Transcription

ADVA Optical Networking SE

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00:00 Operator

Dear ladies and gentlemen: Welcome to the conference call of ADVA Optical Networking for the first quarter 2019 IFRS financial result. This call is being recorded. After the presentation there will be an opportunity to ask questions. I now hand over to Mr. Stephan Rettenberger, ADVA Optical Networking Senior Vice President Marketing and Investor Relations, please go ahead sir.

00:45 Stephan Rettenberger

Thank you, and warm welcome from my side. This earnings call builds on a presentation which is available for download in PDF format from our homepage under www.advaoptical.com in the About Us/Investors section. Should you not have the presentation in front of you, you may want to access it on the conference call's page in the financial results section of our investors section of our website. Before we will lead you through the presentation, as always, please be informed that this presentation contains forward looking statements with words such as "believes, anticipates and expects" to describe expected revenues and earnings, anticipated demand for Optical Networking solutions, internal estimates and liquidity. These factors are discussed in greater detail in the risk report section of our annual report 2018. Please also be reminded that we provide consolidated pro forma financial results in this presentation solely as supplemental financial information to help the financial community make meaningful comparisons of our operating results from one financial period to another. This pro forma information is not prepared in accordance with IFRS and should not be considered a substitute for historical information presented in accordance with IFRS. Pro forma operating income or losses calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition related intangible assets. Non-recurring expenses related to restructuring measures are also not included. Unless stated otherwise, all numbers are presented in euro. We will target to limit this conference call to 60 minutes, as usual Brian will start and provide a business update and outlook, and then Uli will talk us through our Q1 2019 financials. And finally, we will have sufficient time for your questions which we will be happy to answer. So, Brian, please go ahead with the business update.

02:58 Brian Protiva

Thank you, Stephan. Moving to page 4, Q1 2019 in review. Q1 revenues reached EUR 128.2 million, up nicely by 6.3% year over year from 120.5 million in Q1, 2018. This is around the mid-point of our guidance corridor, provided on February 21, 2019 of between EUR 124 million and EUR 134 million. Our Q1 pro-forma operating income was at 2.7 million EUR, or 2.1% of revenues, and also around the mid-point of our guidance of between 0% and 4% of revenue. So the new fiscal year started well. Both revenues and profitability developed according to plan. We continue to invest aggressively in innovation leadership. In addition, the revenue contribution of our FSP 3000 Cloud Connect is growing in all major customer segments and geographies. Furthermore, all three of our core technological competencies are providing good revenue contributions. Geographically we grew year-over-year in EMEA and Americas region. We are winning tenders and new customers in our key areas of strength and presence, and most importantly, for our shareholders, our share price developed well in the first quarter of 2019. Since March 18, 2019, we are now a member of the SDAX index, which had been redefined in September 2018. This positive development shows that not only our customers are loyal to ADVA but also the confidence of investors in our company and in our technology has returned. We have positive momentum and we will stay in a mode of profitable growth.

Slide 5: Industry macro environment is positive. Despite the turbulence in the global economy and the open questions with respect to Europe, we continue to have an optimistic outlook, as there is no choice for our customers but to invest in technology, and more specifically networking. Digitalization is changing networks and bringing the investment focus to us. We are technologically very well positioned, our three core competencies are strategically relevant to the transformation of all networks, a transformation based on openness, virtualization, security and precision-timing. This creates new growth opportunities and new market segments. More specifically, the investment focus is moving to the edge of the network. The edge is where you need to combine infrastructure knowledge with end customer application know-how. It is where ADVA performs best, as a company we have aligned ourselves accordingly and invested exclusively in strategically important future technologies, technologies that enable new digital business models. Optical transition technology delivers the required bandwidth. Physical and virtual edge technologies bring the cloud and related services closer to the customer and enable instant service creation with a click of a mouse, whereby packet solutions within this framework allow for secure cloud access. And our synchronization technology guarantees a level of timing needed in a high-performance network. All of our technologies make the difference for the digital world, with our focus on the edge and on our innovation capacity we are well-positioned for winning new opportunities.

