

Viavi Solutions Inc. NasdaqGS:VIAV

FQ2 2024 Earnings Call Transcripts

Thursday, February 01, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.09	0.11	▲22.22	0.09	0.38	0.58
Revenue (mm)	253.71	254.50	▲0.31	249.88	1014.74	1095.38

Currency: USD
Consensus as of Jan-09-2024 5:40 AM GMT

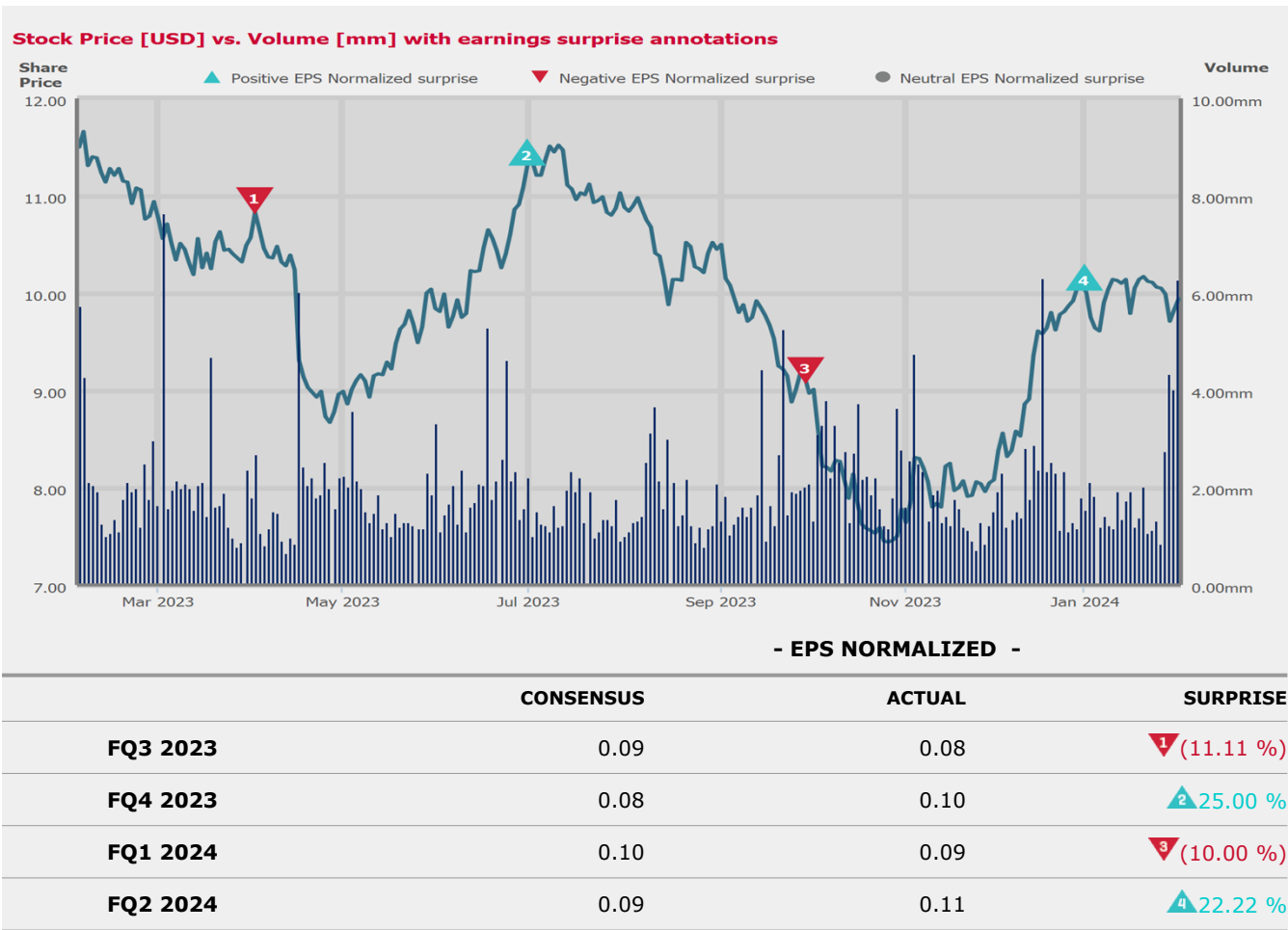


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Executive VP & CFO

Oleg Khaykin

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Presentation

Operator

Hello, everyone. My name is Rob. Welcome to Viavi Solutions Second Quarter Fiscal Year 2024 Earnings Call. [Operator Instructions]

I will now turn the conference over to Ilan Daskal, Viavi Solutions' CFO. Please go ahead.

