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Infinera Corp. (INFN)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Infinera Corp. Q2 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will 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, Mr. Amitabh Passi. Please go ahead.

Amitabh Passi

Head-Investor Relations, Infinera Corp.

Thank you, Zen. Good afternoon. Welcome to Infinera's second quarter of fiscal 2021 conference call. A copy of today's earnings and investor slides are available on the Investor Relations section of the website. Additionally, this call is being recorded and will be available for replay from our website.

Today's call will include projections and estimates that constitute forward-looking statements, including but not limited to statements about our business plans, including our product road map, sales, growth, market opportunities, manufacturing operations, products, technology and strategy, statements regarding the impact of industry-wide supplies and challenges in COVID-19 on our business plans and results of operation, as well as statements regarding future financial performance, including our financial outlook for the third quarter of our fiscal year 2021

These statements are subject to risks and uncertainties that could cause Infinera's results to differ materially from management's current expectations. Actual results may differ materially as a result of various risk factors, including those set forth in our annual report on Form 10-K for the year ended on December 26, 2020 as filed with the SEC on March 3, 2021 as well as subsequent reports filed with or furnished to the SEC from time to time. Please be reminded that all statements are made as of today, and Infinera undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call.

Today's conference call includes certain non-GAAP financial measures. Pursuant to Regulation G, we've provided a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures in our earnings press release and investor slides for this quarter, each of which is available on the Investor Relations section of our website.

And finally, as a reminder, we'll allow for plenty of time for Q&A today, but we ask that you limit yourselves to one question and one follow-up, please.

I'll now turn the call over to our Chief Executive Officer, David Heard. David?

David W. Heard

Chief Executive Officer & Director, Infinera Corp.

Thanks, Amitabh. Good afternoon and thanks for joining us today. I'll begin with a review of the second quarter results and then turn the call over to Nancy to cover the details of our financial performance and the outlook for the third quarter.

Overall, Q2 was a pivotal quarter for the following four reasons. First, the market environment continues to trend towards open optical networks, including an acceleration in the pace of Huawei replacement opportunities. Bandwidth requirements are growing unabated. The competitive environment is improving. And there is increasing recognition of the value we provide in optical networks. This is one of the healthiest optical environments we've seen in years.

Second, we held our Investor Day on May 19, where we communicated and reviewed our 8 by 4 by 1 strategy to drive growth and expand market share. Our 8 by 4 by 1 strategy is focused and founded on the following network transitions. First, core networks moving to 800-gig; next, the metro networks expanding to 400-gig; and lastly, coherent optics moving out close to the edge of the network with the roll out of 5G and mobile edge compute, which are expanding the reach of optical networks and driving tremendous future potential volumes.

These market transitions, along with the shift to open optical networks and the Huawei share gain opportunity, are creating specific insertion opportunities for us. We are starting to see early signs of success across all these fronts and are growing pipeline and bookings.

Third, as evidenced in the robust market trends, we experienced very strong growth in bookings in the quarter, a continuation of the trend we observed in the first quarter. In Q2, product bookings grew double digit year-over-year and bookings for the first half of 2021 are also up double digits from last year.

Our quarterly book-to-bill ratio was meaningfully above 1, and we ended the quarter with record backlog. Despite her temporal headwinds from the industry wide supply chain disruptions, our Q2 and first half operating results give us confidence that we are on track to achieve the target business model we presented at our Investor Day in May. As a reminder, our target business model reflects our expectation of the 8% to 12% revenue growth starting in 2022, gross margins in the mid-40s and double-digit operating margins by 2023.

Lastly, we made significant progress with the new products that support our 8 by 4 by 1 strategy. For 800-gig and above, we accelerated the ramp of ICE6 in the quarter with the addition of new customers, shipment of commercial products, realization of first revenue and growth in our backlog. We are tracking towards ICE6 growing to a 20% to 25% of product revenue in 2022 as we described in our May Analyst Day.

To address the re-dimensioning of the metro networks to 400-gig, we announced the availability of our 400-gig ZR+ merchant pluggables for our metro product family. We also unveiled our intention to offer a suite of vertically integrated ICE6 XR pluggables, which includes ZR+. We expect this suite of pluggables to be key to expanding our margins and market share further in the metro in years ahead.

And with 5G and mobile edge compute driving 100-gig coherent to the edge of the network, we're creating a new billion-dollar-plus addressable market with point-to-multipoint capabilities of XR optics. In June, we officially launched the Open XR Forum with initial members Verizon, BT, Lumen, Windstream and Liberty Global, who all share our goal of driving standardization and acceleration in the industry of the adoption of XR optics. Within the first 45 days of launching the forum, current membership in the forum currently represents a significant share of global service provider CapEx and we have a large number of global carriers and ecosystem partners interested in joining the forum.

Turning to the specifics of our financial results, Q2 revenue was within our outlook range, while gross margin and operating margin exceeded the high end of our outlook range. Revenue in the quarter grew 2% on a year-over-year basis with our growth rate entirely constrained by supply. These supply issues limited our cumulative revenue by a total of $35 million to $40 million. Q2 gross margin expanded by nearly 400 basis points year-over-year. Operating margins expanded by over 250 basis points year-over-year. And cash flow from operations increased by approximately $60 million compared to Q2 of 2020.

Our quarterly results give us confidence that we are on track to achieve that target business model I disclosed earlier. We believe the supply chain challenges we are facing are temporary and not unique to us and are forecasted to continue in their intensity. Nancy will provide additional details in her commentary. Interestingly, these supply chain constraints have opened the doors to greater collaboration with our customers, providing us increased visibility into their forward demand profile and underscoring the importance of our 8 by 4 by 1 strategy.

From a regional and customer segment perspective, we experienced solid growth both sequentially quarter-over-quarter and on a year-over-year basis in the Americas and amongst our ICP customers, benefiting from regional subsea build and high-speed metro upgrades. Bookings in EMEA were up year-over-year in the quarter where ICE6 in the core and our metro portfolio are doing well, in addition to an increase in our engagement in meaningful Huawei displacement opportunities

While seasonality and timing of a few major projects affected our Asia Pacific performance in the quarter, our pipeline is healthy for the second half as we are rolling ICE6 and driving additional success with our XTM and GX metro products. Overall our Tier 1s fared well in Q2 with broad-based demand strength, while sales in the cable segment moderated after a good start in Q1.