Page 6: Portfolio, technology tripod delivering returns. As stated, our technology tripod is developing accordingly, with each leg fulfilling an important role in the network transformation happening in every market segment. A much discussed introduction of

5G pushes the fiber deeper into the access area of the network. Corresponding technology advances such as IOT and edge computing also require new innovative and scalable telecommunications infrastructure with more efficient optical transmission technology, new virtualized models for service provisions and more accurate network synchronization. Our portfolio is precisely tailored to these trends. Let me start with some successes that we have had in our cloud inter connect portfolio in the upper right-hand corner of the slide. Our FSP 3000 provides open scalable and programmable optical transmission technology that further reduces the cost of a bit transport while enhancing network flexibility and security, a market that we have been focused on for the better part of 20 years. In addition to being deployed in our carrier infrastructures, the platform is also widely used by large enterprises and internet content providers, ICPs for interconnecting large-scale data centers. The launch of our new TeraFlex terminal is proceeding according to plan, we see good opportunities to gain market share, especially in the ICP area. Also our supporting differentiated products and components such as the advanced line monitoring ALM solution, often classified as an OTDR, and our vertically integrated solutions such as our MicroMux – an optical plug – have very good market traction, in fact they already delivered a few millions of revenue in Q1 2019 by adding many new customers, as well as one of the largest routing companies as an OEM partner going forward. Going anti-clockwise, our cloud access, the upper left-hand corner. Our FSP 150 family, our package edge solutions together with our edge cloud software products provide flexible and fast delivery of NFV based services at the network edge. Our new aggregation solution with pen and 100 Gig interfaces and almost 1 Terabit of switching capacity completes our end to end packet access offering and is gaining momentum in wholesale, enterprise and mobile applications.

For business services we added several higher-layer features and our universal customer premise software solution architecture, specifically addressing the universal CPE use case is market-leading. In the mean time we have signed reseller contracts with two of the top three global IT solutions integrators, in fact we are also partnering with the leading global hardware technology vendor in this space by positioning our solutions with their platform's approach. And in the world of 5G, mobility, we introduced an innovative disaggregated cell site gateway called a DCSG which is a full-blown router as part of the facebook initiative telecom infra-project, known as the TIP-project. This open approach with our own home-grown Ensemble Activator software has a potential to greatly simplify and radically reduce the costs of the commercial rollout of 5G-networks. And last but not least, and our fastest-growing leg, are our Oscilloquartz portfolio, the bottom left-hand corner of the slide. We receive consistently positive feedback from network operators around the globe regarding our network synchronization solutions. The portfolio is technologically leading, the industry are now formally part of the British Telecom 5G strategy. Furthermore, the new OSA, 54 XX generation of products just passed all tests by China Unicom and we won two new tier one Telco customers in medium-sized countries last month, in addition to signing one major wireless OEM agreement for synchronization, delivery, and assurance for global distribution. From a cross-portfolio perspective the emerging 5G architecture provides a positive backdrop for open, disaggregated infrastructure solutions with our software-based service creation and delivery. And specific features, which we support as ITEMP, we are positioned to compete for larger opportunities.

In summary, we have a clear positioning in all major customer segments and geographies and our portfolio is well aligned to current and emerging market trends. And with that I hand off to Uli to cover the financial segment of our presentation.

12:30 Uli Dopfer

Thank you, Brian. Let's move to slide 8. As you probably know, the new IFRS 16 accounting rules came into force at the beginning of this year. The new standard aims to increase transparency on the financial liabilities of a company. Before we start with our Q1 2019 financial results, I would like to give you a brief overview of the impact.

Impact on balance sheet: Assets increased by 35.4 million EUR due to the capitalization of lease assets. These rights of use assets relate mainly to leased buildings and cars. The corresponding site of this entry was recorded in leased liabilities, which consequently increased the financial debt.

