

FN Earnings Call Transcript

Date: 2025-02-03

Quarter: 2

Operator: Good afternoon. Welcome to Fabrinet's Financial Results Conference Call for the Second Quarter of Fiscal Year 2025. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions on how to participate will be provided at that time. As a reminder, today's call is being recorded. I would now like to turn the call over to your host, Garo Toomajianian, Vice President of Investor Relations.

Garo Toomajianian: Thank you, operator, and good afternoon, everyone. Thank you for joining us on today's conference call to discuss Fabrinet's financial and operating results for the second quarter of fiscal year 2025 which ended December 27, 2024. With me on the call today are Seamus Grady, Chief Executive Officer, and Csaba Sverha, Chief Financial Officer. This call is being webcast, and a replay will be available on the Investors section of our website located at investor.fabrinet.com. During this call, we will present both GAAP and non-GAAP financial measures. Please refer to the Investors section of our website for important information, including our earnings press release and investor presentation, which include our GAAP to non-GAAP reconciliation as well as additional details of our revenue breakdown. In addition, today's discussion will contain forward-looking statements about the future financial performance of the company. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from management's current expectations. These statements reflect our opinions only as of the date of this presentation, and we undertake no obligation to revise them in light of new information or future events, except as required by law. For a description of the risk factors that may affect our results, please refer to our recent SEC filings, in particular, the section captioned Risk Factors in our Form 10-Q filed on November 5, 2024. We will begin the call with remarks from Seamus and Csaba followed by time for questions. I would now like to turn the call over to Fabrinet's CEO, Seamus Grady. Seamus?

Seamus Grady: Thank you, Garo. Good afternoon, and thanks to those of you joining our call today. Our strong business momentum continued in the second quarter and represented a record quarter for both revenue and profitability with growth that exceeded our expectations. Revenue of \$834 million was an increase of 17% from a year ago and 4% from Q1. Our team executed well to produce record non-GAAP earnings per share of \$2.61. While this is a remarkable performance, we are also very excited to see the positive trends in key areas of our business extending into the third quarter. This reflects both increasing demand in the high-growth markets we serve as well as our ability to further deepen relationships with existing customers and gain additional market share. As a result, we are confident that our strong revenue growth will extend into the third quarter along with the corresponding increase in profitability. We are excited about these growth trends and have ample capacity to meet our near- to medium-term requirements and commitments to our customers. That said, with our continued growth, we will need additional capacity in the future, which is why we are pleased to announce that last month we broke ground on Building 10, a new 2 million square foot facility at our Chonburi campus, adding more than 50% to our total footprint. This new building will provide us with plenty of capacity to support our anticipated growth over the longer-term. Also reflecting our confidence, during the second quarter, we repurchased more than one-third of our \$200 million authorized for share repurchases, and our Board just authorized an additional \$100 million for share buybacks. Looking at the dynamics of the quarter in more detail, within Optical Communications, datacom experienced some bumpiness ahead

of the ramp in next generation products at a major customer and grew 4% from a year ago, but declined 9% from the first quarter. While we believe datacom demand could see a slight decrease in the third quarter, we remain confident that datacom revenue trends will improve as next-generation technologies at the 1.6 terabyte data rate begin to ramp later this calendar year. Meanwhile, we were pleased to see telecom revenue performed even better than anticipated in the quarter, increasing 24% from a year ago and 17% sequentially. Our telecom revenue strength was driven primarily by increasing demand for data center interconnect products and by early success with recent telecom system wins. We're optimistic that this positive trend will extend into the third quarter. Turning to Non-Optical Communications, we experienced another healthy performance in automotive, with the revenue up 32% from a year ago and roughly flat from Q1. Also contributing to our growth in the quarter, industrial laser revenue was up 24% from a year ago and 6% from last quarter. In summary, with the confluence of several positive growth drivers ahead of us, we are more confident than ever in our business. In the coming quarters, we expect our datacom business to return to faster growth. In telecom, we anticipate further growth, driven by increasing momentum from recent system wins, coupled with rising demand for data center interconnect products. Collectively, we are very optimistic as we look to the third quarter and beyond. Now, I'll turn the call over to Csaba for more financial details on our second quarter and our guidance for the third quarter of fiscal 2025. Csaba?