On a product basis, revenue and bookings growth were robust across our open optical portfolio. The GX platform grew double digit year-over-year and continued to be broadly deployed across all applications: metro, long-haul and subsea. At this year's OFC, optical industry show, a major North American Tier 1 service provider highlighted that they have chosen Infinera's open optical portfolio, including our 400-gig GX metro solutions for deployment across their network. Additionally, we operationalized another major web-scale customer in quarter for our 600-gig GX solution for their metro network and this customer is actively testing our ICE6 800-gig solution.

These are important strategic customer wins as they demonstrate the strength of our broad and flexible portfolio. Line system bookings, which are a leading indicator of future high-margin transponder sales, are trending 60% higher than our plan for the year and are up meaningfully, both sequentially and on a year-over-year basis. While these line systems carrier lower margins in the short term, they are critical to expanding our customer footprint and are also a leading indicator of the adoption of ICE6.

It's worth noting that in Q2, over 70% of the line systems that we booked were specifically related to ICE6 800-gig deployments. Speaking of which, on the 800-gig front, we have now secured purchase orders from 19 customers, 6 more than we reported in our Investor Day on May 19. Our initial customer success include those that we announced publicly such as Telxius Cables, TPG Telecom, PCCW, UFINET and Seaborn as well as other unannounced customers.

In Q2, we recognized initial revenue from ICE6, albeit at modest levels. Demand is growing, a trend that is continuing in Q3, and we're ramping production and deploying systems with Tier 1 and ICP customers globally across both terrestrial and subsea applications.

As evidenced in our field deployments and customer qualifications, the performance of ICE6 remains industry leading and surpassing our original specifications. We remain of the view that 800-gig opportunity is a long multiyear cycle and are focused on growing ICE6 to represent 20% to 25% of our product revenue in 2022, which is reinforced by the increased demand for line systems that we are experiencing.

And lastly, we are seeing strong growth in interest in XR optics. The customer trial activity for the quarter and the first half has been strong and we conducted over 30 XR optics customer technology trials and demos in the first half of 2021. And as I mentioned earlier, we're seeing tremendous interest in the Open XR Forum amongst our customers, suppliers and ecosystem partners.

Overall, I'm encouraged by the broad-based demand strength across geographies and customers for our open optical portfolio. While demand indicators are healthy across our customer base, the near-term supply challenges are real and are impacting the entire networking industry. This is a challenge in the near term, but the underlying demand strength bodes well for our future, including our path to our target business model. We are working closely with our supply chain partners and customers to address those short-term supply issues.

In closing, with many regions around the world facing spikes in COVID-19 variance, we continue to put a priority on keeping our employees safe. We have an incredibly dedicated team and I really can't thank them enough for their resilience as the pandemic continues to pose formidable challenges in their personal and professional lives. Their tireless commitment to serving our customers is reflected in our achievements this quarter and the progress we are making towards our target business model and, quite frankly, are humbling and inspiring to me personally.

I will now hand the call over to Nancy to provide additional financial details on the quarter and our third quarter outlook and the progress towards our target business model.

Nancy Erba

Chief Financial Officer, Infinera Corp.

Thanks, David. Good afternoon, everyone. I will begin by covering our Q2 results and then provide our outlook for Q3. My comments reflect our non-GAAP results. For you reference, we have posted slides with financial details, including our GAAP to non-GAAP reconciliation, to our Investor Relations website to assist with my commentary.

Overall, I am pleased with our performance in the second quarter of 2021. The company performed well against the backdrop of a challenging supply environment, while ramping new products and winning new customers. As David covered, bookings were robust in the quarter, continuing the strength we saw in Q1, with Q2 products bookings up double-digit year-over-year.

We ended the quarter with a book-to-bill ratio meaningfully above 1 and with record backlog. Our primary challenge right now is navigating the impact of the industry wide component shortages, extended lead times and elevated costs, while staying on course for our 8 by 4 by 1 strategy. Q2 revenue was $339 million, within our outlook range, while gross margin of 37.7% and operating margin of 0.8% came in above the high end of our outlook range.

Coming into the quarter, our outlook contemplated a potential quarterly revenue impact of $20 million to $25 million from the industry wide supply chain shortages. And we now believe that the actual impact was about $10 million worse. Taking that into account, we now believe that the cumulative impact to our total revenue in the first half is in the range of $30 million to $35 million.

Q2 gross margin of 37.7% was above the high end of our outlook range of 34% to 37%. Relative to the midpoint of our outlook, gross margin came in higher in the quarter primarily due to two factors. First, a more favorable product mix as the deployment of some line systems shifted out into Q3. And second, higher services margin. Keep in mind, this was while absorbing approximately 100 basis points of unexpected temporal supply chain related costs in the quarter. On a year-over-year basis, gross margin expanded by approximately 400 basis points as we benefited from improvements in our cost structure, which were reflected in higher product and service margin.

Operating profit in the quarter was $2.6 million or 0.8% operating margin, which was also above the high end of our outlook, with operating margin up over 250 basis points year-over-year. The year-over-year improvement and better-than-anticipated profitability in the quarter were due to the higher gross margin and operating expenses of $125 million coming in toward the lower end of our outlook range, even as we continue to prioritize R&D spend on our vertically integrated 8 by 4 by 1 portfolio. The resulting EPS in Q2 was a loss of $0.03 per share, representing a $0.05 per share improvement year-over-year.

Moving on to the balance sheet and cash flow items, we ended the quarter with $233 million in cash and restricted cash. Our ending cash position benefited from $21 million of cash flow from operations, and after CapEx, resulted in $7 million of positive free cash flow.

During the quarter, we completed the transfer of inventory with one of our contract manufacturers as we continue to drive a more variable and efficient business model. At the end of the quarter, we had zero drawn against our $150 million credit facility.

As I reflect on the first half of 2021, I'm pleased with the progress we've made over the last year against the tough macro economic backdrop, while navigating a global pandemic and the industry wide supply chain challenges. Comparing our financial results for the first half of 2021 to the first half of 2020, bookings grew in the double-digit percentage range, while we grew revenue by 1%, constrained entirely by supply.