Ilan Daskal

Executive VP & CFO

Thank you, operator. Good afternoon, everyone, and welcome to Viavi Solutions' second quarter fiscal year 2024 earnings call. My name is Ilan Daskal, Viavi Solutions' CFO. And with 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 that 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 discussed on this call, 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 as well as our supplemental earnings slides, which include, historical financial tables, are available on Viavi's website at www.investor.viavisolutions.com.

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

Now, I would like to review the results of the second quarter of fiscal year 2024. Net revenue for the quarter was \$254.5 million, which was above the midpoint of our guidance range of \$240 million to \$260 million. Revenue was up sequentially by 2.7% and on a year-over-year basis was down 10.5%.

Operating margin for the second fiscal quarter was 13.2% and exceeded the high end of our guidance range of 9.6% to 12.8%. Operating margin increased 80 basis points from the prior quarter and on a year-over-year basis was down 300 basis points.

EPS at \$0.11 exceeded the high end of our guidance range of \$0.06 to \$0.10 and was up \$0.02 sequentially and on a year-over-year basis was down \$0.03.

Moving on to our Q2 results by business segment. NSE revenue for the second fiscal quarter came in at \$179.6 million, which is above the midpoint of our guidance range of \$169 million to \$185 million. On a year-over-year basis, revenue was down 13.3% primarily due to lower CapEx spend by NEMs and weaker spend by service providers.

NE revenue for the quarter was \$155.5 million, which is a 15.2% year-over-year decline. SE revenue was \$24.1 million and grew 1.3% from the same period last year.

NSE gross margin for the quarter was 63.4% which is 100 basis points lower on a year-over-year basis. NE gross margin was 62.5%, which is a decrease of 190 basis points from the same period last year and was primarily due to a combination of product mix and lower volume. SE gross margin was 68.9%, which is an increase of 460 basis points from the same period last year and benefited from higher margin product mix.

NSE's operating margin was 3.6%, which is an increase of 270 basis points sequentially and a decrease of 530 basis points on a year-over-year basis. NSE operating margin was above the midpoint of our guidance range of 0% to 4%.

OSP revenue for the second fiscal quarter came in at \$74.9 million, which was at the high end of our guidance range of \$71 million to \$75 million and was down 3.2% on a year-over-year basis.

OSP gross margin was 52.1%, which is a decrease of 20 basis points from the same period last year and was primarily due to lower volume and unfavorable product mix.

OSP operating margin was 36.4%, which is 140 basis points lower sequentially and increased 90 basis points on a year-over-year basis. OSP operating margin exceeded the high end of our guidance range of 32.5% to 34.5%.

Moving on to the balance sheet and cash flow. Total cash and short-term investments at the end of Q2 was \$571.8 million compared to \$489.7 million in the same period last year. Cash flow from operating activities for the quarter was \$20.4 million versus \$46.2 million in the same period last year.

We have not purchased any shares of our stock in the second quarter as we plan to retire the outstanding balance of our March 2024 convertible notes in the amount of \$96.4 million. The fully diluted share count for the quarter was 223.5 million shares, down from 227.1 million shares in the prior quarter and versus 222 million shares in our guidance for the second quarter.

CapEx for the quarter was \$5.8 million, which is \$12.3 million lower versus the same period last year when we were completing the construction of our new facility in Chandler.

Moving on to our guidance. For the third fiscal quarter of 2024, we expect revenue in the range of \$245 million and \$253 million. Operating margin is expected to be 10.4% plus or minus 160 basis points and EPS to be between \$0.05 and \$0.09.

We expect NSE revenue to be approximately \$176 million, plus or minus \$3 million, with an operating margin of 1.5% plus or minus 150 basis points. OSP revenue is expected to be approximately \$73 million, plus or minus \$1 million, with an operating margin of 31.8%, plus or minus 200 basis points.

