

Adtran Networks SE announces results for Q3 2024

Overview of key financials for Q3 2024 in accordance with IFRS (unaudited)¹

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q3 2024	Q3 2023	Change	9M 2024	9M 2023	Change
Revenues	101,374	145,655	(30.4%)	319,145	495,201	(35.6%)
Pro forma gross profit	37,872	55,183	(31.4%)	115,789	173,786	(33.4%)
Pro forma gross profit margin in %	37.4%	37.9%	(0.5) pp	36.3%	35.1%	1.2 pp
Pro forma EBIT ²	(2,488)	8,731	n/a	(8,372)	30,553	n/a
Pro forma EBIT margin in %	(2.5%)	6.0%	(8.4) pp	(2.6%)	6.2%	(8.8) pp
Operating income (loss)	(5,971)	150	n/a	(20,160)	14,410	n/a
Operating margin in %	(5.9%)	0.1%	(6.0) pp	(6.3%)	2.9%	(9.2) pp
Net income (loss)	(4,988)	1,305	n/a	(7,022)	8,220	n/a
Diluted earnings per share in EUR	(0.10)	0.03	n/a	(0.13)	0.16	n/a

Cash flow statement

(in thousands of EUR)	Q3 2024	Q3 2023	Change	9M 2024	9M 2023	Change
Cash flow from operating activities	42,862	29,927	43.3%	78,677	51,246	53.5%
Cash flow from investing activities	(25,077)	(19,090)	31.4%	(64,509)	(50,787)	27.0%

Balance sheet and financial ratios

(in thousands of EUR, except ratios)	Sep. 30, 2024	Dec. 31, 2023	Change
Financial liabilities to Adtran Holdings, Inc.	—	52,773	n/a
Liabilities to banks	67,216	13,286	n/a
Lease liabilities	26,331	30,828	(14.6)%
Financial debt	93,547	96,887	(3.4)%
Cash and cash equivalents	39,208	30,554	28.3%
Receivables from Adtran Holdings, Inc. due to loss absorption	23,934	23,934	—%
Loans granted to Adtran, Inc.	15,144	—	n/a
Net cash (debt)³	(15,261)	(42,399)	—%
Net working capital ⁴	127,970	178,765	(28.4)%
Working capital ratio in % ⁵	30.1%	29.1%	1.0 pp
Equity	371,604	374,772	(0.8) %
Equity ratio in %	56.2%	57.5%	(1.2) pp
Capital employed ⁶	502,544	436,934	15.0%
ROCE in % ⁷	(4.2)%	3.0%	(7.3) pp

Employees

(at period end)	Sep. 30, 2024	Dec. 31, 2023	Change
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¹ Potential difference due to rounding

² Pro forma EBIT is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to M&A and restructuring measures are not included.

³ Net cash is calculated by subtracting total financial liabilities from cash and cash equivalents. Total cash and cash equivalents include in addition to bank balances and petty cash, receivables from Adtran Holdings, Inc. from the domination and profit and loss transfer agreement and from the issue of a loan. Total financial liabilities comprise current and non-current financial liabilities to banks, including factoring agreements, as well as current and non-current financial liabilities to Adtran Holdings, Inc. including those from the domination and profit and loss transfer agreement and current and non-current lease liabilities in accordance with IFRS 16 Leases. A negative calculation result is referred to as net debt.

⁴ Net working capital is defined as the sum of trade receivables and inventories less trade payables.

⁵ The working capital ratio shows the net working capital on the balance sheet date in relation to the revenues of current period.

⁶ The capital employed is the difference between the average balance sheet total and the average current liabilities of the period, calculated as the arithmetic average of the quarterly balance sheet date values.

⁷ ROCE is the operating result for the current period divided by the capital employed.

Results of operations, net assets and financial position

Revenue development and operational performance

Revenue in Q3 2024 was down 30.4% to EUR 101.4 million from EUR 145.7 million in Q3 2023. For the 9M period of 2024, revenue was down 35.6% to EUR 319.1 million compared to EUR 495.2 million for 9M 2023. The lower revenue is largely influenced by reduced demand from major network operators due to their current high inventory levels and the conclusion of several significant customer projects in earlier periods.

Pro forma gross profit in Q3 2024 was down to EUR 37.9 million (37.4% of revenues) from EUR 55.2 million (37.9% of revenues) in Q3 2023. Pro forma gross profit reduced from EUR 173.8 million in 9M 2023 to EUR 115.8 million in 9M 2024, with gross margin at 36.3% in 9M 2024 above the 35.1 % reported in 9M 2023. The relative increase in margin compared to 9M 2023 was a result of improved customer and product mix as well as lower purchasing and transport cost.

Pro forma EBIT in Q3 2024 was negative EUR 2.5 million (negative 2.5% of revenues) down from positive EUR 8.7 million (6.0% of revenues) in Q3 2023. For the 9M period of 2024, pro forma EBIT was negative EUR 8.4 million compared to positive EUR 30.6 million for 9M 2023.

Operating loss for Q3 2024 was EUR 6.0 million compared to an operating income of EUR 0.2 million in Q3 2023. In 9M 2024, operating loss was EUR 20.2 million compared to an operating income of EUR 14.4 million in 9M 2023. The operating loss was due to the lower level of revenues and gross profit and a slower reduction in operating expenses in 2024.

