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Corporate Speakers
- Gary Smith; Ciena Corporation; Chief Executive Officer, President & Director
- Gregg Lampf; Ciena Corporation; Vice President of Investor Relations
- James Moylan; Ciena Corporation; Senior Vice President of Finance & Chief Financial Officer
- Scott McFeely; Ciena Corporation; Senior Vice President of Global Products & Services

Participants
- Alexander Henderson; Needham & Company, LLC; Senior Analyst
- David Vogt; UBS Investment Bank; Analyst
- George Notter; Jefferies LLC; Managing Director & Equity Research Analyst
- Dave Kang; B. Riley; Analyst
- Gregory Mesniaeff; WestPark Capital, Inc.; Research Analyst
- Meta Marshall; Morgan Stanley; Vice President of Research Division
- Michael Genovese; Rosenblatt Securities Inc.; Senior Comm and Cloud Infrastructure Analyst
- Samik Chatterjee; JPMorgan Chase & Co; Analyst
- Simon Leopold; Raymond James & Associates, Inc.; Research Analyst
- Timothy Long; Barclays Bank PLC; Managing Director and Senior Technology Hardware & Networking Analyst
- Timothy Savageaux; Northland Capital Markets; Managing Director & Senior Research Analyst

PRESENTATION

Operator^ Good morning, everyone, and welcome to Ciena's Fiscal Third Quarter 2023 Financial Results Conference Call.

(Operator Instructions) Please also note, today's event is being recorded.

And at this time, I'd like to turn the floor over to Gregg Lampf, Vice President of Investor Relations. Please go ahead.

Gregg Lampf^ Thank you, [Jamie]. Good morning, and welcome to Ciena's 2023 Fiscal Third Quarter Results Conference Call. On the call today is Gary Smith, President and CEO and Jim Moylan, CFO. Scott McFeely, our Senior Vice President of Global Products and Services, is also with us for Q&A.

In addition to this call and the press release, we have posted to the Investors section of our website an accompanying investor presentation that reflects this discussion as certain highlighted items from the quarter. Our comments today speak to our recent performance,

our view on current market dynamics and drivers of our business as well as a discussion of our financial outlook. Today's discussion includes certain adjusted or non-GAAP measures of Ciena's results of operations. A reconciliation of these non-GAAP measures to our GAAP results is included in today's press release.

Before turning the call over to Gary, I'll remind you that during this call, we'll be making certain forward-looking statements. Such statements, including our quarterly and annual guidance and our long-term financial outlook, and discussion of market opportunities and strategy, are based on current expectations, forecasts and assumptions regarding the company and its markets, which include risks and uncertainties that could cause actual results to differ materially from the statements discussed today. Assumptions relating to our outlook, whether mentioned on this call or included in the investor presentation that we will post shortly after, are an important part of such forward-looking statements, and we encourage you to consider them.

Our forward-looking statements should also be viewed in the context of the risk factors detailed in our most recent 10-K filing and in our upcoming 10-Q filing, which will be filed with the SEC by September 7. Ciena assumes no obligation to update the information discussed in this conference call, whether as a result of new information, future events or otherwise. As always, we will offer as much Q&A as possible today. (Operator Instructions) For those in the investment community who will be attending ECOC, Jim Moylan and I will be meeting with investors on October 2 and 3. Please reach out to us if you're interested.

With that, I'll call -- turn the call over to Gary.

Gary Smith^ Thanks, Gregg, and good morning, everyone. Today, we reported strong fiscal third quarter results, including quarterly revenue of $1.07 billion, an increase of 23% year-over-year. Our results included solid profitability metrics with quarterly adjusted operating margin of 12% and adjusted EPS of $0.59.