Our tax expenses for the third quarter are expected to be around \$8 million as a result of jurisdictional mix. We expect other income and expenses to reflect a net expense of approximately \$3 million. And the share count is expected to be around 224.7 million shares.

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

Oleg Khaykin

President, CEO & Director

Thank you, Ilan, and welcome to your first earnings call with Viavi. The fiscal second quarter 2024 came in stronger than expected. The revenue was slightly above the midpoint of our guidance, helped by stronger demand for 400-gig and 800-gig fiber Mil/Aero and SE products. EPS came in above the high end of our guidance, driven by richer margin revenue mix and lower OpEx. In the near term, we expect stronger demand in the above product areas to help offset continued weakness in the service provider spend.

Starting with NSE. The second fiscal quarter NSE revenue came in above the midpoint of our guidance range. Although the NSE revenue declined on a year-over-year basis, driven by a slowdown in 5G and fiber build-outs by major service providers, there was a number of bright spots.

Fiber lab and production has continued to recover driven by strong 800-gig demand, offsetting weakness in computing and storage. Aerospace and defense products saw robust growth driven by strong demand for avionics and PNT, or positioning, navigation and timing products.

And the new SE products continued to perform well, resulting in a slight year-over-year growth despite the decline in service provider spend.

Looking ahead, we expect continued demand recovery and growth in our Fiber lab and production, aerospace and defense and SE products, compensating for the continued near-term weakness in the service provider spend.

Now turning to OSP. OSP spend declined on a year-over-year basis, primarily driven by lower demand for anti-counterfeiting products. This decline was partially offset by strong 3D sensing demand. Overall, OSP results came in at the higher end of our guidance range.

In the March quarter, we expect OSP to be slightly down from the December quarter with a stronger demand for anti-counterfeiting products offsetting the seasonal decline in 3D sensing.

Looking ahead to calendar '24, we expect telecom service provider spend to continue to be soft, with the notable exception of the North American cable operators. We expect cable spend to ramp in the middle or second half of calendar year 2024.

That said, our strategy in the past 6 years to diversify outside the service providers into lab and production and aerospace and defense makes it easier to write out the telecom cycle downturn. Lab and production spend is seeing a faster recovery versus service providers, driven by the demand for the new technology such as 800-gig and Open RAN.

Recently, Viavi was awarded a \$21.7 million grant by NTIA to create an advanced test lab to empower and accelerate the development of Open RAN technologies and components. This award reflects Viavi's technology leadership in 5G, upcoming 6G and O-RAN.

Our aerospace and defense products are seeing strong demand and growth driven by the next gen avionics and the need to protect critical infrastructure and assets against jamming, spoofing and cyber warfare.

In conclusion, I'd 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 the operator and Q&A.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Michael Genovese from Rosenblatt.

Michael Edward Genovese

Rosenblatt Securities Inc., Research Division

All I got -- first question is just on the service provider market, just to understand -- make sure I heard the comments right. It sounds like you're saying all of '24 calendar expects to be weak there with cable getting better at the end of the year. First of all, did I hear that right?

And secondly, did your expectations changed in the last 3 months? Has the carrier stuff, the telecom stuff gotten more pushed out? Or was that consistent with 3 months ago?

Oleg Khaykin

President, CEO & Director

Well, so, let me say, look, the reality is, I don't know what the second half is going to look like from service providers. We know the demand will be somewhat stronger in the June quarter. It's always stronger.

Beyond that, I just think -- I mean, clearly, it's not getting any worse, it's getting a little better. But I would still prefer to think of it as a flat to slightly recovering as the kind of most [indiscernible] because I think they're still pretty weak.

But the point is we are seeing -- It's coming in, but it's not as dramatic as I would have liked to see. Now, the area that is stronger is the cable. In fact, we were expecting cable to start spending and coming in, in the first half of calendar year.

But as you probably know, there were some delay driven by technology readiness in deploying the DAA architecture by some of the vendors. And as such, the ramp is being pushed by 1 or 2 quarters. So we know it's coming. We're already seeing some orders. But despite that we were expecting in the -- March quarter got pushed out. That's why we are guiding March quarter flat to slightly down.