Csaba Sverha: Thank you, Seamus, and good afternoon, everyone. We had a strong second quarter with revenue and net income per share that were above our guidance ranges. Revenue in the second quarter was \$834 million, an increase of 17% from a year ago and 4% from Q1. Non-GAAP EPS was \$2.61, with revenue upside and FX evaluation gain contributing to our results. Details of our revenue breakdown are included in the investor presentation on our website. So, I will focus my comments on some of the more noteworthy highlights. In the second quarter, Optical Communications revenue was \$647 million, up 14% from a year ago and 3% from Q1. Within Optical Communications, datacom revenue was \$299 million, or 46% of optical communications revenue, an increase of 4% from a year ago, but a decline of 9% as a major customer transition to next-generation products. Telecom revenue was \$348 million, or 54% of Optical Communications revenue, a remarkable increase of 24% from a year ago and 17% from Q1, driven primarily by growth in DCI products and early contributions from recent system business wins. By data rate, revenue from 800-gig and faster products was \$257 million, up 12% from a year ago and flat sequentially. Revenue from products below 800-gig was \$277 million, an increase of 25% from a year ago and 5% from Q1. 400ZR products for data center interconnect applications were very strong contributors to growth, reaching 10% of total revenue in the quarter. Revenue from Optical Communications products that are non-speed rated was [\$114 million] (ph), up 6% from Q1. Non-Optical Communications revenue was \$186 million, up 29% from a year ago and 5% sequentially. Each of automotive, industrial laser and other revenue category was up sequentially and grew over 20% year-over-year. As I discuss the details of our P&L, expense and profitability metrics will be on a non-GAAP basis, unless otherwise noted. Gross margin in the second quarter was 12.4% compared to 12.7% in the first quarter, primarily due to Q1 FX tailwinds turning into slight headwinds as anticipated. Operating expenses were flat sequentially at \$16 million, offsetting most of the impact of slightly lower gross margins. Operating income was a record \$88 million, representing an operating margin of 10.6% compared to 10.7% both a year ago and last quarter. Interest income of \$11 million in the quarter was in-line with Q1, and a foreign exchange evaluation gain contributed \$4 million. Effective GAAP tax rate was elevated in the quarter at 8.7% due to discrete items. We continue to expect an effective tax rate in the mid-single-digit for the fiscal year. Non-GAAP net income was \$95 million or \$2.61 per diluted share, which was above our guidance range and a quarterly record. Turning to the balance sheet, we ended the second quarter with cash and short-term investments of \$935 million, up \$26 million from the end of the first quarter. Operating cash flow in the quarter was strong at \$116 million. CapEx was \$22 million, resulting in free cash flow of \$94 million in the second quarter. As Seamus mentioned, we recently broke ground on our new Building 10 in Chonburi, which will considerably increase our manufacturing capacity. As a result, we expect to incur a higher CapEx outlay over the next several quarters. Turning to share buybacks, recall that we increased the size of our share repurchase program in August to \$200 million. During the second quarter, we were very active in the program and acquired 292,000 shares at an average price of \$235 per share for a total

cash outlay of \$69 million. As a result, at the end of the second quarter, we had \$131 million remaining under our repurchase authorization. As a sign of continued confidence in our business, last week our Board authorized an additional \$100 million for share repurchases. Now, I will turn to our guidance for the third quarter of fiscal year 2025. As Seamus highlighted, we have several reasons to be optimistic about our business in Q3 and beyond, and this is reflected in our outlook. For the third quarter, we expect total revenue to be between \$850 million and \$870 million. By major product area, we anticipate datacom revenue to be down slightly sequentially in anticipation of the ramp in coming quarters from next-generation products. We expect telecom revenue to see strong sequential growth again in Q3, as increasing DCI momentum and new system wins make larger contributions. We also expect automotive revenue to continue to grow sequentially. We expect FX pressure on gross margin to persist in the third quarter, but believe we can again offset much of that impact with continued operating leverage. Therefore, we anticipate EPS in the third quarter to be between \$2.55 to \$2.63 per diluted share. In summary, after a very strong second quarter, we continue to be very optimistic about our business as we benefit from several positive trends. We believe Q3 will represent another quarter of record revenue for the company as our strong business momentum continues in the third quarter and beyond. Operator, we are now ready to open the call for questions.

Operator: Yes, sir. [Operator Instructions] Our first question or comment comes from the line of Karl Ackerman from BNP Paribas. Your line is open.