Net loss was EUR 5.0 million in Q3 2024, compared to a net income of EUR 1.3 million in Q3 2023. 9M 2024 net loss was EUR 7.0 million compared to a net income of EUR 8.2 million for 9M 2023. The net loss in the period is mainly due to lower revenues and a higher interest rate from a new bank loan.

Net assets and financial position

Cash flow from operating activities was EUR 42.8 million in Q3 2024 compared to EUR 29.9 million in Q3 2023. The significant improvement is due to high cash inflows from net working capital. For the 9M period, Cash flow from operating activities improved by 53.5 % from EUR 51.2 million in 9M 2023 to EUR 78.7 million in 9M 2024.

Cash flow from investing activities amounted to negative EUR 25.1 million in Q3 2024 after negative EUR 19.1 million in Q3 2023. The increased use of funds for investing activities is largely due to the grant of a loan to Adtran, Inc. For the 9M period, Cash flow from investing activities was negative EUR 64.5 million in 9M 2024 compared to negative EUR 50.8 million in 9M 2023.

The company's cash and cash equivalents as of September 30, 2024, amounted to EUR 39.2 million compared to EUR 30.6 million as of December 31, 2023, representing an increase of EUR 8.6 million.

Total financial debt decreased by EUR 3.3 million to EUR 93.5 million at the end of 9M 2024. Liabilities to banks increased significantly from EUR 13.3 million to EUR 67.2 million. As of Q2 2024, Adtran Networks group has been financed by a joint loan agreement (Senior Secured Credit Facility) together with Adtran Holdings, Inc. by Wells Fargo Bank. The funds received from this loan were used to fully repay the loan provided by Adtran Holdings, Inc. On September 30, 2024, the Adtran Networks group had utilized a committed borrowing facilities of USD 100.0 million in the amount of USD 75.0 million (as of December 31, 2023, no committed borrowing facilities existed). The company also provided a loan worth EUR 15.1 million to Adtran Holdings, Inc. at the end of the period. Consequently, the company's net debt decreased by EUR 27.1 million from EUR 42.4 million as of December 31, 2023, to EUR 15.3 million as of September 30, 2024.

Opportunity and risk report

Adtran Networks future development is subject to various general and group-specific risks, which in certain cases can also endanger the group's continued existence.

The risks and uncertainties as reported in the "risk and opportunity report" section of the Group Management Report 2023 remain unchanged.

Outlook

The management board anticipates that demand will remain soft for the remainder of 2024, particularly in the area of optical networking technology. While global supply chains have largely recovered and Adtran Networks' delivery capabilities have stabilized thanks to greater local production, many customers no longer feel the urgency to place early orders. Instead, customers continue to optimize their inventories and are still cautious with debt-financed investments.

Management anticipates this behavior will change as interest rates begin to ease. This forecasted improvement in the fiscal environment is expected to positively impact demand in the mid-term. Additionally, the long-term macroeconomic outlook remains favorable for Adtran Networks. The continued expansion of communications network infrastructure, coupled with accelerated growth in data centers, artificial intelligence, global broadband initiatives, and the digital transformation of both the private and public sectors, is expected to drive stronger demand for network expansion and digital infrastructure.

Adtran Networks is well-positioned to capitalize on this momentum, having strategically prepared for the technological evolution of networks, focusing on cloud, mobility, 5G, automation, and security. Along with the top-tier performance of its optical data transmission, network synchronization, and programmable cloud access solutions, the company's service portfolio is providing increased value to customers. Furthermore, new opportunities for market share growth are emerging, particularly in Europe, where skepticism toward Chinese network suppliers like Huawei and the planned acquisition of Infinera by Nokia are reducing the competitive landscape for fiber optics solutions.

Despite ongoing challenges in the macroeconomic environment, the company anticipates slight improvements in both revenue and profitability in Q4 2024 compared to Q3 2024.

Meiningen, November 6, 2024

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Forward-looking statements

This document contains forward-looking statements using words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements are based on the beliefs of the management board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond Adtran Networks’ control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the management board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. Adtran Networks’ supply chain has been affected by the global semiconductor crisis: component delivery times have increased significantly and, despite many countermeasures, Adtran Networks’ delivery times to customers are also increasing. Although potential future component bottlenecks are systematically identified and analyzed, and supply chain management actively counteracts them, the risk remains that not all customers can be supplied within a timeframe that is satisfactory to them. In addition, the management board sees short-term risks on the purchasing side, as delivery times have already been reduced and customers are actively managing their own inventories. There is therefore a risk that customers will currently order less and reduce their inventories. All risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2023.

.Impressum

Corporate headquarters

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Adtran Networks on the web

More information about Adtran Networks, including solutions, technologies and products, can be found on the company's website at www.adtran.com.

PDF files of this six-month report as well as previous annual reports, quarterly reports, presentations and general investor information, are also located on the company's website and can be downloaded in both English and German. Quarterly conference calls are conducted on the day of earnings announcements. Related PDF, audio and transcript files are available for download in the investor relations section of the group's website, www.adva.com.

Investor communication

To receive an investor packet or other information, have specific questions or would like to be added to the company's mailing list, please contact Adtran Networks' Investor Relations team by email at IRelations@adtran.com.