We are delivering a very strong year with 22% revenue growth year-to-date as we continue to capture market share. And in fact, we are confident as we look forward, particularly given that secular demand for bandwidth continues to increase. In fact, bandwidth growth has remained consistent for years, even through the recent period of supply chain constraints. And the underlying drivers of that strong growth are very durable over the long term. These include mobility, 5G cloud, automation and more recently, artificial intelligence applications as they move out towards the network.

These market dynamics in turn drive direct demand for our industry-leading technology and services, which we measure through 3 indicators: Number one is customer pipeline and forecasts; number two is orders; and number three, backlog intimately shipments, which collectively reflect demand in our business, not just a single element of these. So, I thought it might be helpful for me to provide some insights into what we're seeing across each of these indicators' demand.

Starting firstly with pipeline. We are very encouraged by the level of overall customer activity that we are seeing across all regions and segments. Most notably, we are seeing early signs of near-term requirements with our customers as they work to ensure their network readiness for machine learning and AI traffic coming out of the data center and into the WAN.

With respect to orders, the flow of new orders in recent quarters has been directly impacted by several factors. Specifically, customers ordering decisions in the prior supply-constrained environment resulted in both large order backlog and then higher than typical customer inventory levels. In addition, the recent rapid compression of our lead times has reduced the need for customers to place advanced orders. As a result, new order flow over the past couple of quarters has been meaningfully below revenue and we expect this to continue for another couple of quarters. Therefore, this order flow in isolation has not really been a good reflection of underlying demand.

Now, however, we are starting to see an uptick in new orders, led by cloud providers. Our orders were slightly up in Q3, and we expect higher orders in Q4. Importantly, we believe that this recent uptick in orders from customers is a leading indicator of a rebalancing of supply and demand, which we believe will begin to flow through to our service provider customers in the coming quarters.

And finally, backlog. We have had and continue to have an outsized backlog resulting from the previous period of supply constraints and the resulting elongation of lead times. I would remind everyone that our backlog is still larger in both absolute and relative terms than any of our competitors, which is testament to our increasing competitive advantage. And as we turn this backlog into revenue, it is translating into significant market share gains, which so far this year have been in approximately the mid-single digits.

We now expect that we will exit FY23 with backlog that is approximately $2.7 billion, even with our strong revenue year. And I think this is very encouraging on several levels. Fundamental demand drivers for our business are strong and improving. Customer activity is increasing and supply versus demand is gradually coming into alignment. Against this backdrop, Ciena has never been better positioned to deliver faster than market growth through trusted customer relationships and increasing technology leadership, new platform introductions and considerable market expansions over time.

Before turning it over to Jim, I'll run through some quick highlights from the quarter. Optical revenue was 27% up year-over-year. As expected, much of the growth in the quarter was in our optical line systems. Specifically, Q3 was a record quarter in revenue and shipments for our 6500 reconfigurable line systems, RLS, driven by cloud and content provider network expansions. RLS is, in fact, the only next-gen line system in the industry that is shipping at scale and serves as a strong indicator of future revenue growth and margin expansion opportunity.

We added 18 new customers in Q3 for WaveLogic 5 Extreme, bringing our total customer count to 246. And we also received our first order for WaveLogic 6 in the quarter, well before it is even generally available. Routing and Switching revenue was also up 27% year-over-year, with the addition of more than 30 new customers for the portfolio in the quarter, a clear example of our technology leadership and a growing pipeline. The increase in Q3 was primarily driven by sales of our access and aggregation platforms.

We also continue to advance our TAM expansion efforts in this general technology area, and particularly around coherent routing, broadband access and PON opportunities. We also secured our first customer for the WAVE router platform this quarter.

Notably, our Platform Software and Services revenue was up 24% year-over-year. This reflects strong growth in software maintenance services, primarily related to our domain controller MCP. And as we know, MCP is the industry's leading multilayer domain controller now with nearly 800 customers worldwide and more than 1/4 of those customers leverage the advanced apps on the platform. In fact, in Q3, we added 18 customers for these advanced apps.

