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PRESENTATION

Operator

Good morning, everyone, and welcome to the Ciena Fiscal Second Quarter 2023 Financial Results Conference Call. (Operator Instructions) Please also note, today's event is being recorded. At this time, I'd like to turn the floor over to Gregg Lampf, Vice President of Investor Relations. Sir, please go ahead.

Gregg M. Lampf ***Ciena Corporation - VP of IR***

Thank you, Jamie. Good morning, and welcome to Ciena's 2023 Fiscal Second 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 well as certain highlighted items from the quarter. Our comments today speak to our recent performance, our views 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, a discussion of market opportunities and strategy and commentary about impacts of supply chain constraints on our business and results, are based on current expectations, forecasts and assumptions regarding the company and its markets, which includes 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 we expect to file with the SEC by June 8. 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 allow for as much Q&A as possible today. (Operator Instructions) With that, I'll turn the call over to Gary.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Thanks, Gregg, and good morning, everyone. Today, we reported outstanding fiscal second quarter results, including higher-than-expected quarterly revenue of $1.13 billion, an increase of nearly 20% year-over-year, and adjusted gross margin of 43.7%. Our results included very strong profitability metrics as well, with quarterly adjusted operating margin of 13.8% and adjusted EPS of $0.74. We also generated $230 million in cash from operations in Q2.

Overall, we performed better than expected with respect to revenue in the second quarter and indeed for the first half of fiscal 2023. This was driven largely by the supply chain improving faster than anticipated, which enabled us to ship significantly more product to more customers in recent quarters.

And to help you understand the magnitude of this dynamic, supply chain improvements have enabled us to improve our lead times to customers by more than 50% year-to-date. Consequently, as the supply chain improves and lead times come down, customers no longer need to place advanced orders to secure supply. As a result, and as expected, orders were lower than revenue in Q2.

We are now clearly in a transitionary period, one that is moving from an environment where orders vastly outstrip supply to one where supply and order flow are beginning to come into some kind of balance. Consequently, this is driving a near-term shift in customer ordering and shipment dynamics and behavior.

Previously, we had discussed some pushouts of orders by our cloud provider customers as they reprofile their spend to align with their budgets. In recent weeks, we've begun to see similar behavior by certain of our large North American service provider customers. And to be really clear, customers are not canceling orders. They are pushing some existing orders into subsequent quarters to better align with their budgets and scheduling capabilities. And this is purely a matter of timing. It is not the result of CapEx cuts, rather it is one of operating within their existing CapEx and logistical capabilities. Therefore, we continue to expect to exit fiscal 2023 with a backlog that is at least double our historical levels on an absolute basis.

However, as a result of this transitionary period, as Jim will discuss, we do expect a wider range of potential revenue outcomes for fiscal year 2023. I would also stress that none of the shorter-term transitional supply demand dynamics are in any way a reflection of the durability and strength of the underlying demand drivers in the industry and, of course, our business. But rather, they reflect the transition back to a more balanced supply-and-order environment that is aligned to our annual CapEx spend.

Overall, we are very encouraged by conversations we're having with our customers, which are once again more strategic in nature, addressing how they can meet the growing demands of their networks. And whilst we are mindful of macroeconomic uncertainty, fundamental demand for bandwidth persists as it has done consistently for many years, including through difficult macro conditions.

The key demand drivers behind this are strong and are very durable. These range from continued 5G rollouts and increasing cloud adoption to broadband access and the growing need for more automation. In fact, all of these were strong demand drivers prior to COVID and the supply chain challenges of the past few years and are arguably even stronger today.

And of course, AI could prove also to be transformative for service providers and cloud providers alike on top of these existing dynamics. This is increasingly evident with the recent introduction and surging interest in Generative AI platforms, which are widely expected to be a driver of bandwidth demand over time and creating potential new opportunities, of course, for us.

Critical to supporting this demand are the underlying technologies that deliver optimal and future-proof network architectures for both service providers and cloud providers. We, of course, offer many of these key technologies today. With our traditional portfolio, where we are the undisputed leader across metro DWDM and DCI, submarine and long haul. And we continue to increase our technology lead even further.

With WaveLogic 6, the first and only 1.6 terabit solution becoming available in the first half of next year, we are very excited about the opportunity in front of us, particularly given our plans to integrate the technology across a range of our optical and routing and switching platforms and also to make it available for use in third-party solutions.

Importantly, we've been adding to our diversification and differentiation with an eye towards accretive TAM expansion into faster-growing markets. Our TAM expansion in optical will target the emerging opportunity in coherent plugs and components, including inside the data center over the years to come.