It was going to be slightly up in the absence of that slowdown. I mean, as far as for -- I feel a lot better about the environment in which we are operating than we were even a quarter or 2 quarters ago. I just don't want to get ahead of our skis on service provider recovery because when I see it, I'll believe it.

I mean -- so I think they still got a lot of balance sheet issues they need to address before they really start spending significantly.

So just take it as a abundance of caution. I mean, do I feel better about what's going on? The answer is yes. Am I seeing big dollars coming in? The answer is no. Now, one thing what we did see interesting is we're seeing pretty good traction on our service enablement products with the new architecture, AI ops, which drive OpEx reduction and things like capital avoidance.

So there we are seeing a pretty good traction. But on the instrumentation, particularly with fiber deployment, I think there is a pause that may at least last 6 months. Maybe towards the second half of the year things will get better. But at this point, I think it's -- my crystal ball is telling me, I'm not seeing anything dramatic changing.

Michael Edward Genovese

Rosenblatt Securities Inc., Research Division

Next question, this 800-G fiber lab in production sounds very interesting. And I think you've probably had either 2 or 3 quarters of sort of measurable revenues there. So I assume that, that is increasing. And -

any color you can give us on that? And I'm not sure whether you would answer this question, but sort of how much of any that represents either now or what it could be in the future would be very helpful.

Oleg Khaykin

President, CEO & Director

Well, so I mean, the -- our lab and production business, I would say, on any -- let's see. If I think about the -- we have a network enablement and the SE. So network enablement is about 87%.

I'd say our lab and production is, I think -- but it also includes wireless, it's about 40%. So -- and of that, I'd say, fiber lab and kind of compute -- high-performance computing is roughly half of that, right, so maybe 20%.

And with the storage being a slowdown, we saw the computing and storage was weaker. I mean, all of that business, it really kind of bottomed out around the June quarter. But what's really been driving the recovery of that business is the fiber production and the fiber lab demand. And it's driven by 400 and 800-gig products, right?

So I think so what I'd say is it's now recovered. First of all, it's recovery and continue to grow. I think the same players who are building telecom modules and now more recently these AI data center modules are buying the equipment. I've been trying to ascertain like for so many million ports how much equipment is being bought.

I think we're probably not there in terms of truly understanding how the CapEx spend is linked to that, because it's still early in the game, but exactly same equipment that they use on the coherent telecom module line. They're using it also on building the data center modules for the AI applications.

Michael Edward Genovese

Rosenblatt Securities Inc., Research Division

Yes, it sounds like going forward, that will be interesting to figure that out -- that relationship. So I can't wait to get an update on that. Last question for me -- I'm sorry to take so much time.

But I'd like to ask Ilan a question, which is, can you just help me understand the -- because the revenues were pretty good for the quarter. The earnings were good. The revenue guidance was good. I'm just still not seeing the reason why the EPS guidance is lower. So could you explain that to me?

Ilan Daskal

Executive VP & CFO

Thanks for the question. So, as you know, our third fiscal quarter, from a seasonality perspective it's usually kind of slower than the second quarter. So if you think about it on a consecutive basis, then, also when you have kind of the beginning of the calendar year, there's some incremental cost associated with employee related and that kind of drives kind of in terms of the OpEx.

But again, as Oleg mentioned earlier, the traditional seasonality, when you think about it, is kind of -- it's kind of building up really nicely when you think about the rest of the year, including the fourth quarter.

Oleg Khaykin

President, CEO & Director

Yes. So there's a lot of statutory cost accrual that happens in the first quarter of the calendar year. And on the OSP, you notice there's a lower margin because it's a cyclicity of 3D sensing. The second half of the fiscal year is a much lower utilization. So there is more under absorption in that respect. Now, that said, the anti-counterfeiting is coming back, so it's offset some of it, but not all of it. And last quarter, the 3D sensing was quite strong.

Operator

Your next question comes from the line of Tim Savageaux from Northland Capital.

Timothy Paul Savageaux

Northland Capital Markets, Research Division

Oleg, can you remind us of your lead times in service provider fiber test?

Oleg Khaykin

President, CEO & Director

Generally, if we get an order, I'd say, within 2 months we can turn it around. So it's all within a quarter, more or less. Now except for some things like if it's a -- some products are very quick, like, for example, fiber scope and things like that. Other products like where you're buying a whole bench, where you have a MEMS, switches and things like that, if we have them in inventory, we can turn it around within, I'd say, 2 to 3 months.