Shifting to customers. We had one 10% customer in the quarter, which is a cloud provider. Overall, direct cloud provider revenue increased 39% year-to-date, well above our overall revenue growth in the same period.

Panning out a little further. Total non-telco revenue was 46% year-over-year in the quarter to $487 million, a record high. Further, subsea revenue was up 21% year-over-year in the quarter to $76 million. Revenue from service provider customers was up 9% year-over-year, which included one Tier 1 customer that came in just under 10% threshold in Q3, and we continue to win with this important segment. By way of example, we have recently secured a multiyear strategic expansion of our relationship with a major U.S. Tier 1 service provider for our full portfolio, including routing and switching as they continue to enhance their network, another example of growing customer activity and pipeline.

And finally, with respect to geographic regions, Asia Pacific was again a solid contributor at nearly 16% of total revenue in Q3, up more than 30% year-over-year. And in that region, India remains very strong. with year-to-year revenue in FY23 of just over $200 million compared to just under $170 million for all of last fiscal year, and we expect this growth to continue. Here also we continued to perform well. Importantly, as our pipeline grows, we secured several new design wins across the region in Q3, which we expect to begin taking revenue on in FY24.

So in summary, we believe we are executing well and are confident as we look forward. We are benefiting from strong secular demand and growing our pipeline with increased customer activity. We are increasing our competitive advantage, bringing new platforms to market and expanding our TAM, and we are converting backlog to revenue and gaining market share.

With that, I will turn it over to Jim to speak more about all of these elements and provide additional detail on the Q3 financial results. Jim?

James Moylan^ Thanks, Gary. Good morning, everyone. We delivered outstanding fiscal third quarter financial results. Total revenue in Q3 was $1.07 billion at the high end of our expectations, up 23% over Q3 of 2022. Adjusted gross margin in the quarter was 42.7%, reflecting the product mix shift towards design systems that we expected, and Q3 adjusted operating expense was $328 million.

With respect to profitability measures, in Q3, we delivered adjusted operating margin of 12%, adjusted net income of $89.1 million and adjusted EPS of $0.59. In addition, we generated $9 million in cash from operations and adjusted EBITDA of $151.3 million.

Finally, we ended the third quarter with approximately $1.3 billion in cash and investments. Inventory levels in Q3 went up $94 million from last quarter. As a result of changes in the mix of products delivered to customers from that which we expected, we also saw an increase in deferred cost of sales on product delivered to customers but not yet taken to revenue.

We expect total inventory to be down in Q4. And at the end of this fiscal year, we expect it to be roughly equal to that of Q4 of '22. We repurchased approximately 1.4 million shares for $61 million during the fiscal third quarter. Since the end of Q3, we have repurchased an additional $40 million in shares, bringing our year-to-date total to approximately $100 million in value. We continue to expect that we will repurchase an aggregate of approximately $250 million in shares during this fiscal year.

Turning now to guidance. As a reminder, the outlook I'm about to provide reflects all the key assumptions that we detail in our earnings presentation. Our expectations for Q4 are consistent with the fiscal full year guidance that we provided on the last earnings call. Specifically, for the fiscal fourth quarter, we expect to deliver revenue in a range of $1.06 billion to $1.14 billion, adjusted gross margin in the low to mid-40s range and adjusted operating expense of approximately $335 million.

With respect to fiscal year 2024, as is our normal practice, we will provide a detailed view of our expectations for next year when we report our Q4 results in December. But it's important to remember the context we provided when we laid out our three-year targets last December. Specifically, we said that revenue compound annual growth rate over the 3-year period from fiscal year '22 to fiscal year '25 would be 10% to 12% and would not be linear, particularly given our expectations for outsized revenue growth in fiscal '23, which we will deliver. We are still comfortable with those projections for that 3-year period. Specifically, we expect fiscal '24 to be a growth year. We also expect to grow faster than the market and to take market share.