Karl Ackerman: Yes, thank you, gentlemen. For my first question, I was hoping to discuss telecom for a second. When should we expect to see record revenue in telecom? I guess, is that implied in your March quarter outlook? I asked because telecom fell from about \$400 million a quarter two years ago to a trough of \$280 million in June of last year, but now you're seeing traction in coherent ZR modules and two large system business wins that appear to be just flowing into your results that do support this end market recovery. So, you've got several things acting as tailwind. So, if you could talk about the visibility you see within telecom and when we should see record revenue in that segment?

Seamus Grady: Yeah, thanks, Karl. So, yeah, as you rightly say, our telecom revenue was down for the last several quarters as the whole industry digested inventory. The nice thing is the counter cyclicity we have in the business, when our telecom revenue was flat, our datacom revenue was growing nicely. And at the moment, our datacom revenue is a little bit flat as we wait for new product launch, and our telecom revenue is back to strength. And the drivers of that are a mixture of new program wins and strength in primarily DCI products and ZR products. So, we expect that trend to continue. Some of the system wins are in the -- beginning to show in the numbers, but the majority of the new system wins are actually not in our results yet. The Ciena win we talked about previously is more of an FY '26 story from a revenue perspective, and the other system win, where we took business away from one of our competitors, is really just beginning to ramp. So, yeah, good strength in telecom, really offsetting that softness in datacom, but we expect that strength in telecom to continue for the next several quarters. Exactly when it gets back to where we were before the inventory digestion, it's really hard to say and I wouldn't like to speculate, but we're just focused on getting the customers what they need and we're very happy to see, as I say, the telecom business being very strong for us just when we need it to be when the datacom business is little bit soft.

Karl Ackerman: Yeah, thank you for that. If I may have a follow-up?

Seamus Grady: Sure.

Karl Ackerman: The growth in your silicon photonics business is now approaching record levels as well. I guess, within silicon photonics, is the incremental growth coming from high-speed transceivers inside the data center or is it mainly coherent ZR for DCI and other telecom applications? Thank you.

Seamus Grady: That's mainly the latter, coherent transceivers for ZR, transceivers for DCI applications between the data centers. That's the main driver of our silicon photonics growth. And we're a very early adopter of silicon photonics. We've been building silicon photonics products for over a decade at this stage. So, we really feel we're in a strong position as the industry moves more towards silicon photonics and also co-packaged optics that for us it's a fairly natural transition to go from one to the other, but yeah that growth in silicon photonics is primarily driven by coherent ZR DCI products.

Karl Ackerman: Got it. Thank you.

Seamus Grady: Thank you, Karl.

Operator: Thank you. Our next question or comment comes through the line of Samik Chatterjee from JPMorgan. Your line is open.

Samik Chatterjee: Hi. Thanks for taking my questions. Seamus, you talked about the next-generation product in datacom for the primary customer that you have here, and I think you've referenced sort of the strong visibility you have in ramping the next-generation product. I mean, what's driving that confidence in terms of timing? You're guiding here to a moderation in 3Q as well. So, should we just conclude that the new product sort of ramps starting in 4Q towards the end of the year? And, has the timing from the customer in terms of when that next product ramps, has that also changed, or is it still pretty intact in terms of the timing that you were expecting to ramp the next-generation product? Then, I have a follow-up. Thank you.

Seamus Grady: Yeah, I think the timing of the next-generation product really depends on our customers' launch timing. We would expect to see a ramp about one quarter before our customer wants to ship product to their customers. We're ready, we're prepared, and we're ready to go from a capacity perspective and we're really just working to the customer schedule. So, no big change other than we're working to the customer schedule in terms of the launch. We have good visibility. We still have the same visibility we've had. We have visibility well beyond the component lead times and we're quite optimistic. We're not concerned. It's really just a question of making sure we're ready to go when the customer is ready to go. So, we're ready to ramp and ready to go whenever the product launches.

Samik Chatterjee: Okay. Got it. And relative to the volumes that you're expected to ramp on initially or even sort of volumes through the cycle as well as pricing on these sort of products, what is the visibility that you have currently from the customer? Particularly if you compare it to 800-gig and when you're initially ramping in terms of price and volume, how does the next-generation product compare?