Impact on P and L: There is a minor positive impact on pro-forma operating income, which is partly offset by an increase in interest expense.

Impact on cash flow: Due to the treatment as financial debt, leasing is now considered in the financing cash flow, instead of the operating cash flow. This treatment does not have any effect on cash. Effect of our leverage ratio, all 2019 financial numbers are reported in accordance with IFRS 16. 2018 numbers have not been adjusted.

Let's move to slide 9, Q 2019 key financials. Q1 was a good start to the new fiscal year, we achieved our guidance in terms of revenue and pro-forma operating income. Q1 revenues reached 128.2 million EUR, up from 120.5 million EUR in Q1 2018. This result is within our guidance of between 124 and 134 million EUR. Gross profit contribution increased to 45.1 million, up from 44.3 million in the year-ago quarter. Our pro-forma operating income margin was at 2.1% of revenues, up from 1.9%. This is at the mid-point of our guidance of between 0 and 4% of revenues. Net income was at 1 million EUR compared to a net loss of 2.4 million EUR in the year-ago quarter. Consequently earnings per share improved to positive 2 cents from negative 5 cents. Based on the early-explained first-time reduction of IFRS 16, net debt increased by 20.5 million EUR to 73.7 million EUR. Without considering IFRS 16, net debt improved to 36.9 million EUR compared to 44.2 million in Q1 2018.

Slide 10: Quarterly IFRS revenue and pro-forma profitability. As already stated, our revenues were at 128.2 million EUR. The Q1 2019 gross margin was impacted by a less favorable customer and product mix as well as the strong US dollar. With 2.7 million EUR or 2.1% of revenues, we were able to improve our pro-forma operating income compared to the year-ago quarter, both in absolute and relative terms. Compared to the previous quarter, pro-forma operating income is lower due to typical seasonality. Let’s move on to the next slide.

Slide 11: Quarterly revenues per region. EMEA continues to be our strongest region and contributed 53% of total revenues, representing a 5.7% increase year-over-year. Revenues in the Americas increased by 16.9% compared to Q1 2018. The Americas region contributed 38% of total revenues. Asia Pacific had a revenue share of 9% and decreased by 20.8% versus the year-ago quarter. The region is dominated by project-based business leading to quarterly fluctuations.

Slide 12: Health balance sheet ratios. Q1 2019 credit matrix remained solid with an equity ratio of 48.2% and a gross leverage of 1.3. The equity ratio decreased slightly due to the first time adoption of IFRS 16. Financial debt of 123 million EUR consists of liabilities to banks of 86.2 million EUR and IFRS 16 related leased liabilities of 36.8 million. Compared to the year-ago quarter, our return on capital employed increased by 1.6% from -0.6% to +1%. This development is mainly due to the improved operating income in Q1 2019. Versus the year-ago period, the networking capital increased by 10.5 million EUR while the working capital ratio only increased by 0.3%.

Slide 13: Seasonality of operating cash flow. As already stated during the last earnings call, our operating cash flow is subject to a certain seasonality due to recurring events, in particular employee-related costs in Q1 and Q3. We expect the operating cash flow to increase significantly again in Q2 2019. Next and final slide.

Slide 14: We had a good start to the new fiscal year, solid growth in EMEA and the Americas. We have new tenders and new customers in our core markets, digitization is changing the networks and bringing the investment focus to us. We are technologically very well positioned. Our three core competencies are highly relevant to the transformation of networks. We remain committed to the positive outlook for the current fiscal year and continue to invest all of our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees. Consequently, for Q2 2019 we project revenues of between 130 and 140 million EUR, with pro-forma operating income margin of between 2% and 5% of revenues. Thank you. Operator, please open the Q and A.

Q AND A SESSION

20:33 Robin Brass (Hauck & Aufhäuser)
My first question would be the profitability, at least when I look at your Q2 guidance especially, you guide for I think around 5 to 13% topline growth, so very strong, but year-on-year this profitability tends to come down, so at mid-point it would be 3.5%, that would be 150 basis points lower than last year’s Q2. Why does profitability come down?