Furthermore, we expanded gross margin and operating margin by 650 basis points and 620 basis points, respectively, and improved our operating cash flow by almost $170 million, generating approximately $40 million of operating cash flow in the first half of 2021. The momentum in our business, along with our focus on execution, sets us up well to achieve our target business model in 2023.

Looking ahead to the third quarter of 2021, we are encouraged by the continuation of healthy demand and our record backlog exiting Q2. At the same time, we are mindful of the ongoing industry wide supply challenges and expect supply-related pressures to continue in their intensity in Q3.

For Q3, we are forecasting revenue to be in the range of $340 million to $370 million. This wider range is not demand related, but entirely due to the current supply chain environment. It is important to reiterate that customer demand remains robust, especially for our ICE6 800-gig products and sets us up well for the 8% to 12% growth we expect in 2022.

As we mentioned earlier, bookings momentum is strong across our portfolio, including for our line systems and we expect these bookings to drive increased revenue in Q3. We had initially planned for a modest impact to gross margin in Q3 from line system deployments. But now given the increased demand and the timing of these deployments, we estimate the impact to be 100 to 200 basis points on gross margin.

In addition, we expect to see 100 to 150 basis points of gross margin pressure in Q3 from higher-than-normal supply chain related costs associated with freight, expedite fees and component costs required to mitigate longer lead times and constrained capacity. Taking these factors into account, we are anticipating Q3 gross margin to be 34% to 37%.

We are planning for Q3 operating expenses to be in the range of $126 million to $130 million as we invest in R&D to align with our 8 by 4 by 1 strategy focused on high-performance coherent optical engines, open optical platforms, vertical integration and our entry into pluggables. We expect Q3 operating margin to be negative 1%, plus or minus 200 basis points. During the quarter, we expect to prudently use cash from operations, provisioning for inventory and working capital to support the roll out of our new products.

Finally, please assume a basic share count of 210 million shares for Q3. In the event that we are profitable on a non-GAAP basis in the quarter, diluted share count should be approximate 224 million shares.

As we look ahead to the full year of 2021, based on the market environment, our growing backlog and demand profile, it gives us further confidence in our previously shared expectations to grow our revenue slightly ahead of the projected market growth of 2% to 3%, to expand gross margin by approximately 300 and 400 basis points compared to fiscal year 2020, and to be profitable on a non-GAAP operating income level for the full year.

Our progress in 2021 should position us well for increased growth in 2022 and put us on a path to achieving our target business model of 8% to 12% revenue growth, mid-40s gross margin and double-digit operating margin in 2023.

Before turning the call over to Q&A, I want to echo David's sincere appreciation for our employees, customers and partners as we collectively navigate these challenging, but opportunistic times, and also to our shareholders for their continued support.

Zen, I'd now like to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of John Marchetti of Stifel.

John Marchetti
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks very much.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Hey, John. How are you?

John Marchetti
Analyst, Stifel, Nicolaus & Co., Inc.

Q

I'm well, David. Thanks very much. Just I wanted to do a quick question on the guidance for 3Q, the $340 million to $370 million range, Nancy, you mentioned that being wider, given some of the constraints out there. Just trying to reconcile that with the $25 million to $35 million hit that you think you took. Is there more still to come there? Is that incorporated in that guidance? Just trying to get a sense of how to level set that guidance relative to shortfalls that you saw in 2Q.

Nancy Erba
Chief Financial Officer, Infinera Corp.
A

Yeah, it's been certainly an unusual time with the supply shortages. So, I want to try and clarify what we're seeing and how we're thinking about it. So, the parts that are short right now, think of it as about 2% of the parts that we're purchasing are causing this impact. And on a margin basis, that represents about 100 basis points in Q2 and we said 100 to 150 basis points in Q3. That's short-term impact from the situation that we're in.

If we think about it on a revenue basis, we've been trying to give that quarterly view. But for the first half was $30 million to $35 million. So, you can think about it like $15 million a quarter that we're not achieving in revenue right now because of the supply. So if I look at Q3 and I would think it's similar, about another $15 million a quarter, that puts the revenue that we haven't achieved or wouldn't achieve in the first three quarters in that $45 million to $50 million range. That is all covered by backlog and really strong bookings growth.

This will – I know the next question. So, this is going to waterfall into future quarters as the supply loosens up. And we're thinking about that in Q4 and then Q1, Q2, really into the first half of 2022, as we start to see the supply come back online

John Marchetti
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Great. That's helpful. Maybe just a quick follow-up then, just given that comment about Q4 and then into Q1 and Q2, are you expecting then that Q3 is sort of the worst for this supply constraints and those should ease as you get late this year and then certainly into the first half of 2022?

Nancy Erba
Chief Financial Officer, Infinera Corp.
A

Yeah. Based on what we see today, yes, but I'm going to hold that because it's absolutely been a little bit longer than we had probably anticipated coming into the year.

John Marchetti
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Great. Thanks very much.

Amitabh Passi
Head-Investor Relations, Infinera Corp.
A

Thanks, John.

Operator: Next question comes from the line of Simon Leopold of Raymond James.

Simon Leopold
Analyst, Raymond James & Associates, Inc.
Q

Great. Thanks for taking the questions.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Hey, Simon.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

I wanted to check in on the outlook for the 800-gig products gaining traction. I know it seems to have slid out later into this year, but we're now getting closer to that point. And just seeking an update of when you think you'll start recognizing material revenue. I believe on the prior earnings call, we left with the impression you expected hyperscalers beginning deployment in the fourth quarter this year and becoming more meaningful in 2022. I just want to see if we could update that.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Sure. Let me kind of clarify what we had talked about. I think what we had mentioned was we were shipping commercial product in our last quarter. And so, we have had first revenues kind of in that second quarter. We do expect more material revenues in Q3 and Q4, building to 20% to 25% of our product revenues in 2020, pretty consistent with our comments we made in our Analyst Day on May 19. We've added six additional customers. On the positive side, we've laid out 60% more line systems than we bargained for in the year. So, the demand for the product is foundationally very strong and has grown since we last talked.