Seamus Grady: I think in terms of -- if I take volume, first of all, I think, the volume, I think once it gets going, it will be a pretty steep ramp. That's not unusual in that part of our business, so we're ready for that. In terms of ASPs, we continually reduce our costs, and therefore, our prices to our customers. There's nothing new about that. I think if anything, maybe the delay with launching the end product has allowed us and the customers to really focus on cost and make sure we're very cost competitive. So, we expect when the 1.6 product launches that we'll be very cost competitive, let's say, relative to 800-gig. It won't be as much of an uplift as might traditionally happen when you double the speed. But, we're -- like I say, we're ready to go. We're working very hard to make sure the costs are competitive. And yeah, the volumes, we're just ready to go whenever the customer is, but we're optimistic. We have no reason to be pessimistic or anything like that. We're quite optimistic. It's just a question of timing.

Samik Chatterjee: Got it. Great. Thank you for taking my questions.

Seamus Grady: You're welcome.

Operator: Thank you. Our next question or comment comes from the line of George Notter from Jefferies. Mr. Notter, your line is open.

George Notter: Hi, there. Thanks very much, guys. I guess, I was going to ask the question of the day, I think which is tariffs. Obviously, it's been something the industry has been concerned about for some time. I'm wondering if you guys are seeing incremental opportunity associated with tariffs going in place now. Was this an opportunity for Fabrinet to take share? Can you kind of give us a sense for what you're seeing from the customers in your conversations? Thanks.

Seamus Grady: Yeah, hi, George. Yeah, we're keeping a close eye on that. Based on where our factories are located, so far at least, we haven't seen any tariffs being imposed on China. So, we don't expect any negative impact. If anything, we maybe expect a potential positive impact if customers want to move production with the most recent tariffs. A lot of the supply chain in our industry, if you like, is still -- a lot of it is in Mexico and some of it is still in China. So, we're quite happy to work with the customers if they want to move production to -- in our direction. So, if anything, we see the tariffs leaving aside the kind of macroeconomic impact, which I leave it to people smarter than me to talk about. But just in terms of the demand and our ability to win business, we don't see tariffs as a headwind. If anything, we think it could actually help us a little bit. But it's very early days. It's hard to see -- it's hard to say what will happen.

George Notter: Got it. And then, I think part of the trick in this is that there is some lead time moving

manufacturing from one country or one geography to another. Is that -- if there is a benefit, is that months away, quarters away, years away, like how do you think about what's reasonable in terms of when it could help you?

Seamus Grady: It's very hard to say, George. I don't like to not answer the question, but it's very hard to say. I think if there is a benefit -- I'll put it this way. I think if the benefit hasn't materialized in months or quarters, it probably won't at that point. Because sometimes customers/companies decide to stay where they are because they -- and they'll find other ways to reduce cost or whatever. But I think it's an opportunity. I wouldn't get too excited about it though. I think it's an opportunity, but I'd say it's probably more months and quarters than years. The products are complex, but we tend to move. We have a track record of being able to move very complex products very quickly. So, if customers want to move, we're ready to support them. We can move very quickly.

George Notter: Great. Super. Thank you.

Seamus Grady: You're welcome.

Operator: Thank you. Our next question or comment comes from the line of Ryan Koontz from Needham. Mr. Koontz, your line is open.

Ryan Koontz: Great. Thanks for the question. Seamus, with your momentum in ZR and DCI, I wonder if you're contemplating or your customers are contemplating yet much of a transition over to 800ZR yet or you really seeing 400 as the dominant force here in '25?

Seamus Grady: So -- yeah, so, first of all, in F Q4 and F Q1, 400ZR was 10% or more of our optical revenue. And in Q2, 400ZR was 10% of our total revenue. So, it's a very important, if you like, category for us. If you do the math, that represents about a 43% sequential increase to \$83 million. So, ZR is very, very important for us. And we do expect 400ZR to remain strong in the coming quarters. We have actually qual-ed and shipped 800ZR as well. But I think 800ZR is early days, but we have actually qualified and have shipped some 800ZR as well.

Ryan Koontz: Got it. Great. And it relates to your expectations, you talked about some lumpiness here on the datacom side. Do you -- is that primarily your lower speed datacom, do you think, that will suffer more, or more the high end at 800 you think will see a little bit of a slowdown? Anything you can share there?