Before we close out the call, I want to highlight our recent announcement of science-based environmental targets, which support and strengthen our sustainability

commitments to stakeholders. Our science-based targets commit us to reduce our direct and indirect greenhouse gas emissions. They also align our decarbonization efforts with the Paris Climate Agreement to limit global warming to 1.5 degrees Celsius above preindustrial levels. Importantly, the achievement of our goals will help drive down the environmental impact both of Ciena and of our customers' networks across the globe. I encourage you to review this recent announcement.

In closing, I will say that demand for bandwidth is strong and growing and that demand is reflected in our pipeline and in the recent trends in orders. We expect a strong close to the year in Q4 and continued growth in revenue going forward, both in absolute terms and in market share.

Jamie, we will now take questions from the sell-side analysts.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question today will come from David Vogt of UBS.

David Vogt^ Great. Can you maybe talk about what you're seeing directly from web scale? What's sort of driving sort of this inflection that you're speaking of from an orders perspective? Is it just under investment and optimization that's been sort of transpiring for the last four to six quarters? Or is it maybe AI related or a combination of maybe the digestion in AI? I just would love to get some more color on what you're seeing there in terms of the order inflection and then why you think maybe SPE orders follow closely thereafter from an inflection point perspective.

Gary Smith^ Yes, David, I would say, generally, the sort of chronology of the last few quarters as we've gone through this supply/demand alignment issues is the web scale that were the first to kind of reschedule and pull back in terms of deployment with their absorption. They were the first to do that.

I think what's encouraging now is they're working their way through that, probably still got a little more to go. They're beginning to see new applications and new drivers and specific things that we're seeing for Q4, which are new orders to be shipped in Q4 in addition to their existing backlog that we've got, was driven by really the need to start preparing for machine learning and AI traffic coming out of the data center. It's the first time we've seen that sort of tagged, specifically in the cloud players. So that's super encouraging.

And generally speaking, I think the sort of general flow of traffic and activity will reflect the fact that the cloud providers were the first to go into this challenge. They're the first to come out of it, which makes sense. And typically, the service providers will flow through that. I mean, not least of which from the traffic growth in cloud generally spills through to the service providers a couple of quarters later, just generally.

So, I think our perspective is that this is very encouraging and is really the first leading indicator that we're getting alignment now around orders, lead times and user ultimate demand.

Operator^ Our next question today will come from Tim Long of Barclays.

Timothy Long^ I was hoping kind of a two-parter on the service provider piece. First, Gary, you mentioned the U.S. Tier 1 kind of renewal, which included some switching and routing. Could you just talk a little bit to that as far as kind of scope of that extension or new agreement? Any new use cases, particularly on the switch and routing side, any changes there?

And then secondly, maybe just following on, as you were talking about the cycle for the web scalers, where do you think we are in that for the service provider and telco service providers? When do you think they'll get to the phase with -- it looks like the web-scale players are at currently?

Gary Smith^ Yes, Tim, let me take the last one first and then I'll address the issue about the Tier 1 service providers. Our best view of it, and we're pretty close, obviously, a lot of the large. Really when we talk about Tier 1, let me qualify a little bit more service providers. We're really talking about North America. This dynamic of further ordering out ahead given supply chain, we did not really see that dynamic nationally with the service providers.

So, I would really target my reply here to the Tier 1 North American players. I think we're very close with them and understanding around what their absorption challenges are around deployment of people, equipment, et cetera. I would suspect, really, Tim, that we've got another couple of quarters of that. So, sort of mid-'24, something like that with the Tier 1 service providers. We're beginning to see some increasing signs with them as well. But I do think it will be a couple more quarters before we see them catch up and get into alignment with the reduced lead times that are now in market for us. Scott, do you want to take that?

Scott McFeely^ Yes. And, Tim, on the scope of the relationship agreement with the Tier 1 service provider, the way to think of it basically is an extension of a relationship that we have with them for their fiber-based infrastructure across their core and their metro. And it includes transitioning that infrastructure to all of our next-generation technologies and extension obviously in time as well. So, it's a very whole cost relationship with not so much new use cases, but the next-generation technology evolution.