So, we do expect those rollouts and are on path to that 20% to 25% of product revenue. You're going to ask me, is it ICP? Yes. Is it CSP? Yes, it's across the spectrum, both for long haul, metro core and subsea applications. And the performance of the product continues to climb way ahead of spec – of what we originally spec'd, which is good news commercially for our customers and for our shareholders as we scale the technology.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thanks for that detail. Just a quick follow-up, you've talked in the past about the need for the investment community patience regarding Huawei swap type opportunities. Just like to see if you could update your thinking and the progress in terms of deals, one that you would consider at Huawei's expense. Thank you.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. No, it's – I think even on May 19 – I don't think we ever demanded the investment committee to be patient. I would never expect such, sorry, bad humor. But I think what I'm trying to do is have realistic expectations of how long it takes to do an RFP and then go ahead and engineer, install, furnish and then revenue recognize a lot of these projects, because again rip-outs or replacements or overlays are all long term. And I think you'll hear that even from our industry competitors.

We are seeing, even since May 19, an increase in these opportunities in locations all around the world. So, we have seen both an increase in RFP. We have been awarded contracts. And I think what I said even in Q4 of last year, Q1 as well as in our analyst day, is we would expect to see those RFPs and wins, and to be able to see material contribution in 2022 and beyond, contributing to the 8% to 12% growth rate that we gave in that 5/19.

So, as Nancy said prior, the $45 million to $50 million she's contemplated of supply chain constraint that we have covered in bookings, plus those Huawei orders, give us even more confidence in that 8% to 12% growth rate as we go into 2022.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you for that detail.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Thank you.

Operator: Next question is from Alex Henderson of Needham.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Hey, Alex.

Alex Henderson
Analyst, Needham & Co. LLC

Q

Hello. I was hoping you could talk a little bit about when you talk about 20% to 25% of revenues coming – or product revenues coming from the new product in 2022, I mean that's on average for the full year...

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Correct.

Alex Henderson
Analyst, Needham & Co. LLC

Q

So, should we be then thinking that that would ramp, say, 10% in the first half going to, say, 30% in the back half, to average 20% to 25%? Is that the right way to think about the mechanics of that?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

It's a good question and I won't give you as specific an answer other than the trend is about right. Meaning, typically, as you're deploying a lot of these elements, you're going to get a heavier weighting in the back half just by nature of we're onboarding more and more customers, winning more and more contracts, and filling up those line systems that I mentioned were 60% ahead of our original plans. So, I would expect, on a weighted average basis, that 20% to 25% with more opportunity as the market continues to unfold, but it to be heavier weighted in the second half.

Alex Henderson
Analyst, Needham & Co. LLC

Q

And within that context, are the parts that are being difficult to achieve, are those predominantly going into the line system elements and it's – to slowdown in the line system deployment that that is the gating factor to realization of demand? Is that the primary area?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yes.

Alex Henderson
Analyst, Needham & Co. LLC

Q

I mean, if that's the case, so how that ramps up? Then there's a direct relation to the line cards, which I would assume would be more 800-gig related. Is that the right way to think about just the mechanics here?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yes, good point. I'd depicted that nothing is left alone. Meaning, a microcontroller in a fan tray can be on shortage right now, and that 2% can hold up shipments. But you hit the nail on the head. We've seen part shortages on line systems, which delayed our deployments from Q2 to Q3, which had a good guy in margin on Q2, as Nancy mentioned, but puts more pressure on the margins, along with the increase in volume that we've seen for Q3. And you're right, less so with 800-gig transponders with our own vertical integration.

So, again, the line system deployment gives you that Q2 to Q3 shift in margin. But for the long term, both the increase in those line systems as well as the timing of them give us, again, more confidence towards that original question of yours that 20% to 25% product revenue of ICE6 800-gig.

Alex Henderson
Analyst, Needham & Co. LLC

Q

If I could just clarify one last thing before I cede the floor.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Sure.

Alex Henderson
Analyst, Needham & Co. LLC

Q

Nancy, you said $20 million to $25 million was your expected impact in Q2, and then it was substantially more than that. I think you said $30 million to $35 million in the quarter. And then, at one point, you said it was $15 million per quarter. So, it's a cumulative impact, right. So...

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Correct.

Alex Henderson
Analyst, Needham & Co. LLC

Q

...the fact that you were expecting that – maybe that $15 million in 1Q, would have potentially shipped in 2Q. It didn't. therefore, it's a net impact of $30 million to $35 million in 2Q that's sliding sequentially.

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Correct. So to think about the $30 million to $35 million is cumulative for the first half. Right? We were – looking originally, we had said $10 million, it ended up being closer to $15 million in Q1 that slides into Q2. So, I think the simplest way to look at it is about $15 million a quarter. And right now, as we're going into Q3, I've baked in about that $15 million into the Q3 guide.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

And if you look at that for the year, this 2% part shortage causing the 100 to 150 basis points of gross margin temporal impact, it's having about, what, 400 basis points of suppression on growth in revenue that ultimately will get rolled and waterfalled as we get into 2022.

Alex Henderson
Analyst, Needham & Co. LLC

Q

Just to be clear, when you say $15 million in Q3, then it would be the cumulative impact of $30 million, plus another $15 million exiting Q2?

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Exactly.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

You got it.

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

You've got it. Exactly.

Alex Henderson
Analyst, Needham & Co. LLC

Q

Perfect. Thanks. Great. Everybody will be on the same page. Thank you.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thank you.

Operator: Next question comes from the line of Michael Genovese of WestPark Capital.

Michael Genovese
Analyst, WestPark Capital, Inc. (Securities)

Q

Two questions from me. So, it seems like on an order sort of demand basis, going into 2022, we're sort of right where we should be to feel good about the 8% to 12% guidance. But given that because of supply constraints we're growing in the low-single digit right now, are we assuming too much that they're going to be gone next year and that we won't be talking about the same level of supply constraints next year as we are right now or something similar? We're assuming it's going to go away next year, but is that a safe assumption?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Well, so – I think two elements to look at is, one, when a lead time goes from 15 weeks to 50 weeks, when we were in December, January dealing with this, it does put quite a hole when you do the math of the delta between those. It's puts a hole into Q1, Q2, Q3 for orders that you get in, and thus, even a bit in Q4. We have provisioned out and gotten a lot closer to our customers, which has been a positive of this in terms of getting their lead times extended for things they're looking for and they're forecasting.