Seamus Grady: Yeah. So, we don't have much low-speed datacom business, right? It's mostly predominantly 800-gig and above. And what I would say is, we're very optimistic about our datacom business overall. When we provided guidance, we indicated that datacom would be roughly flat and things turned out a little bit softer than anticipated, and then near-term, the product transition we talked about means our overall datacom revenue will see additional softness in Q3. Again, nothing that we're overly concerned about, but it is at those higher-speed products. We continue to anticipate increasing demand and revenue as our customer ramps the next-generation 1.6 terabit products, which makes us optimistic over the longer-term, albeit we have some near-term softness. In the meantime, we have several other drivers that contributed to strong growth in Q2 and we'll continue to benefit from those in Q3. Interestingly, if you look at, we often talk about the counter-cyclical in our business, that it seems when one part of our business is down, and other part is up. That's really what we've been seeing here with our telecom and datacom business. Historically, when we were going through that inventory digestion for several quarters, our datacom business was strong. And at the moment, our datacom business is a little bit flat, but our telecom business is very strong. But the mix of our business is more on the leading-edge, higher-speed products, not the older products.

Ryan Koontz: Got it. Makes sense. And just last, if I could, around, what's the rough timeframe between your CapEx and when you can bring capacity online? Are we talking months, quarters?

Seamus Grady: Yeah, go ahead, Csaba.

Csaba Sverha: Ryan, if you're talking about our Building 10, so the lead time of that is about 18 months. So, we will see linear cash outlay in terms of CapEx. So, you would see probably about \$20 million uplift in CapEx spends and cash outlay in the next, let's say, six to eight quarters.

Ryan Koontz: Helpful. Thanks so much guys.

Seamus Grady: And just maybe, Ryan, just to put some context around Building 10, in terms of the revenue capacity that we're adding, general rule of thumb, we generate about \$1,200 per square foot in annual revenue. So, Building 10 will be a 2 million square foot facility. So, it's about \$2.4 billion capacity

addition that we're investing in. So, obviously, the actual revenue will depend on the mix of products, but that's the ballpark capacity that we're adding is about \$2.4 billion.

Ryan Koontz: That's great. Really impressive. Thank you, gentlemen.

Seamus Grady: Thank you, Ryan.

Csaba Sverha: Thanks, Ryan.

Operator: Thank you. Our next question or comment comes from a line of George Wang from Barclays. Mr. Wang, your line is open.

George Wang: Hey, guys. Thanks for taking my question. Just two quick ones. Firstly, just I want to hone in on the 1.6T ramp. Just maybe kind of versus last quarter, are you guys seeing further delay or kind of "status quo" kind of still waiting for [B300] (ph) transition kind of way as you guys called out later this year? And also kind of, are there other impediments for wider adoption for 1.6T, such as maybe the supply chain is waiting for the 800G network interface cards, which probably doesn't arrive until later this year? Can you kind of unpack some of the potential other underlying constraints, aside from just your largest datacom customer kind of who sorting through the transition on the Blackwell?

Seamus Grady: Yeah, I think on the wider questions around the supply chain and waiting for network interface cards and things like that, that's probably a question more better directed to our customer. It's not something we'd really comment on or have any particular knowledge of. We've been producing sample qualification builds of 1.6T and to the point where we're ready to go whenever the customer is. As I talked about earlier, it's really just a question of the timing of that product launch. Again, wider questions about other parts of the network, we're not really in a position to talk about, mostly because we don't know, but it's also just a question that will be better directed to our customer.

George Wang: Okay, thanks. And just a quick one, if I can. Just in terms of the Ciena business, obviously, it's anticipated it's going to be a much bigger customer in the next few quarters, FY '26, as you guys call it out. Is there any sort of a refreshed view in terms of the peak revenue run rate? Do you think it can surpass Cisco, kind of 10% customer? Any sort of latest thoughts in terms of the prospect for Ciena, recognizing its early days? Just curious if you have additional thoughts on that.

Seamus Grady: Yeah. So, we've had a couple of solid recent system wins, one of which is the Ciena new products that we talked about in prior quarters. It's a new networking product that Ciena is introducing this year. I think we said at the time when we continued to expect that the bulk of the Ciena ramp will be in late fiscal 2025 into early fiscal 2026. So, it's more of an FY '26 story from a revenue point of view. And that's really as -- we'll be ramping, of course, in-line with the customers' ramp plans. The revenue run rate for Ciena, we wouldn't comment on. We don't comment on individual revenue other than, at the end of the fiscal year, if the customer becomes a 10% customer, we disclose the revenue. But outside of that, we don't comment on individual customer's revenue and we certainly don't forecast revenue at the customer level. So, I'm afraid I can't give you a whole lot more information there, George.