Operator^ Our next question today will come from George Notter of Jefferies.

George Notter^ I was definitely interested in the commentary about the content provider strength and the order improvement. Can you talk about the magnitude of the order improvement? You said that orders were soft -- quite soft. It sounds like the last few quarters, and they've improved, I presume, sequentially here. Is it a significant sequential

improvement? Maybe you can give us a book-to-bill ratio? Just give us some kind of sense for the scale of the order improvement. And then also, I'm just curious about where backlog levels wound up at the end of the quarter and then also where you are on product lead times.

James Moylan^ George, it's Jim. I'll take that. First of all, backlog at the end of Q3 was $3.1 billion, very much in line with our expectations. We believe now that backlog at the end of the year will be more like $2.7 billion plus or minus as opposed to the slightly lower backlog that we had called last quarter. And that really expresses the higher orders that we expect to get in Q4.

We do believe that orders in Q4 will be below our revenue. As Gary said, that phenomenon is going to continue for a few quarters. But with those numbers, I think you can sort of back into the range of what the increase in orders is from Q3 to Q4.

George Notter^ Got it. That's great. And then product lead times, just curious about where those are now.

Scott McFeely^ Yes, George, on product lead times, as you'll remember, we said we entered the year at approximately 52 week lead times. Last quarter, we said that in half and we'd expect them to continue to improve. As we sit here today, there -- the average is probably in the high teens across the portfolio. There's standard deviations on that, but it shows continuous improvement there, and we would expect those to continue to real in quarter-over-quarter.

Operator^ Our next question today is from Simon Leopold of Raymond James.

Simon Leopold^ I wanted to sort of get a little bit more granularity on how you -- the hyperscale is trending in that. It sounds like you had strength this quarter and you've got long-term optimism. I'm just wondering whether or not there's any kind of pause or transition over the next couple of quarters before the ramp or whether it's a more linear expectation. And just a quick clarification. On the 10% customers, is that a customer that has been over 10% full year in the past, if you could let us know?

Gary Smith^ The answer to your last question is yes, George (sic) [Simon]. I would say on the hyperscale, as just a reminder, I mean, we're close to 40% revenue growth with these guys this year. So, despite the sort of public issues around your efficiency and all the rest of it, they're still clearly prioritizing network because that's the lifeblood for them. Regardless of what the applications happen in their data center, it lives when it gets into the network into the cloud. So, we've not seen really any back off in terms of their commitment to build out the networks for that very reason.

And I think if you look at the dynamics around machine learning and AI, et cetera, who knows how that will play out and the timing of it and the modeling of the network piece. But you have to believe that, that traffic will be incremental to what we've already seen over some point in time here. So, we're not seeing any let up from the cloud players.

We've got a lot of backlog that Jim talked about for a proportion of that is cloud providers that they want as we go through next year. So, we expect to have a strong year with them next year. Now because of the rule of large numbers, it's not going to be 40% growth at that rate, but we still expect a very strong year from the cloud providers.

Simon Leopold^ Great. And then just a quick follow-up. Remaining performance obligations, where are they now? And how did they trend in the quarter versus the prior?

James Moylan^ They are slightly down, but the strong. $2.1 billion from $2.4 billion.

Operator^ (Operator Instructions) Our next question today will come from Michael Genovese of Rosenblatt Securities.

Michael Genovese^ Congratulations on the improving outlook here or actually consistent outlook, I should say. But in terms of the three-year CAGR, as we talk about '24 versus '25, are you thinking about those years being fairly even with each other? Or is there a reason, for instance, '24 would be lower coming off the strength of '23?