So again, we're expecting that, at least by math, in terms of forecasting we have been able to cover a lot of that demand that by the time we hit Q1 and Q2, we will be able to hit in terms of lead time. Although as new orders come in, we'll see what the capacity yield, once things roll off, automotives and get back on line, get even keel across the industry. Most people are expecting some moderation in Q1 and Q2 with the second half being relatively clear.

It's too soon to tell, but that's what we're estimating in our business outlook, which is, hey, there will be some impact in Q4, but we keep fighting through it. And that in Q1 and Q2 of next year, we've moderated a big piece of that through our forward planning elements in putting additional inventory, lead time and commitments with our contract manufacturers.

Michael Genovese
Analyst, WestPark Capital, Inc. (Securities)

Q

Great. Perfect. The second question is that we've been hearing and I think you've been talking about ICE6 having some really good 800G performance at long-haul – or for long-haul, subsea-type distances. And I guess my question is what's the perspective on how much in those markets are customers actually deploying 800G wavelengths? Has that started? Where were the real inflection in pure native sort of 800G wavelength demand for long-haul and subsea? Have we already seen it in subsea or is it coming in long-haul? What's your comment there?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. Let me clarify the comment we make on performance. It's not just the performance at 800G. It's the performance of our ICE6 portfolio. So, that means how many bits per dollar can we carry over distance? So, when you look at a subsea network, what capacity can we carry over that same fiber when we look at how long can we carry a 600-gig signal or a 700-gig signal or a 500-gig signal? So, we've seen double-digit performance benefits head-to-head as we've been out there and our performance has been well ahead of the specification we put out, which again yields to better economics for the client base. So, it's not just at 800-gig.

Michael Genovese
Analyst, WestPark Capital, Inc. (Securities)

Q

Okay. And then, on the question of just the timing of the 800-gig market for actual deployment of 800-gig wavelengths?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Sure. Yeah, I think, again, it's now that people are deploying. You're asking who, at what distance, what percent. And as we get into 2022, we'll try to give you some more relevant statistics that, based on our deployments to-date with, again, the number of purchase orders we just announced, it's probably not materially relevant. But as we go forward, what percent of operators are operating at 800-gig, 700-gig, 600-gig, or ICE6, we'll try to give you a better profile. I just don't have that for you now.

Michael Genovese
Analyst, WestPark Capital, Inc. (Securities)

Q

All right. Thank a lot, David. I appreciate it.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

No, no. Thank you. Good question.

Operator: Next question comes from the line of Rod Hall of Goldman Sachs.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Hi. Thanks for taking my question. This is Bala Reddy on for Rod. I have a clarification and then a question. So of the $30 million revenue shortfall that you're talking about, could you maybe give us some color on how much of it was related to 800-gig?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Zero.

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Yeah, none.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Zero.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Got you. Makes sense. And along the same lines, so as you think about this 800-gig contribution, I understand this is still – is relatively small stage and then there could be a few large products – projects rather, so that could fluctuate the revenue contribution. But do you at least have some milestones on how you're thinking about 800-gig revenue contribution by the end of the year?

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

For 2022, what we've said is 20% to 25% of our product revenue will come from the ICE6 products. So, we are shipping. We recognized our first revenue in Q2. As we've been saying, that will begin to ramp in the back half of this year and represent 20% to 25% of product revenue next year.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

For the full year. And as Alex asked earlier, is that on average 20% to 25% of every quarter? No, it will be up for the total year, which means probably up, gradually growing from Q1 to Q2 to Q3 to Q4, as you go through deployment, revenue recognition cycles across ICPs across regions, across CSPs, interexchange carriers.

Did that answer your question?

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

It does, but I have a quick clarification.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Sure.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Could you – again, I don't know if this has been asked earlier, but could you maybe give us some color on at what percentage do you think the 800-gig revenue contribution could finish the year at?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

This year?

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Right, this year or, in fact, even next year could also be helpful.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Yeah. So, let me try this again. Next year, by the end of the year, we expect, as we mentioned in our May 19 Analyst Day and today, for the full year 2022, ICE6 800-gig product would be 20% to 25% of our product revenue, for the year, on average total year.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

I'm sorry. Maybe I didn't clarify it enough, David. But I meant in Q4 of the year, like do you see it maybe ranging up to 30%, or – just wanted a [indiscernible] (00:42:24)?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Yeah. We haven't provided that level of granularity yet. So, again, as we get closer to that, we'll try to give you more of the ramp. We think that it should give you a good indication, the 20% to 25% will be a pretty good ramp going from Q1 through Q4. It will be a positive slope. Can't tell you what that is just yet. Sorry about that.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Fair enough, [ph] guys (00:42:52). I just got a quick follow-up, if I can, on visibility. So, you talked about increased visibility. Is that mostly towards the – through the end of this year or do you have some larger customers that are giving you some transparency on their requirements even into, say, maybe even next year?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Yes. So when we're laying out that strategy of 8 by 4 by 1, these are architectural changes. So, in the core of the network and subsea networks, you're dealing with these 8 – people that are going with this fifth generation ICE6 800-gig technology, which obviously takes multi-quarters to go plan. When you're re-dimensioning the metro to 400-gig, again, those are multi-quarter plans. When you are doing Huawei replacement deals, those are multi-quarter plans. So, all the way into next year, and we've gone through our supply chain and are placing demand.

And then as you go to look at the impact of our own 400-gig ZR+ pluggables as well as the ability for XR point to multipoint, these are again multiyear architectural shifts that are going on. And so, look, it's just necessity has forced us all together in the industry to get a lot tighter in our planning. And I actually think that part of it is healthy. So, talk about making lemonade from lemons in the supply chain situation, that's what we're doing, given it's a short-term impact.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Great.

Amitabh Passi
Head-Investor Relations, Infinera Corp.
A

Thanks, Bala.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Thank you very much. I appreciate all the answers.