Timothy Paul Savageaux

Northland Capital Markets, Research Division

And where would you assess your service provider customer inventories to be with your product?

Oleg Khaykin

President, CEO & Director

Zeros. I mean, it's all just in time.

Timothy Paul Savageaux

Northland Capital Markets, Research Division

And I guess the reason I asked it is that, throughout the early part of reports here from both some of your bigger peers, Corning, Nokia as well as some of the bigger service providers, we have seen some early indications of project-based kind of increases in plans for '24.

And I'm just trying to reconcile what's been a pretty consistent drumbeat here with what we're hearing from you. And I think there could be -- typically, you lead these things, but I don't know, might you lag at this point because of the lead times, I wonder?

Oleg Khaykin

President, CEO & Director

No. I don't think so. I thinkâ€¦

Timothy Paul Savageaux

Northland Capital Markets, Research Division

And are you seeing some of the same things?

Oleg Khaykin

President, CEO & Director

I don't think we're lagging. And once they decide -- and when they tell these guys they're going to do a project, they may tell it to them before they tell us, because once they're ready to start building, they just place an order and within 2 months they get their equipment. It's pretty quick.

Operator

Our next question comes from the line of Alex Henderson from Needham & Company.

Alexander Henderson

Needham & Company, LLC, Research Division

Could you give us a little bit more granularity on the size of the 3D sensing in the quarter and the expectations for the 3D sensing in the March quarter?

Oleg Khaykin

President, CEO & Director

Well, so generally, Alex, 3D sensing, half of the annual demand comes in, in the September and December quarter -- sorry, 2/3 comes in, in the September and December quarter and 1/3 comes in the March and the June quarter. So I'd say we're right around \$20 million, \$25 million in the quarter.

Alexander Henderson

Needham & Company, LLC, Research Division

And so, in the upcoming quarter, you're looking at what, \$10 million or so?

Oleg Khaykin

President, CEO & Director

This quarter?

Alexander Henderson

Needham & Company, LLC, Research Division

For the March quarter.

Oleg Khaykin

President, CEO & Director

I think maybe a little more than \$10 million, but let me see. Yes, it's about -- it's around -- its \$10 million plus/minus \$1.5 million.

Alexander Henderson

Needham & Company, LLC, Research Division

And can you give us an update on the plant in Phoenix? It's now fully operational. All of the benefits of the cost improvement there in the mechanics of the counterfeiting business at this point, is that correct?

Oleg Khaykin

President, CEO & Director

Yes. So what we are seeing now -- so that's when you know where people are running out of inventory. So you start seeing a lot of unforecasted spot orders popping up, like hurry up and ship as soon as you can.

So we're starting to see more and more of these types of things popping up. They're not big orders. But it's telling us the inventory is starting to deplete itself in the channel. So in the March quarter, we're expecting a little bit stronger demand from what we were thinking maybe even 3 months ago. So that's actually helping us to offset some of the 3D sensing decline quarter-on-quarter.

Ilan Daskal

Executive VP & CFO

Generally, it is fully operational. And we still have more capacity for additional growth there. So it's not -- in terms of full utilization, it's not yet there in terms of the availability that we can get.

Alexander Henderson

Needham & Company, LLC, Research Division

Fully operational, but not fully -- not full capacity, right, of course.

Oleg Khaykin

President, CEO & Director

Alex, let me give you a correction. Actually, 3D sensing is going to be closer about \$16 million in this quarter, \$16 million. I was thinking at the end of year.

Alexander Henderson

Needham & Company, LLC, Research Division

So going back to this split on 800-gig products, just to be clear. So the ratio of ports to equipment is quite low, right? I mean we're talking about double-digit port per -- kind of ratio there. I assume that this is predominantly going into the production side of it. It's not going into the field deployment.

And you're talking about how many products can go through a test and measurement process in any given period, but that's a sampling process. So the ratio is very, very high relative to the total number of ports that go across that equipment, right?

Oleg Khaykin

President, CEO & Director

Well, I mean, it varies, right? So when you start production, you tend to do a lot more tests. So you have a lower number of ports for, let's say, \$1 million of equipment.

