EARNINGS CALL SCRIPT FORMAT (60 min): Aug 10, 2023

I)	Welcome Remarks:	IR-Henk (1 min)	1:30pm PT
II)	Quarterly Financial Results/Guidance:	CFO-Henk(12min)	1:31pm PT
III)	Quarterly Revenue Drivers/Outlook:	CEO-Oleg (7 min)	1:43pm PT
IV)	Q&A Moderator (9 sell-side analysts):	IR-Henk (39 min)	1:50pm PT
V)	Sign-off	IR-Henk (1 min)	2:29pm PT

Section II) Quarterly Financial Results/Guidance items:

1. Consolidated Financial Performance (2 min)
2. NSE/OSP Financial Results/Operational Drivers (6 min)
3. Next Quarter Guidance (4 min)

Welcome Remarks: **Henk Derksen**

Thank you, Operator. Welcome to VIAVI Solutions' fourth quarter fiscal year 2023 earnings call. My name is Henk Derksen, VIAVI Solutions' CFO. Also joining me on today's call is Oleg Khaykin, our President and CEO.

Please note this call will include forward-looking statements about the Company's financial performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations and estimations. We encourage you to review 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 their usefulness and limitations, in today's earnings release. The release, plus our supplemental earnings slides which include historical financial tables, are available on VIAVI's web site at www.investor.viavisolutions.com.

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

Let's start with our Quarterly Financial results.

Quarterly Financial Results: Henk Derksen

Consolidated Financial Performance

Fiscal Q4 revenue came in at $263.6 million, slightly ahead of the high end of our guidance range of $242 million to $262 million, up sequentially by 6.4% and down 21.4% on a year-over-year basis.

Operating profit margin of 11.7%, near the high end of our guidance range of 10.0% to 12.4%, increased by 30 basis points from the prior quarter and decreased 9.6% from the prior year, a result of leverage on lower revenues.

EPS at 10 cents ended above the high end of the guidance range of 7 to 9 cents, up 2 cents sequentially and down 14 cents year over year. The current share count was 223.6 million during the quarter, down from 231.3 million shares in the prior year. Cash flow from operations was $23.2 million for the fourth quarter versus $73.6 million in the prior year period.

Fiscal 2023 was a challenging year for VIAVI. The full year revenues decreased from record levels of $1.3 billion in 2022 to $1.1 billion in fiscal 2023, down 14.4%, a result of an overall slow-down in service providers, network equipment manufacturer, and semi-conductor spend. NSE full year fiscal revenue came in at $801.2 million, down 15.6% year-over-year from $949.1 million. OSP also experienced contraction, as central banks digested currency inventory builds during COVID, reducing revenues from $343.3M in 2022 to $304.9 million in Fiscal 2023 or down 11.2%.

Mainly because of lower revenue levels, VIAVI's full-year 2023 Operating profit margin at 15.6% declined 6.6% from 22.2% in 2022. Within our NSE segment, operating profit margins declined 7.9% from 15.6% in 2022 to 7.7% in 2023. Within our OSP segment operating profit margin reduced from 40.5% in 2022 to 36.5% in 2023, which also includes the impact of startup costs related to our new facility in Chandler.

Full year 2023 EPS at 55 cents decreased 41.8% or 40 cents from record EPS levels of 95 cents in 2022.

Despite headwinds, cash flow from operations for the full year continued to be solid as we generated $113.8 million in FY2023 and $62.7 million in free cash flow compared to $105.6m in free cash flow in FY2022. While further improving our balance sheet by retiring the remaining 2023 convertible notes and partly exchanging the 2024 notes at comparable terms; we continued to execute on our capital allocation strategy and deployed $83.9M towards our share repurchase program and $67.3M towards acquisitions. Our weighted average share count during the year reduced from 231.3 to 223.6 million shares.

As a result of the change in short-term outlook early in FY2023, we announced a restructuring program in February of this year that cumulated into a reduction of approximately 6% of the labor force with a non-recurring expense of $12 million and is expected to result in a net operating expense savings of $28 million on annual basis. Finalization of this plan is below our originally expected non-recurring expense of $15 million and better than our originally anticipated savings commitment of $25 million. At the end of June 2023 this program is substantially complete. Reduced levels of operating expenses in combination with an improved capital structure will allow us to benefit from more meaningful operating and financial leverage as revenue recovers.

Now moving to our reported Q4 results by business segment…

NSE Performance

Starting with NSE…

NSE revenue came in at $197.9 million, exceeded our expectations of $179M to $195M, albeit down 19.6% year-over-year. NE revenue of $173.3 million improved 15.8% sequentially and declined 22.0% year-over-year. SE revenue at $24.6 million increased 2.5% from last year.

NSE gross profit margin at 62.1%, decreased by 280 basis points year-over-year. Within NSE, NE gross profit margin at 61.5% decreased 270 basis points from the prior year primarily due to leverage on lower volume in combination with product mix. SE gross profit margin at 66.3% decreased 500 basis points from last year primarily due to the unfavorable product mix.

NSE's operating profit margin at 5.8% was near the high end of our guidance range of 3.0% – 6.0%.