21:01 Brian Protiva
So profitability is coming down because of our Brutto Marge, or our gross margins are down a bit, and relative to some other reasons that Uli expressed, i.e. a stronger dollar, we purchase in dollars and sell a lot in other currencies, that is one of the reasons. Some of the product mixes, because we are winning a number of new accounts, which is good news for the mid to long-term but clearly in the beginning it is always a bit more challenging to win those accounts with high margin contributions. And then just product mix in general, specifically also customer related. So it is something that we are very much focused on, we think that does turn around, at least looking from a forecast perspective in Q3 turns around, again nicely, but that is where we are at right now for Q2. We hope to outperform, we hope to drive larger cost-reduction initiatives, so we have a lot of things on-going in order to counter that, but that is how we feel we are positioned today.

22:06 Uli Dopfer

Maybe to add to that, if you look into Q2 2018, there was also an extraordinary relatively high other income based on an accrual that we had to release, whereas we plan a fairly conservative other income for Q2 2018. So if you want to compare apples with apples, then you need to take this into consideration.

22:30 Brass

Okay, and just to follow up: The product mix that Brian mentioned, you generally also see strong demands for Oscilloquartz, so therefore at least this one should also help on the margin, or is that maybe something that was forgotten here?

22:43 Protiva

Definitely helps in the margin, but as of the three legs to stand on, that is still small, it is growing quickly, so I think we mentioned there that is in the 20 to 30% kind of growth per year right now compared to other stuff, so that is definitely going to contribute positively, but slowly and surely that growth has a bigger impact on us. But it is not a huge one for Q2 of this quarter, helping but it is not huge.

23:13 Brass

Okay. And my second question also maybe looking a little bit at least towards H2, so do you see a rising demand also from 5G roll-out or how do you work currently with the carriers if they want to look into 5G developments?

23:30 Protiva

Yes, I think yes, there are a lot of initiatives out there and everybody is looking at it very closely. It is always that transformational change takes longer, I think everyone's expressed that from the industry perspective. Having said that, a number of initiatives, and we mentioned that one of our products are 10, 100 gig aggregator terabit – well, not quite, but almost - up to a terabit of switching capacity, that is a product that is being looked at for all sorts of mobile applications. So there seems to be a lot of movement, a lot of initiatives, some opportunities that are developing in revenues, but it is steady as it goes. I foresee that as a real positive starting in the second half of this year, but that is something that goes for the next couple years after that on kind of a linear, nice, uptick for ADVA.

24:35 Simon Scholes (FirstBerlin)

Yes, good afternoon. I have a question on the leasing liabilities. You said that you have booked them for the third time in this quarter in the accounts at 36.8 million. I am just looking at the notes from the 2018 annual report and I noticed that there were 28 at the end of 18 and 22 at the end of 17. Have there been some acquisition, or was there an acquisition driving the growth in 17 and 18 and can you give us an idea of what we should model in terms of leasing liabilities for the end of this year?

25:13 Dopfer

The leasing liabilities won't change during the year, maybe slightly, if there is any change, but actually they will change a little bit due to the depreciation but there is no – it is just a regular treatment of IFRS 16, so what you do is essentially instead of having the lease opex in your P and L you act with the liabilities and you put the depreciation into the P and L, that is the only thing that you do. But it is almost the same value. The only difference is that over time you depreciate the lease liability.

26:00 Scholes

But isn't it basically the present value of lease out-goings on cars and buildings? That's right, so at the end of 17 you had 22 million, and at the end of Q1 19 you've got 37 million. So I was just wondering why the present value is up 80% or so?

26:18 Scholes

So, as you said, we have IFRS 16 for the first time in this quarter. Are you looking at the notes of the report?

26:32 Scholes

I'm looking at the notes that you've got in the 2018 annual report.