As you get -- with experience curve, you start -- and you feel comfortable, you start discontenting the test. So you spend the last time on a tester. So yes, the equipment predominantly goes into the production lines. I mean you have all these factories in China and other places that are building these modules.

So when they start, they generally use more intensive testing. And then as they get more comfortable, they start reducing and doing more of a sample testing or less extensive testing per module. So that's why it's continuously moving targets.

So I mean, in one case, we've -- kind of did one project. And we have gauged -- it came out about \$0.40 per module of CapEx -- per module of capacity. So if you're doing a port, you need about \$0.40 investment per port on the capacity line. So you build a, let's say, 1.5 million units a week line, so you probably -- I mean, I think it works out to about \$0.40, about \$300,000 for that capacity that you got to invest.

I mean -- but it's only one data point and other people do it differently, so they spend more. I mean, so it's still very early to tell.

Alexander Henderson

Needham & Company, LLC, Research Division

Yes. So we've already seen a very significant ramp in production of both NVLink and InfiniBand products going into the AI clusters. And 2, from what I can tell, you really haven't seen any meaningful contribution from that at this point.

So should we then think that as we move into the second and third phase of production ramping, that the sampling rates actually go up, and therefore, we shouldn't be looking at the rate of growth and AI is the primary driver of the overall demand curve as opposed to the sampling percentage?

Oleg Khaykin

President, CEO & Director

Well, I wouldn't go that far, because, remember, what -- the first thing they did is they redeployed the same lines that were building telecom coherent business, that dropped quite significantly. They redeployed those assets to the AI data centers.

And just when you also think about it, if you're just doing alignment on like, say, InfiniBand, you're putting photonic integrated circuit aligning with the processor. That is really more semiconductor packaging when you're actually building the actual module with lasers and everything else. That's where you tend to use more of our optical test equipment.

Alexander Henderson

Needham & Company, LLC, Research Division

Just going back to the telecom piece for a second. There's obviously a very large inventory glut out there of telecom equipment that has to be absorbed. Has there been any build in inventory in your product

areas? Or is that just something that didn't happen because they weren't constrained as much on that -- those types of products?

Oleg Khaykin

President, CEO & Director

So we have no inventory in the channel. I mean, pretty much the orders kind of get turned off, I'd say, December quarter of calendar 2022. So if anything, a lot of the inventory in the field is getting long in a tooth. And we know that there is a lot of wear and tear and there needs to be a replacement coming up.

So we're actually already seeing signs that people say, "Hey, I will need to replace, I mean, what would be the terms, what would be the lead times." So in that respect, people will kind of [sweat] the assets. They will swap the assets. They will cannibalize. And then they'll have to do a wholesale replacement.

So when I say kind of flattish 2024 or like the -- I just think -- I just don't think -- I know they need to do it. I just don't know if they can afford a massive replacement. But there is -- could be a good chance that in the second half we'll see more and more of these types of things popping up. But I don't have that kind of visibility beyond 6 months.

Operator

Your next question comes from the line of Meta Marshall from Morgan Stanley.

Meta A. Marshall

Morgan Stanley, Research Division

Oleg, you mentioned kind of you were more encouraged about cable spending kind of earlier in the year. Just wanted to get a sense, is that DOCSIS 4.0? Is that just their networks are running hotter, just given some of the comments you said to Alex? Just kind of what is the trigger to that investment?

And then, on the flip side, you kind of think that wireless may take a little bit longer. Just what do you think should be kind of the early signs of wireless [or I mean]â€¦

Oleg Khaykin

President, CEO & Director

So if I look at -- so cable, right, first. I think that we know it's going to be happening. It was actually -- we were expecting some of the orders start popping up in the March quarter and then accelerating into June.

From what we've heard, and I'm not going to name any names, but there's been a delay in some of the core technology development by leading infrastructure providers. So I think that is being pushed by 1 to 2 quarters in terms of getting the software ready and everything needs to be working.

So I think that's where we are with cable. But I do see actually cable happening this year. On the -- what was your -- second part of your question?

Meta A. Marshall

Morgan Stanley, Research Division

Just on the wireless side.