James Moylan^ All I'd say today is that we said the average over the next 3 years is going to be 10% to 12%. And you can back into what the average rate of growth is in '24 and '25 to get to that 10% to 12% based on whatever you think we're going to do for this year. speculating on how it trends between those two years is not something we're going to do right now, Mike.

Michael Genovese^ Okay. Well, I take that to be a good thing, meaning that there's confidence in '24. That's it for me.

Operator^ And our next question today will come from Samik Chatterjee of JPMorgan.

Samik Chatterjee^ I have a couple. But maybe if I can start with the growth outlook or just the comments that you made that next year will be a growth year. And not to get into specifics, but how much of that confidence should I interpret as coming from Synoptic that you're seeing in cloud orders? Or is there a conference given sort of the activity you're seeing outside the Tier 1 telcos as well, the telco as well as the vertical grows next year? Any thoughts around that, please? And then I have a quick follow-up.

James Moylan^ The way Gary described demand, I think, captures our confidence because we said that it's a combination of pipeline, which is customer activity, and customer activity is very strong. We're in conversations with a lot of customers around the world for what they want to do next year. And we're in the middle of a lot of equivalent to RFP.

So first of all, activity is strong. Secondly, did start to see a trend upward in orders, and they were from the web scale players. And thirdly, we expect a lot of that backlog, which still remains high to convert to revenue next year. So, it's really all three elements of demand that we feel very good about, Samik.

Samik Chatterjee^ Okay. Great. And Jim, I guess the follow-up was for you in terms of -- you're sticking to your 10% to 12% and 3-year outlook, which sort of means that generally, the other parts of that plan should hold. When we think about inventory that you want to carry through that plan, how does that compare to what you were sort of carrying pre-pandemic, which was more like $300 million or so and right now, you're tracking by the end of the year, about $900 million plus? So how are you thinking about like is that plan still intact to get back to a pre-pandemic level? Or do you want to plan around inventory exiting that window?

James Moylan^ Yes, without commenting on what our revenue is going to be next year, we do expect a good year, and we do expect our inventory levels to come down very significantly next year. That's our expectation as we sit here today. I won't give you an exact number.

I will say that given what the supply chain has gone through and the changes in the supply chain that we will likely carry a bit more inventory as compared to revenue than we have in the past. You'll recall that we used to -- for many quarters, we ran at about six turns. I don't believe, given our need for buffer stocks going forward, that we will run at 6x. The question is where we end up below that, and it's probably going to be between 4 and 5x. I don't know exactly where in that range. But that means that, that inventory will come down next year, we believe.

Operator^ Next question today will come from Alex Henderson of Needham.

Alexander Henderson^ So clearly, the optical line systems was key driver of shipments in the period, and those carry significantly lower margins. They often generate future orders of transceivers two, three quarters, four quarters out. So, can you talk about how you think the mix of the shipments will change over time as you've been shipping out the optical line systems here and whether that implies some improvement in the margins in the forward periods as the mix shifts to transceivers going forward? Should we expect a couple of hundred basis points of margin expansion at some point over the next year?

Gary Smith^ I would say this, Alex. I mean, I think the dynamic that you highlighted is exactly the right one. I mean it's very encouraging that we're putting all this track out there basically. And RLS -- the adoption of RLS has been terrific. And we're now in a position we can ship it in large scale. So, I think that's very encouraging because that will translate into modems over time. And I would expect, again, we're not in a position to sort of guide for next year, but I would expect generally improving margins because of this dynamic.

And also, you haven't got the associated cost of the supply chain is beginning to ameliorate. So, I think the combination of those two things, a better mix overall from a margin point of view, as we take advantage to all the track that we're laying plus a little bit more of a normalization of costs from a supply chain point of view should point to higher gross margins going forward.

Alexander Henderson^ The impact of the supply chain on '23 gross margins?

James Moylan^ We set a couple of hundred basis points this year, 200 or 300, and it will get back next year.