26:36 Dopfer
Only the notes of the leased liabilities, and yes, they might have been lower, because we did acquisitions in the previous years. If you recall, in 2016, we acquired Overture Networks, and we also acquired some leased liabilities, as well as with the MRV acquisition the year before 2017, we acquired certain lease liabilities, yes.

26:55 Scholes
Yes, that is what I thought, as far as I can remember there weren't any big acquisitions last year, from 22 to 28, and it has gone to 37 in Q1 this year. Are you leasing that many more buildings and cars?

27:14 Dopfer
No.

27:20 Scholes
If I model something like 37, 38 for the end of this year, that would be a good estimate?

27:28 Speaker
Maybe, we did not add any additional buildings last year, but whenever you extend a lease, it also increases your liability, as you probably saw. No, we did not lease any additional buildings last year, but we extended for two of our larger facilities the contracts for a few more years.

28:06 Tim Savageaux (Northland Capital Markets)
Hello, a couple questions. First one to start off, a focus on the TeraFlex product line. You mentioned that was kind of developing according to plan. Can you sort of remind us what that plan is? Whether you are shipping or planning to ship that product for revenue? Or material commercial revenue and whether that is a factor in your Q2 guidance? And competitively how you see the TeraFlex platform shaping up versus some of the newer technologies brought to market by competitors, 800 gig technologies at Ciena, maybe Infinera, and what kind of advantage you think TeraFlex will have in the market place relative to those and I will follow up.

29:00 Brian Protiva
I think on TeraFlex everything is moving forward, I think we initially said we are showing customers in the Q4 time frame demos at the customers, in Q1 shipping small initial numbers this quarter, and then recognizing bigger in the 2nd half is what we said and I think it is all exactly on plan, no change of approach, a huge amount of interest, far too many demos and POCs that we have to pursue, we are not getting to them fast enough, so there is a lot of interest in the product and I think we have a very interesting product that has some inherent advantages beyond just bandwidth speeds and feeds. But how you operationally use the product and then also the issue of being able to modulate different modulation schemes and bit rates to maximize distance. And scalability efficiency in optical connectivity, in over any distance, any mix of the modulation scheme and bit rate is a very big advantage and the customers love it. Not sure that anybody else is going to have that actually feature-set set up any time soon. So that is something that is long-term highly differentiated, second is we really have 1200 gig per chip ASIC from a density power requirement, it is excellent, and it seems to be best of breed. Next piece is, yes some of the other people are now bringing 800 gig but it is at higher baud rates so if you look at efficiency of the systems, it is not better, so I think people have to go apples to apples and not apples to oranges, a tendency is a marketing format to say 200, 400, 600, 800, but that is only part of the equation because it is all about efficiency and how you communicate over a fiber. And cost management to thermal management I think rocking there and I don't see anything that has been announced that we are worried about in the next couple of years. So there's arguments going out there that 800 gig is better for – oh you can map two 400 gigs in that – I mean, you might know from our solution we can map three times 400 gigs in the chip set that we are using. That is one aspect, and the second aspect going using 800 gig speeds, you don't go over a couple hundred km, it is not about – the people are mixing positioning up a long-distance – it is better for long-distance – well 800 gig doesn't go long-distance. So I think we really have to be careful about the concept of what is the best solution architecture and we have never felt more comfortable that we can compete very effectively with the TeraFlex, the feedback from the customers is excellent.

32:00 Savageaux

Great, appreciate that. I don't know whether this is related or not, but you mentioned there are plenty of new tender activities, I don't know if it is sort of centered around Cloud and the TeraFlex solution or whether you are seeing other drivers for this tender activity, and also whether relatively strong and this also may or not be related, you saw some good year-over-year growth in the US, I wonder if you can give us some more color on what is driving that from a product or end-market perspective.