George Wang: Okay, thank you. I'll go back to the queue.

Seamus Grady: Thank you.

Operator: Thank you. Our next question or comment comes from the line of Tim Savageaux from Northland Capital Markets. Mr. Savageaux, your line is open.

Tim Savageaux: Thanks. Good afternoon, and congrats on the results and outlook here.

Seamus Grady: Thank you, Tim.

Tim Savageaux: Maybe I can try and come at that from another direction. So, first question, if you look at the sequential growth in telecom this quarter, you've been pretty clear about the ZR, data center interconnect impact. Fair to conclude that the other piece of that \$50 million is the new program ramp with the major customer that you're talking about, or anything to discuss with regard to the broader telecom landscape recovery?

Seamus Grady: So, yeah, it's primarily ZR and also the beginning -- the early days of the ramp of another program win that we had, a competitive new business win where we took a little bit of share away from one of our competitors. The customer we named before the Ciena business, that is really not in the numbers yet. That hasn't really started yet. So, it's a combination of that other competitive system win plus the ramp up of ZR and DCI. We really took the opportunity when the telecom business was flat because of inventory digestion, we spoke about this previously, we took the opportunity to use

that to go win business. So, we're beginning to see the fruits of that now.

Tim Savageaux: Okay. Well, that makes this question a little easier. And Csaba has referred to a couple of times strength in the business in Q3 and beyond. So, I think that fairly opens up a discussion about fiscal Q4. And Seamus, you just said that the Ciena ramp, you do expect to begin in fiscal '25.

Seamus Grady: Yes.

Tim Savageaux: So, I guess, looking at the sum total of that, you're typically seasonally pretty strong in the June quarter anyway, but it looks like you got a fair bit of momentum heading into that June quarter, regardless of whether you see 1.6T start to ramp then, which I imagine you might, but feel free to comment on that as well, and just about your assessment on that overall set up there.

Seamus Grady: You're exactly right, Tim. I couldn't have said it better myself. So, we have -- the part of our business which has been a headwind for the longest time, the telecom business has now turned back into a tailwind with a number of growth vectors in there. ZR continues to grow nicely. The new network system wins that we've taken share of existing products away from one of our competitors. And then, of course, the Ciena win that hasn't really figured in our numbers yet. And then, there's other system wins that we're also working on. Like I said, we alluded to earlier, we've been very busy trying to win telecom business during the time when the industry was flat. And we've been working very, very hard at that. We generally don't announce anything until there's something to announce, but there's others that we're still working hard on. So, telecom, yes, it's turning from being a headwind to being a tailwind. And then, around the same time, all going well, we should start to ramp those next-generation datacom products as well. So, we're quite optimistic going into the second half of the year, that coupled with the announcement around the new factory and the increased share buyback, I think should give you some indication of that.

Tim Savageaux: Absolutely. And, well, a quick one for me. I missed the Non-Optical guide. If you wouldn't mind repeating that briefly? And the last real question is, my assumption would be, I guess, I'm trying to get you to rank order of magnitude, the size of the relative new systems opportunities. I would assume, Ciena would be larger to much larger, but maybe not. If you're willing to comment on that? Thanks.

Seamus Grady: Yeah. I think -- I'll let Csaba give you the Non-Optical guide in a moment, but I think, yeah, the Ciena win, we're very happy with that. They're just a fantastic customer, fantastic company to do business with, and we're so honored to be part of their supply chain. And really looking forward to that business ramping. We're ready to support them. We're very excited about that, but we're also excited about the other new business wins we've had. This other one, because it's a new product, okay, it doesn't ramp straight away, but when it does ramp, then it has longer legs. We have it for the life of the product, whereas some of the other ones, it's great to get the win because you get a quick infusion of revenue, but if you're ramping it -- if we're ramping it in the middle of the product lifecycle, you don't get that full run at the business. So, we're very happy overall. I wouldn't like to try and rank them. It's like trying to tell you which of my children I prefer. We love them all.