Alexander Henderson^   And the last question, OpEx. I assume this is a managerial decision. So, can you give us some sense of what your psychology is relative to spending on OpEx as we progress through the end of the year and into next year? Just conceptually.

James Moylan^ As we've said over many quarters, Alex, we intend to invest through this cycle. We have the leading position in optical technology, and we will continue to invest there. But we are a challenger in the routing and switching space, and it's important that we increase our investment in that space. That's where our increase in R&D has come. in routing and switching. And we expect to continue to have a very active R&D program in both optical and in routing and switching going forward.

Operator^ Our next question today will come from Meta Marshall of Morgan Stanley.

Meta Marshall^ Great. Maybe just on kind of your commentary about believing service providers will improve kind of in the coming quarters. I guess, is that -- just trying to get how important that is by just having a greater sense of what their inventory levels are versus kind of what new projects are actually taking place. And I guess the impetus of that question is, can you guys grow into next year just by virtue of them working through inventory this year?

And then the second question is on the cloud and kind of that improving cloud commentary, is that pretty uniform across the cloud? Or are there still kind of some puts and takes between various cloud vendors?

Gary Smith^ Meta, let me take the first part of that. In terms of the service providers, again, I want to qualify this, we're talking North American Tier 1 service providers here when I answer this through the lens of this question. It's a confluence of elements. It's visibility into their activity and pipeline and projects. And obviously, we're very close to these folks. We have strategic relationships with all of them.

We now have a good handle on their inventory and what their absorption rates are and the various elements of manpower and things that have got to be deployed to do that. So, we have pretty good visibility to that. Obviously, we still have large backlog with them as well. So, it's all of those elements. I think it will be another couple of quarters, before that sort of gets broadly into alignment. But I think they're continuing to see strong demand there from a capacity point of view, I would stress that. This is really about the rate of absorption in its broadest sense. So, I think we have a pretty good view to those folks.

And obviously, we can continue to grow even do that period. I mean we've just demonstrated as we're coming through the height of that period as it will, we're putting up 22% revenue growth. And even with the carriers, the service providers globally just at 9% of that. So, you can see the balance of our business around subsea, high-growth areas such as India and the cloud players gives us a much more balanced business that we can withstand those kinds of shorter-term challenges. I would say the cloud providers, to your question about how widespread, I think we're seeing that with two to three of the large players. So, we have evidence, it's not [Juan]. Now they're all very deep in terms of their dynamics, I would say that. We talk about them homogeneously, but their networks are very different than business models are very lift. But we are encouragingly seeing it across a number of them, Meta.

Operator^ Our next question today will come from Greg Mesniaeff of WestPark Capital.

Gregory Mesniaeff^ You mentioned that orders are clearly picking up at this point. And the DSO number for the quarter was pretty on the high side at $96 million. I was wondering if you can give us some view on the linearity of the quarter, how you see linearity progressing in the next quarter and beyond?

James Moylan^ It's just fact that our quarters tend to be back-end loaded. That's just the way the business works. And as a result, we end up with big shipments in the last month of the quarter, and DSOs reflect that. We don't collect those shipments in that same sort of in that month. So that's why our DSOs are high. They're actually down slightly from the previous quarter. And it's the linearity of the quarter, frankly, which drives that number more than anything else.

Gregory Mesniaeff^ Got it. And just as a quick follow-up, as you draw down your backlog and continue to do so, can you give us any indication or metrics or data points regarding any cancellations? I'm assuming there haven't been many, but if you could just give us some indication of that.

James Moylan^ Early on, as the supply chain started to improve, the companies that had put big advanced orders on us looked at the new lead times and they looked at the amount of orders that they had put on us. And at first, as Gary said, starting with the cloud players, they started to push some amounts of orders out that was followed by the service providers who pushed out. They held on to the orders, but they pushed the delivery dates. We did also have a small number of cancellations from a very few customers, was not material to our backlog. Our backlog is -- has high integrity. They just have sort of changed the way they view the delivery dates.