32:38 Protiva

So let's start with the US, what was the first question? I missed it, we'll get back to that. So from a US perspective I think a lot of it is actually company-related, I think we at ADVA have built an outstanding team, no. 1. No. 2, I think the product spectrum is really nicely positioned right now and there are many use cases where we are best in breed. Price efficiency for uses cases that make a difference and so with transformational change coming, lots of investments going on in the United States, because there is a need for state-of-the-art network and digitization of society, and that is all going in the right direction and ADVA is able to go out there and win customers and foot prints effectively. So essentially I do believe we are doing quite well in the United States and the pipeline has never looked stronger, knock on wood, and keep moving down that path. But I think it is a combination of accreditive products, a strong team, a focused approach and doing well in the market. The first question though was tender activity, okay. Tender activity – I just think people maximizing cost in the transport space, it is really cost per bit. Technology is here and some really interesting features in and around the 600 gig architecture per wavelength but again with all the advantages that we offer there, so that is one driving piece. The second is 5G, so lots of tender activity around next generation network, synchronization, and that is just perfect timing for us, because all of those decisions are being made this year, maybe still at the beginning of next year, where pretty much everybody will have made decisions, starting about 12 months ago, and again, we are in the middle of that one. And then the whole thing with 5G and aggregation and ITEMP and outside plant WDM, aggregation, and bandwidth to the building and having restrictions within the building, fiber restrictions, and how do you maximize that infrastructure. So all of these things are happening, which means that drives needs for use cases and then the tender activity seems to be quite active. Couple that with sometimes we actually create the tender because have some cool technology, walk into customers and say really, really, but they have to go through a tender process, but we are in the driver seat because we are influencing our features in the requirements. But again, lots of activity.

35:38 Robert Sanders (Deutsche Bank)

Good afternoon. I was just wondering if you could just update on your different segments, the percentage of sales and level of profitability by whatever cloud access, synchronization, NFV, just so I can just relevel set on what you are thinking between 19, and I have a follow-up. Thanks.

36:11 Protiva

So, we show on the slides the break-out of the revenues, we do not give you full P and Ls per group, we do not do segment reporting on those three areas. As indicated, the fastest growth is the sync and timing, the highest margins is the sync and timing, in general packet is second highest margins, actually grew very nicely in 2018, all three segments are growing this year. We said high single digits growth and we are maintaining that forecast there, and again it is across all segments. I say WDM and the packet are in general similar, probably in the 5 to whatever 10% range again, and the sync and timing at a faster rate. Anything else that we give live? Because we do not do a full P and L, I think that is as much as we can answer right now to that question set.

37:10 Sanders

Great. And just a follow up would be on your expected on ICP mix both in the current quarter and by the year end? Thanks.

37:20 Protiva

I think we have said we were high single digit, sometimes maybe double digits over the last many quarters, and our intent is to grow that. And I think that is the real upside. If we can win some nice new footprints with our new architecture, we are in the fold, we are in the mix, let's see how we are successful in doing that, but that is kind of the break-out opportunity for us, it is not what we are basically betting on for our growth and opportunity, we are just in the same framework that we have been in the last months with four of them we have won different opportunities, one a little bit more scale, another in the sync and timing very nice business and another one where we are in the infrastructure, but not strategic right now and another one we are selling our OTDR technology, too. So it is a mix, nice position but what we really need to do is break in more aggressively into the optical layer and I think that everyone saw the amount of spend in that optical layer is huge. And again we are being taken seriously for that kind of next gen opportunity, so we are very focused on that. But I cannot answer, because it is a hit and miss, but it is also not part of our planning.

38:38 Sanders

Thank you for that. Coming back to the first question, sorry about the segment, one other thing I am interested is what are your market shares at the moment in these different product areas? And is there a level of market share that you think is a minimum to make sustainable money? So are there businesses that are maybe operating below a sufficient level of market share to actually generate a return? And would you consider exiting those in order to get your operating margin onto 10%? Thanks.