Oleg Khaykin

President, CEO & Director

The wireless, yes. So the wireless -- well, we all know -- you've seen the Ericsson, Nokia, Samsung and all the deployments with T-Mobile, Verizon and AT&T. So that has slowed down.

So the area where we are seeing less is on kind of the field equipment. And a lot of the people -- sales related to deployment. Where we continue to see a CapEx being spent is on product development. So we have not seen significant decline in the R&D CapEx for 5G. And now we're seeing some of the elements of 6G popping up.

It's just the -- generally, I think the wireless infrastructure is a bit more muted in terms of aggressiveness, I'd say, in Europe and North America. Now that said, India is doing pretty well. But it's obviously -- I wish the margins were better in India. But I think clearly, demand is -- right now, India is one of the few bright spots for infrastructure deployment.

Operator

Your next question comes from the line of Ruben Roy from Stifel.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

Oleg, I just had a couple of quick questions, really follow-ups. I think you've talked about a little bit of this in your answers to the prior questions. But just in terms of service provider, it sounded to me like you're saying that you are having conversations, right?

So last quarter, I think you've talked about not seeing any [decommits]. I would imagine that's still the case. But also -- and some of the service providers still figuring out their budgets for this year. Is that giving you a little bit of -- I wouldn't call it hope, but sort of visibility I guess, into thinking that you can still turn out to what should be sort of a normal seasonal year, meaning June up and then September a little bit down like usual? Is that driving that? Or any other detail on those conversations?

Oleg Khaykin

President, CEO & Director

So I think this year, I mean -- I don't want to jump too far ahead. But actually, September may actually be stronger this year than normal because the cable is maybe happening in September as it gets pushed, right?

So -- but generally, I'd say what we see from service providers, there is a very healthy churns business. Things go bad and just replacements and things like that. What generally drives the -- like -- another like, I'd say, 20% more, which makes a big difference is whenever they are doing build-outs or upgrades to their networks.

And right now, what I don't see -- I mean at least this time, in terms of the churns business, it's like orders coming in and they get released, and there's no problem. So the ongoing business is going pretty well. People are maintaining their network. They're just keeping things running.

What I'm not seeing yet is the people doing big step functions and expanding capacity or upgrading the network or extending the network. As some of these projects are a little bit more -- I mean, we know they are being planned, I know there's plans for that. I just don't know when they're going to decide to pull the ripcord and launch it.

And I just -- kind of looking at the general environment in the telecom sector, I think they prefer -- every quarter they don't do it. They just bank more cash and retire more debt.

So I think -- if I were kind of just looking at the -- from competitive approach, as cable guys start upgrading their networks, I think some of the service providers will see -- need to get back to extending their networks. So I think -- I just -- I don't want to be a kill joy, but I just don't see cash burning hole in service providers' pocket that they need to go and start digging and laying new fiber or aggressively starting deployment.

The area where we do see fairly good momentum, but it's on a much smaller -- like an order of magnitude, smaller scale, are these Tier 2, Tier 3 primarily private equity funded fiber operators who are laying fiber in anticipation of data centers coming to the area or service providers extending 5G networks to the area where they finally needing a fiber to extend their network into some of these rural communities.

So that is one piece that is ongoing. But it's an order of magnitude smaller amount of volume than somebody like AT&T, Verizon or British Telecom or Deutsche Telekom would spend on an annualized basis.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

And then just a quick follow-up for Ilan. I might have missed this on the balance sheet discussion. Are you where you need to be then on leverage? And do you expect to come back into the markets to repurchase in the near term? I might have missed that.

Ilan Daskal

Executive VP & CFO

Yes. So probably for the next quarter or 2, we'll be focused more, obviously, on the retiring of the convert. And it continues -- the overall, buyback continues to be part of our capital allocation model, right?

I mean, we are not deviating from the overall strategy. But probably on the buyback for the next 1 to 2 quarters, we'll be more muted about it.

Oleg Khaykin

President, CEO & Director

We just decided to bank some cash so we can retire the whole converts. In a way, it's a synthetic share buyback because you're avoiding dilution down the road.

Operator

There are no further questions at this time. I will now turn the call back over to Ilan Daskal for some final closing remarks.

Ilan Daskal

Executive VP & CFO

Great. Thank you, operator. This concludes our earnings call for today. And thank you, everyone, for joining today's call.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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