Gary Smith^ But I would add that we have not seen that dynamic for -- that has ameliorated that dynamic over the last few quarters, both in terms of cancel -- any small cancellations, absolutely. We have not -- that's been de minimis, absolutely. What we're having is even the rate of change of pushing stuff out has slowed considerably. So, we have pretty good visibility into what they want and when.

Operator^ Our next question will come from Dave Kang of B. Riley of CR.

Dave Kang^ My question is on India. What inning are we in? Is it mainly Jio? What about your position with the other two major service providers there?

Gary Smith^ I think to use a cricket sparkling cricket analogy, I would say that we're -- if you're into test cricket, we're just on the first day of the 5-day sparkling cricket match. So, it's got a long way to go. I mean, you're basically is the fastest-growing Internet market in the world. You're talking about where they're consuming it from mobile perspective, most of the Internet. And there's still a very, very long way to go with that.

And I would also say, Dave, that it's broadly based now. I think the structure from an industry point of view has settled down. You've got three major players, and we're seeing growth across all three major telcos, plus all of the cloud activity there, both directly and indirectly. You're also -- I think it's the fastest growing connectivity from a subsea system point of view landing in India as well, which we obviously got #1 market share in there. And then you're also seeing our position. We've been there for a long time. So, things like the government, Ministry of Defense networks based on Ciena.

So, we're seeing very strong activity orders and shipments across the whole of that spectrum. I think it's very broad-based. And I think we're in a multiyear growth opportunity with these folks.

Operator^ (Operator Instructions) Our next question will come from Tim Savageaux of Northland Capital Markets.

Timothy Savageaux^ It looks like your backlog came down much less significantly than last quarter. So, what I'm seeing is a pretty significant uptick in orders in Q3 in the order of 30% sequential. I just want to make sure I'm reading that right.

And to the extent that's from cloud, I guess, what I really want to ask is what was your book-to-bill in cloud in the quarter? And given how concentrated you are there, almost one customer, almost 50%, how concentrated was that? And if you could comment on applications at all, whether we're talking about data center interconnects, more long-haul type stuff, subsea, what might be driving that? And I'll count that all as my follow-up.

Gary Smith^ Thanks, Tim. Let me take the first of the multi questions. I would say -- I would describe it as a slight order uptick. I wouldn't describe it as large our backlog did go up. And obviously, we -- our orders came in I think the point is we really think it's bottomed out on the orders and is heading in the right direction now from an alignment point of view. And I think that will gather more momentum in Q4 as well.

In terms of the uptick, it was cloud-based, but the service providers were reasonably solid as well, which gives us some comfort that we think that over the next couple of quarters will begin to come out. I would also say from a cloud point of view that it's broadly based

amongst the cloud players, it's not just one, which also gives us some encouragement across the various applications that we're seeing.

Scott, in terms of particular applications –

Scott McFeely^ Tim, I mean our position across that customer set really falls into 3 applications. Their Metro capital area center interconnect where they can own their own infrastructure. We participate strongly in their backbone. And then obviously, on the submarine segment where they have private installs as well on cables, we are seeing growth across all of those and that's what sort of sums up to the 39% year-to-date growth in the broader segment.

In addition to that, there are quite a few parts around the world where they have chosen not to or are not able to own their own infrastructure. So, they have a significant indirect pull on the service provider revenue, particularly outside of North America.

Operator^ At this time, we will conclude the question-and-answer session. I'd like to turn the conference back over to Gregg Lampf, Vice President of Investor Relations, for any closing remarks.

Gregg Lampf^ Thank you. Thanks, everyone, for joining us today. We appreciate it. We look forward to speaking with you during the day and seeing you at various events over the next several weeks. Also, again, as a reminder, Jim and I will be at ECOC. If you're interested in meeting with us while we're there, please reach out and we'll be happy to do so. Thank you.

Operator^ The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.