Amitabh Passi
Head-Investor Relations, Infinera Corp.
A

Thanks.

Operator: Next question comes from the line of Fahad Najam of MKM Partners.

Fahad Najam
Analyst, MKM Partners LLC
Q

Hi. Thank you for taking my question. So, I want to understand the component shortage dynamic a little bit more. I get the $30 million to $35 million cumulative revenue hit that you're experiencing and the 120 basis points impact on your gross margin in Q2. First of all, what – is it just one or two components that are very small portion of your bill of materials? Is it more than one component? And what are the lead times for these components that you're having a hard time getting a hold of?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Yeah. No, it's a really good question, and I don't mean to be tried in the answer, because we have daily meetings on this as well as the rest of the industry does. But as Nancy said earlier, the best we to depict it is it's only 2% of our overall components that we're having the supply chain issues with. But as you know, if you go buy a car, if there's no tires, you can't drive the car off the lot. And it's the same in terms of recognizing revenue. So, 2% of the components is attenuating revenue. Now, the bookings are coming in; in fact, coming in ahead of the revenue – what could be the revenue growth. And it's attenuating – 2% of part is attenuating revenue of 400 basis points of growth that, as Nancy said, will be pushed as we – we'll determine how much of that can fall into Q4, if any, or whether it's going to be in the front half of 2022, which is our expectation.

So, the good news is bookings are coming in well ahead of that. It's not a huge portion of the parts. The lead times on those parts, as I said earlier, many of them used to be 8 weeks or 12 weeks and that has turned into 30 weeks or 50 weeks in many cases. So if you have something where you get an order for something that has moved by a net of 20 to 40 weeks, it's going to move revenue out two to three quarters. And that's what we're dealing with. So, so far, again, it's been $15 million a quarter in actual revenue to our results or, in Q3, towards the midpoint of the guidance we provided on what normally, based on bookings and demand, we would have put in the range. So, each quarter, Q1, Q2, Q3 you could have added $15 million to.

Does that help?

Fahad Najam
Analyst, MKM Partners LLC
Q

Got it. So, the – it helps. So, the $30 million cumulative that you have missed in the first half, most likely, if everything resumed by Q4, you probably would have a very steep Q4. That said, my question...

Nancy Erba
Chief Financial Officer, Infinera Corp.
A

Yeah.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Yes. If everything resumed in Q4, which I do not expect everything to open up all at once, because we do this, as I mentioned, on a daily basis. And just to correct your prior point, if you look at Q2 results to the midpoint of guidance, it was less than 1% impact versus, again, a $15 million number, so you're talking about maybe $5 million versus $15 million that we would have expected to be in Q2. If you look at the midpoint of our guidance we're providing for Q3, again, that would have been up by $15 million without the spillover effect coming in. Makes sense?

Fahad Najam
Analyst, MKM Partners LLC
Q

Make sense. Now, to my real question, which is, are you seeing an increased cost? So, you've got obviously a revenue impact. But on the costs going up for your components across the board, even those that you can easily get access to, are you paying more for them? And if you are, and if those components whose lead time is extended to 30 weeks, wouldn't it be fair to assume that your gross margin in the – when you recognize the revenue from shipping that system in 30 weeks from now, would you still be experiencing that headwind?

So, I'm just trying to understand, like how long would this gross margin impact flow through into your outlook even in 2022, assuming things begin to normalize by the second half of this year, but I'm assuming you're still taking in orders that were coming in 30 weeks late and you're now shipping in first half of next year, for example.

Nancy Erba
Chief Financial Officer, Infinera Corp.
A

It's a very good question. So if you think about Q2, within the 37.7% of gross margin that we reported, we had about 100 basis points of impact from whether it'd be expedite fees or increased costs on components, freight, all of the actions that our supply chain team is really – they're literally driving 24 hours a day. If I look at Q3, we estimate it to be about 100 to 150 basis points. As we start to see the shortages abate, I would expect that to go back to what would be more normal ranges. But again, it's too soon to tell on Q4, but that's the level of impact we've seen in Q2 and expect in Q3.

Fahad Najam
Analyst, MKM Partners LLC
Q

All right. And last question, do you intend to pass on any increased cost to your customers? Because, clearly, you don't have a demand side problem, so are you planning to jack up prices to compensate for higher freight charges, et cetera?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.
A

Look, at this point, again, our strategy with our clients is to provide value for what we do. And an earnings call, we're probably not going to talk about our pricing strategy competitively. But I understand your point. We remember suppliers who treat us the right way in these environments and the ones that treat us the wrong way. And then, we engineer our designs in the future remembering that. Partnership is a long-term thing.

Fahad Najam
Analyst, MKM Partners LLC
Q

Appreciate the answer. Thank you.

Amitabh Passi
Head-Investor Relations, Infinera Corp.
A

Thanks, Fahad.

Operator: Next question comes from the line of Samik Chatterjee of JPMorgan.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Hi. Good afternoon. Thanks for taking my question. I just wanted to start with a question on inventory levels. If I'm not wrong, your inventory levels did move up modestly quarter-over-quarter. But any thoughts around how comfortable you are with those inventory levels? Or as you now think about the supply kind of demand situation, would you rather increase from these levels or [ph] strip (00:51:36) what inventory you have? And does that mean you go and buy components at higher prices that maybe increase some of the headwinds going into next year on margins? And I have a follow-up.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

It's a really good – no, it's a really good question. Well, we've provisioned and we've put out lots of additional demand, both because our demand itself has increased, whether it's the 60% line system increase or the demand we're seeing for ICE6 800-gig or our metro products, or the Huawei insertions. Look, any inventory that comes in, the operations team would turn around and get assembled to be able to ship out to meet customer demand ASAP. So, we think that will turn relatively quickly, and again given we have better demand views.