OSP Performance

Now turning to OSP…

Fourth quarter revenue at $65.7 million, ended up slightly ahead of the midpoint of our guidance range of $63 million to $67 million and down 26.3% year-over-year. Gross profit margin at 46.6%, decreased 9.3%, slightly lower than expected, mainly a result of leverage on lower revenue. Now that the Chandler start-up costs are behind us and as revenue returns, we expect the gross profit margins to normalize to historical levels. The operating profit margin of 29.5% came in slightly below the guidance range of 30.0% to 31.0% and declined 9.1% year over year.

Balance Sheet and Other Metrics

Now turning to the balance sheet. The ending balance of our total cash and short-term investments was $525.6 million, down $39.3 million compared to the prior year. During the fourth quarter the company repaid the remaining $68.1 million principal value of 2023 convertible notes as well a $0.6 million semi-annual interest payment for a total of $68.7 million. At the end of the fourth quarter 2023 we are left with an outstanding balance of $94 million on the 2024 convertible notes that we are planning to pay down with cash on the balance sheet during the upcoming quarters. Our balance sheet is strong, we improved the quality of our debt by reducing our convertible notes exposure, adding long-term fixed rate debt and as a result extending maturities at a lower cost.

As mentioned earlier, operating cash flow for the quarter was $23.2 million, an increase of $5.4 million from the prior quarter and a decrease of $50.4 million year-over-year. In addition, we invested $7.4 million in capital expenditure during the quarter compared to $10.8 million in the prior quarter.

Share Repurchase

During fiscal Q4, and in addition to retiring convertible notes mentioned before, we repurchased 1.0 million shares of our common stock for $10.0 million under the current share repurchase program. On a full year basis, we repurchased 7.3 million shares of common stock for a total of $83.9 million and returned over 100% of free cash flow generation in FY2023 to our common shareholders. As you may recall, in September we announced that the board authorized a new common stock repurchase program for up to $300 million, as of the beginning of fiscal 2024 we have $234 million available under this program.

Guidance

Now on to our guidance…

We expect the fiscal first quarter 2024 revenue to be in the range of $240 million to $260 million. Operating profit margin is expected to be 13.5% plus or minus 70 basis points, an anticipated improvement of 180 basis point sequentially, and EPS to be 9 cents to 11 cents. We expect NSE revenue to be approximately $175 million, plus or minus $8 million with an operating profit margin of 4.0%, plus or minus 100 basis points. OSP revenue is expected to be approximately $75 million plus or minus $2 million, with an operating profit margin of 35.5%, plus or minus 50 basis points.

Our tax expense is expected to be around $8 million, or 26% for the first quarter, a result of jurisdictional mix. We expect other income and expenses to reflect a net expense of approximately $4.0 million. The share count is expected to be around 224 million shares.

Hand-off to Oleg

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

Quarterly Revenue Drivers/Outlook: Oleg Khaykin

Thank you, Henk.

During the 2023 fiscal fourth quarter, we saw initial signs of stabilization and gradual recovery. Despite the slowdown in overall service provider spend, some service providers have begun to free up funds for network maintenance and optimization, which benefits Viavi's NSE business segment. As a result, our fiscal fourth quarter revenue came in above the higher end of our guidance range. We expect the stabilization and recovery momentum to continue throughout our fiscal year.

NSE revenue declined year-on-year, but grew sequentially, driven primarily by our NE business segment. NE was up double-digits percentage sequentially, reflecting a rebound in demand from Cable service providers upgrading their networks.

Demand for Lab & Production test equipment from Wireless and Fiber NEMs and semiconductor companies saw gradual recovery from the lows of the March quarter.

AvComm business continued to perform well, driven by robust demand from the Avionics and Mil/Aero customers.

Our SE business segment grew 2.5% year-over-year, in line with our expectations.

Now turning to OSP…

OSP demand environment continues to be challenging. That said, the Q4 revenue came in slightly better than expected, helped by stronger demand for Anti-Counterfeiting products. 3D sensing revenue was impacted by seasonally lower demand for smartphones and the supply chain transition to new phone models.

Fiscal 2023 was a very challenging year for VIAVI. Early in the fiscal year, NSE demand experienced a rapid slowdown in orders from service providers. The slowdown pattern was broad based across all our customers and geographies. The slowdown in spend by service providers then spread to Network Equipment Manufacturers and semiconductor companies, further impacting demand for our NSE products.

The OSP business unit started the fiscal year strong, but saw the demand for its two major products impacted by macroeconomic headwinds. The demand for Anti-counterfeiting products was impacted by the inventory correction as Governments dialed back fiscal stimulus and 3DS was impacted by weaker demand for Smartphones.

Despite the disappointing year, VIAVI continued to invest in new technologies and applications, expanded into higher growth markets such as Resilient PNT, and initiated and completed the restructuring program to reduce expenses. These initiatives, combined with our strong position in our traditional markets, are expected to result in strong operating and financial leverage as our revenue rebounds.

In conclusion, I would like to thank my VIAVI team for managing in this challenging environment and express my appreciation to our employees, customers, and shareholders for their support.

With that, I will now turn it back to Operator for the Q&A.

Sign-off: Henk Derksen

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