg Khaykin

President, Chief Executive Officer & Director, Viavi Solutions, Inc.

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Yes.

Operator: And there are no further questions at this time. Now, I'll turn it back over to Bill Ong.

Bill Ong

Senior Director of Finance, Investor Relations, VIAVI Solutions, Inc.

Thank you, Christina. This concludes our earnings call for today. Thank you, everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect.

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