To your point of cost, as I said, yeah, and Nancy said, is 100 basis points we didn't expect in Q2 on 2% of the parts that we have. So, again, as we went into Q3, we see that now and we've identified that to 100 to 150 basis points. Our goal is going to be to continue to secure supply to meet our customer commitments out in the marketplace. And as we get closer to Q4, if there is any impact, like we have been – I think we've been letting you know both the cumulative impact and the incremental impact on revenue and margins pretty transparently on a quarter-by-quarter basis as best as we can see it.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Got it. And just following up on the bookings here, can you give me some color on how it's progressing on a geographic basis if you kind of split it by customers in each geography? Because the reason I ask is when I look at the quarterly revenue, at least, looks like most of the growth that you had here really came from US and other Americas, whereas EMEA and APAC were either more kind of flat or down year-over-year. So, just curious how that book – is that showing up consistent with the bookings or is it a different picture in the bookings?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. No, I think there is a different – a bit of a different picture in the bookings. Other Americas are up in bookings year-over-year, quarter-over-quarter for both subsea and metro. As we mentioned, Asia Pacific is really about timing. And so, we expect both the bookings and the revenue to be able to hop up. In the US, the bookings we've gotten have been good about line systems and our wallet share of the existing Tier 1s where we just haven't had a ton of wallet share or customer concentration. So, one of our goals that we outlined in our May 19 Analyst Day.

Again, EMEA, again, while revenue was down, the bookings were up quite solidly, on a quarter-over-quarter and year-over-year basis as well. Again, by segments, we saw the Tier 1 ICPs up quarter-over-quarter and year-over-year on both revenue and bookings. Tier-1s, again, were very much in line. Other system service providers, a lot of interexchange carriers connecting a lot of other carriers are up quarter-over-quarter. Solid line system bookings and ICE6 bookings as we look out.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Got it. Great. Thank you for taking my questions.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thanks, Samik.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Next question is from George Notter of Jefferies.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Hey, George.

George C. Notter
Analyst, Jefferies LLC

Q

Hi guys. Thanks a lot for squeezing me in here. I hate to belabor this with you, but I guess I had another question on bookings. As we go through earnings season, I think it's pretty clear that companies are benefiting from customers placing orders – longer-dated purchase orders given the supply chain concerns that are out there. And I guess, what I'm trying to do with you guys is kind of parse your commentary. You said meaningfully better book-to-bill, double-digit orders. Is there any way to parse that for sort of organic demand, if you will, versus customers simply placing orders with you earlier than they have in the past?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. I guess what I would tell you is, things like line systems, we typically don't get orders for well in advance. People are planning to lay out the line systems with the budgets they have. And so, the way we look at it is, we know that our customer base, at the beginning of the year, George, had a particular CapEx that they were looking for and budgets that they've communicated to our sales teams. And we're trending meaningfully above our plans for Q1 and Q2. Meaning, our results are meaningfully above and that continues in Q3. And so far, our forecasts say that for the year, they will be meaningfully above what they expected to be within their budgets for the full year. So, I don't have a, hey, this many points of the double digits is people bringing things forward versus normal demand. What I do know is, within the budget envelop of the year, we're trending in bookings higher than we expected to be when we started the year.

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

And I think another example there is just the fact that we – as I characterized the revenue off of, call it, $45 million to $50 million from Q1 to Q3, I think those are orders placed that we would have shipped and recognized revenue. So, those were orders that were wanted by our customers in that time period. So, I think you just need to make sure that you keep that in perspective in terms of the higher bookings numbers going out into the future as well.

George C. Notter
Analyst, Jefferies LLC

Q

Got it. Okay. So, said differently...

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

George, we aren't seeing people with a horse race on things. We don't see many people where we believe they're placing two orders to see who comes in with the order first. It's tougher, as you know, in optical systems for people to onboard that technology and to insert that technology.

George C. Notter
Analyst, Jefferies LLC

Q

Got it. So, said differently, I guess what you're telling us is that the weighted average delivery dates in your bookings isn't changing significantly. Is that accurate?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Weighted average – I think the lead times – the lead times I think have gone up in the industry. And our customers are giving us more lead time, which would say our first half finished heavier in terms of bookings. So, I then look at the year forecast, which we've been pretty good at when I look back over the last two years, from a bookings' basis. And I say, ah, if I see a dip in the second half of the year, given budgets are finite, do I believe that I just pulled – like last year, we saw a little bit of this in bookings with the first half being heavier than the second half. The good news for us is, for the total year, we still see things tracking above that rate.

George C. Notter
Analyst, Jefferies LLC

Q

Got it. Okay. Very good. Thank you, guys, very much. I appreciate it.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thanks, George.

Operator: Next question comes from line of Jim Suva of Citi.

Jim Suva
Analyst, Citigroup, Inc.

Q

Thank you.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Hey, Jim.

Jim Suva
Analyst, Citigroup, Inc.

Q

My first question is, I noticed you increased the guidance range for revenues, which makes sense given the uncertainty. But we're already like well past one month into the quarter, so there is less than 60 days left. Are the shortages of that 2% of parts just so unclear you don't even know for sure if you're going to get the right parts in, in the next 50 days?

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

So, we know where the shortages are, as we've mentioned. We've said it's 2% of the parts. What happens, Jim, in this world is that somebody's commitment date that's 30 days out, that we expect 30 days out, may not ship at that time. And that's not a unique to Infinera dynamic. You'll find that that's happening across the industry where supply is just not as dependable in terms of timing.

Jim Suva
Analyst, Citigroup, Inc.

Q

Okay. Got you.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

And so, that's why we're on it every day, 24x7. And that can happen in the last week of the quarter. That can happen in the last day of the quarter. That can happen the first day of the quarter. And so, we're just being mindful that a wide range, but then execution and achievement to execute and be above our midpoint of guidance on the bottom line and gross margin as well as continuing to collect those bookings really, really important to executing that 8 by 4 by 1 strategy and 8% to 12% growth.

Jim Suva
Analyst, Citigroup, Inc.

Q

Okay. Then my follow up is, and this is a bit of – not for one quarter, but multi-quarter. Do you feel Infinera is in line with your peers for placing all your component orders into the supply chain or a little bit ahead or a little bit below? Because the reason why I ask is, I know for one quarter, it's not a horse race, as you'd mentioned, and people can't double order and switch between the two easily; but multi-quarters, they kind of can. So, that's kind of what I'm wondering by how you feel you're positioned with the supply chain and relative to your competitors.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

That's a good question. Don't forget that people are making the decisions based on that 8 by 4 by 1 strategy, based on who's got the technology. So, I guess, the good news is, there are less participants in the field with qualifying technology that delivers the price performance. How our handful of competitors are leveraging the supply chain and their balance sheet, I can't be certain. What I can tell you is, we've placed orders out through 2022 and are looking at our capacities and working this on a daily basis.