Csaba Sverha: With regards to the guidance, Tim, we are anticipating automotive to be sequentially up and laser to be flat to slightly up as well. So, across the board, we are seeing upside going into Q3 other than the temporary softness in datacom.

Tim Savageaux: Great. Thanks a lot.

Csaba Sverha: You're welcome.

Seamus Grady: You're welcome.

Operator: Thank you. Our next question or comment comes from the line of Mike Genovese from Rosenblatt Securities. Mr. Genovese, your line is open.

Mike Genovese: Great, thanks. I mean, just to clarify something that's been asked a couple of times already, I probably won't get a new answer, but -- so on June versus September, so when we might see datacom grow again sequentially, is it just too early to tell or -- I mean, do you have a sense one way or the other whether that would happen in June or September?

Seamus Grady: Well, I mean, we only guide one quarter at the time, Mike. So, right now, we're guiding one quarter at the time, so we're not going to really go beyond that. Yeah, we have a sense of when the new products will begin to ramp. But as we've learned the hard way over the years, sometimes new products, they don't launch exactly in line with your expectations. And sometimes, they launch much

quicker than we think they will. So, it's really early days. But from our point of view, we're just ready to support the customer whenever they're ready to start ramping the product. But I wouldn't want to get into whether it's June or September at this point.

Mike Genovese: And I guess you probably, again, like, don't have a view on the overall market, but do you think that your results are representative of the overall 800G market? Or just -- I mean, obviously you have one customer there. Do you think the market is maybe doing better than what you guys are showing? Or do you have any idea about that?

Seamus Grady: I don't really. We just go with what the customers need from us. I think if you look at 800-gig, let's say data center 800-gig, there's several players there now. We're one of -- we're the only supplier, let's say, producing our customers' design as a contract manufacturer, but then there are other merchant suppliers there. So, we don't have visibility to the overall. If you look at our overall 800-gig and above number in our numbers, that also includes of course telecom products. So, it's really a mixed bag. I don't think we're necessarily representative of the overall industry because, of course, we don't have all the customers, we don't have all the products.

Mike Genovese: Okay. And then, just finally for me, if I could sneak one more in. Is there -- are you seeing anything with EMLs? Particularly, 200G per lane or even 100G per lane EMLs being hard to get, is that having any impact on either the size or the timing of the 800G market going to 1.6?

Seamus Grady: Yeah, I think it's not a secret. They're very hard to get. The world needs more EMLs, so yeah, they're one of the components that's in fairly short supply.

Mike Genovese: Okay, I would ask one more if I could...

Seamus Grady: Sure.

Mike Genovese: ...as long as I have you. Look, in the beginning of the 800G, there weren't a lot of merchant guys ready yet. So, the start of the 800G was a lot of share gain for Finisar, almost because you guys were the only player in town, the only game in town. I guess, 1.6, everyone has had more of a time to sort of develop on the same timeline, but do you see 1.6 as an opportunity to gain some share, or how do you think that that could play out?

Seamus Grady: It's hard to say. I think it's a little bit different this time around. I mean, for 800-gig, the products were new, the application was new, and I think we were probably sole-sourced for a period of time until some of the merchant suppliers really caught up with the demand. I think this time around it's different. Everyone knows the demand is very real. Plus, the industry -- I would assume, all the merchant guys are working very hard to get their 1.6 offering ready and ready to roll out as well. On 800-gig, I think one of the reasons we were the sole-sourced in the early days was more to do with just, I assume, reducing the amount of complexity and the number of variables in the total network. I think that's probably still the case, but I think as soon as the merchant suppliers are ready to go, I would assume they'll be in the supply chain fairly quickly. So, I think one of the -- it depends on your perspective, but one of the good things about the delay with launching 1.6 is that everyone is ready to go. Our customer is ready to go, the supply base is more ready to go. So, I think more supply overall should see things ramp fairly quickly.

Mike Genovese: I appreciate the straightforward answers and the interesting discussion. Thanks so much.

Seamus Grady: No problem. Thank you, Mike.

Operator: Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Mr. Grady for any closing remarks.

Seamus Grady: Thank you for joining our call today. We're excited that our second quarter results again exceeded our guidance to produce record revenue and EPS for the company. We continue to be very optimistic about our future with several tailwinds driving our growth in the third quarter and beyond. We look forward to speaking with you again and to seeing those of you who will be attending the Susquehanna Virtual Conference later this month. Goodbye.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.