39:07 Protiva

Let's go one after the other, WDM. You really have different markets within even the WDM segment, we have really focused on access and metro more than the other areas, and we are a top 5, 6 – depending on whose information you read and which regions – we are a) a very strong competitor in that space. If you move into long-haul sub-sea: zero. We do not do business in that piece. So we are really not competing for the 15 to 20 billion dollar market opportunity out there. You can say we are subscale against the very big boys, but we are only competing with them in certain used cases, and I think we do extremely well there. And we share some of the biggest tier 1 accounts in the world with them because we are differentiated. So focus there in that space, but again we need to grow over time and get a bigger part of the market share. If you look over the last 20 years, we have done that. Over the 20 years we have taken an ever bigger part of the transport investment dollars and we hope to do that over the next ten years. Next piece is Ethernet, if you look at Carrier Ethernet we are one of two global leaders, it is really us and Ciena, there we are very strong. You could say we are 25, 30%, depending on whose numbers you listen to, market share. Having said that we are moving into the virtualization piece, which is a new market. We are the market leaders, we have almost 10 customers now, we won big players, we are in the middle of that, we are by far the leadership position. As that industry takes off, I think we are the global leader but the third aspect of that is that we are going up the stack. So we are adding a layer 3 capabilities, and there clearly we are a nobody, but the fact is that we are leveraging our Carrier Ethernet space and our universal CPE strength to go win pieces there and move into different used cases within the customers that we already have. And that is going nicely, actually. So that is a market that we will start to attack, which is a 3, 4, 5 billion dollar market, depending on how you categorize that and whose numbers you listen to and which used cases you include. So in Ethernet very good, very strong, global leader, and then sync, we are a clear distant no. 2, the no. 1 is multiples bigger than us. Having said that, the no. 1 has gone through a multiple of different acquisitions, not focused on the right applications of this space, is probably three years behind us in product architecture. We have done everything new, and invest like crazy, and we are winning deal after deal, even though the other large player had amazing legacy installed base and strong channels. So, we are growing very quickly there, I don't think there is anything at this point, there is anything that anybody can do to stop that, besides us not being successful, in other words, it is about execution, pricing to perfection, quality service organization, supporting things, because our architecture is fundamentally better on technology costs and everything else. So we are not big there but we are actually the big kid on the block when it comes to the technology platform so we can continue to win scale that nicely and grow, grow, grow for a decade, very aggressively and with very nice margin contribution. So that is the way I'd associate it, clearly so strong sync, strong ethernet, very focused WDM approach, and over time we would love to build our WDM let's say end to end portfolio, but we have said that, we are focused today, we are building our balance sheet, we can grow organically, we can win a lots of deals, but with the right opportunity we do believe further consolidation is needed in the industry. We hope to lead that, maybe we are not the leaders and someone else will be the leader but we believe through that strategy that we will have a bigger influence in that end to end WDM architecture mid to long-term.

43:04 Sanders

Thank you, very helpful, just to confirm, you wouldn't consider doing a portfolio examination and saying look, we haven't really made a sufficient return, we haven't covered our cost of capital and we look to retrench in certain areas as part of a kind of more aggressively price disciplined approach to getting to a double-digit margin?

43:28 Protiva

So, clearly we could sell one part of our business like the WDM piece, but that is not our intent focused strategy or something that we are pursuing, no. So the answer is absolutely not. We see ourselves incredibly strong at the edge of the network, I think all areas are profitable. WDM is a profitable business for us. We feel like we are gaining strength, we move to a new product architecture, we were a little bit late a couple of years ago, and actually we feel that we are getting really nice momentum right now and again at the edge of the network in the metro field that we are very well positioned getting stronger. We are still not ready for the regional long-haul in sub-sea markets, and no, because if we gave up WDM that is giving up a lot of our strength that we are seeing being realized by the move to the edge, that helps to differentiate ADVA. So it is fundamental, it is an important part of our tripod strategy of optical, packet and sync and therefore we see no need for that and nevertheless we believe that we can grow strongly and get better in margins of profitability over the coming years.

45:04 Rettenberger

With that, ladies and gentlemen, thank you very much for attending today's call and for the interesting Q and A session. We thank you for the attention. And we will report our Q2 numbers on July 25, thank you for joining and have a good day.