Jim Suva
Analyst, Citigroup, Inc.

Q

Great.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thanks, Jim.

Jim Suva
Analyst, Citigroup, Inc.

Q

Thank you for the details and clarification on such difficult times. Thank you.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

No, no worries. Thank you.

Operator: Next question is from Jeff Kvaal of Wolfe Research.

Jeffrey Thomas Kvaal
Analyst, Wolfe Research LLC

Q

Yes. Thank you all very much. My question is, I guess, did things get significantly worse in the supply over the course of the quarters? Because I would have thought that the midpoint of guidance would have been into your target zone there and you came up a little shy of that for this quarter. So, just if you could talk us through that, that would be super. And then, I have a follow-up.

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Yeah. I mean, I think the supply challenges, as we said, have been intense. They continue to be intense. We are driving that execution every single day. Our supply chain came to close in on increases we can get, on making sure that we're providing outlooks to our vendors as far it is possible. As far as Q2, we did come in still within the range, but below the guidance. We talked about certain line systems that are shifting into Q3. We also are really focused on execution right now internally. You saw margins coming above the range at 37.7% that we generated operating margin as well above the range. We're trying to manage this as tightly and as closely as we can. And the great news, though, is that the demand continues to be really robust with double-digit growth in bookings, and that continues even as we sit here today.

Jeffrey Thomas Kvaal
Analyst, Wolfe Research LLC

Q

Yeah. I appreciate your efforts. I'm sure that [ph] can't be all front (01:03:33). My follow-up is...

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. Look...

Jeffrey Thomas Kvaal
Analyst, Wolfe Research LLC

Q

Oh, please.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Just if I can add just one thing. I mean, I guess the way I'd look at it is, again, the $45 million to $50 million total that Nancy mentioned, if you cume'd Q1, Q2, Q3 in the results. Look, our view is, absolutely, we should have been able to do an additional [ph] $15 (01:03:55) million in quarter, plus there's that opportunity to pull in from the cume $50 million. We're just very realistic and we've looked at those. We know what the lead times are and we know what's available and what's not available, which is why the wider range. So, I think it has intensified in Q2 and Q3 by math. When 10 weeks comes to 40 or 10 goes to 50, we expect Q3 to be the kind of the bottom. But we're cognizant that we're living in a very dynamic world right now. So, we do expect it to get better, but we'll keep you guys with these numbers of what's incremental and what's cumulative. And we do expect this to roll over into next year.

And to George's earlier question, we are mindful that some portion of our bookings are people pre-ordering for Q3 and Q4, because they try to keep within the year. But overall, for the year, we feel good that our bookings are well ahead of the industry growth rates – well ahead of the industry growth rates.

Jeffrey Thomas Kvaal
Analyst, Wolfe Research LLC

Q

Okay. And I guess, that was my follow-up, which is, should we be thinking for next year about an 8% to 12% growth rate, plus the $45 million or $50 million that is pushed out from 2021 or inclusive of that $45 million to $50 million?

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

It should be inclusive, but it's giving us a lot more confidence in that 8% to 12%.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. It's a little early, but as you think about the roll off of that $45 million, do I expect that into 2022? Yes, we do. But as we get closer to giving our results in Q3 and for Q4, we'll try to give you a bit more color, based on what we see from the supply chain. It does give us great – much more confidence

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thanks, Jeff.

Jeffrey Thomas Kvaal
Analyst, Wolfe Research LLC

Q

Yeah. Okay. Thank you.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Operator, let's take one last question.

Operator: Yes, it's from Meta Marshall of Morgan Stanley.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Hey, Meta.

Dave Nwokonko
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is Dave Nwokonko for Meta Marshall. Thanks for the question. My first question was, are you seeing any sort of pause as wireless carrier customers focus on advanced spectrum implementations? And I have one other.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

No, just no to your first question.

Dave Nwokonko
Analyst, Morgan Stanley & Co. LLC

Q

And then...

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Go ahead.

Dave Nwokonko
Analyst, Morgan Stanley & Co. LLC

Q

Sorry for the second question. With your 10% customer having slipped below 10% during the quarter, would you expect to have a 10% customer some point in the second half?

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Potentially, but I mean we don't usually predict that. So, we'll just have to see how the year plays out.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Yeah. I think for the first half of the year, we had one 10% when you look at the first six months of the year. Is that right?

Nancy Erba
Chief Financial Officer, Infinera Corp.

A

Right, it's true.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

What we do need [ph] with ZR (01:06:56), I mean we're planting the seeds with line systems and new wins, and that's what open optical is about. It's about grabbing more wallet share and actually having some more customer concentration, which I've never asked for in running the company. So...

Dave Nwokonko
Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

Thanks, Dave.

Dave Nwokonko
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

A

Thank you.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

A

David, we'll head back to you for any last-minute comments.

David W. Heard
Chief Executive Officer & Director, Infinera Corp.

Yeah. No, I appreciate it. Look, we are entering a robust optical cycle, one that I think we haven't seen for many, many years. Our strategy and business model are clear, 8 by 4 by 1, and we have a business model that we're committed to achieving and feel more comfortable, based on the results of the first half of the year and even in Q2.

Our product portfolio and results give us that confidence, as we fight the short-term battles. Our global team is locked in on execution to deal with these temporal issues, both from a supply chain as well as, again, the impacts of different variants of COVID. And they do, they just humble me every day, my team members around the world that are working together, through unbelievable challenges in today's environment.

So, I thank you for your patience and your questions and your ongoing confidence and support. And so, be well and be safe.

Amitabh Passi
Head-Investor Relations, Infinera Corp.

Thank you. Thank you, operator.

Operator: There are no further questions at this time. I would now like to turn the call back to David Heard. Please go ahead, sir. This concludes today's conference call. Thank you for participating. You may now disconnect.