And as you've already seen, technologies to support next-gen metro and edge applications are another focus of our TAM expansion. In this arena, the acquisitions of Vyatta, Tibit and Benu are driving new customer conversations and engagements about the opportunities in virtual routing and broadband access, including PON.

Additionally, we announced the game-changing wave router platform, an industry-first platform architecture optimally designed for the Converged metro, which will come online this year. An expansion of our family of purpose-built coherent routers, this new product has generated significant interest from customers around the world as we aim to disrupt the edge routing market and capture share. And as a reminder, combining these new markets and opportunities with our existing portfolio, we believe our total addressable market grows from something like 13 billion in 2020 to more than 22 billion over the next several years.

Moving to some quick highlights from the quarter that speak to our performance and really illustrate the customer demand for our products. On the portfolio side, in optical, we added 14 new customers in Q2 for WaveLogic 5 Extreme, bringing our total customer count there to 228. And we had another record shipment quarter in Q2 for WaveLogic 5 E, bringing our total of modems shipped to date to 75,000.

In routing and switching, quarterly revenue increased 19% year-over-year. And during the quarter, we secured new wins for our new broadband network gateway from the Benu acquisition.

With respect to customer segments and regions, service provider revenue was up 22% year-over-year, and non-telco revenue was 42% of total sales in Q2. This particularly reflects a very strong performance with the cloud providers, including our only 10% customer in the quarter. Direct cloud provider revenue was also up 20% year-over-year and comprised 22% of total revenue in the quarter. And in fact, direct cloud provider revenue grew 32% period-over-period in the first half of '23. And we continue to expect growth with cloud providers this fiscal year that is above the corporate average, which will reinforce our leadership and market share position with this critical customer segment.

We also continue to drive growth outside of the U.S. In particular, in Q2, Asia Pacific revenue was up 60% year-over-year. This was largely driven by continued revenue growth in India, which was up 88% year-over-year in Q2 to about $70 million, reflecting consistent strong demand from service providers in that market.

In summary, as supply and order flow are coming into balance, providing demand is proving strong and very durable. We are incredibly well positioned with a market-leading set of technologies, including new platform releases that advance our leadership and expand our opportunities.

With that, I will turn it over to Jim to speak more on what we are going to provide additional detail on the Q2 financial results. Jim?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Thanks, Gary. Good morning, everyone. We delivered outstanding fiscal second quarter financial results. Total revenue in Q2 was $1.13 billion, which reflects our ability to ship more product than expected given improvements in component deliveries, particularly toward the end of the quarter. Adjusted gross margin in the quarter was 43.7% due to a favorable product mix.

Q2 adjusted operating expense was $338 million, reflecting continued investment in innovation and R&D, particularly around our WaveLogic coherent technology and investment aimed at several different areas of TAM expansion.

With respect to profitability measures, in Q2, we delivered strong results, including adjusted operating margin of 13.8%, adjusted net income of $110 million and adjusted EPS of $0.74. In addition, we generated $230 million in cash from operations. Adjusted EBITDA in Q2 was $181 million. And finally, we ended the quarter with approximately $1.3 billion in cash and investments. As the operating environment continues to improve, inventory levels came down $80 million from Q1. We expect to continue reducing our inventory levels as we move through the year, which will allow us to return to the consistent level of cash generation we drove before the supply chain disruptions.

We did not repurchase any shares in our fiscal second quarter. We will leverage our balance sheet this quarter to begin to return capital to stockholders again, and we continue to expect that we will repurchase approximately $250 million in shares during this fiscal year.

Turning now to guidance. As with last quarter, the outlook I'm about to provide reflects key assumptions that we detail in our earnings presentation, including those related to supply and demand dynamics. As Gary mentioned, we are currently in a transition period as we move towards an environment where supply and order flow are more in balance with each other. This is driving some customers to push out their requested shipment days.

As a result of all of these phenomena, we are broadening the range of our fiscal '23 revenue growth outlook to 18% to 22%, which reflects a wider range of potential outcomes. I'll just remind you that our previous range had been 20% to 22% for the year. We continue to believe that our adjusted gross margin for fiscal year '23 will be in the range of 42% to 44%.

With respect to OpEx for the fiscal year, we now expect it to be approximately $1.33 billion, slightly higher than we last projected as we continue to see opportunities to invest for TAM expansion. For the fiscal third quarter, we expect to deliver revenue in a range of $1 billion to $1.08 billion and adjusted gross margin in the low 40s range. Finally, we expect adjusted operating expense in the quarter to be approximately $335 million.

At this rate of revenue growth, we will deliver significantly higher than market growth and continue to take share. Our business has never been stronger, backed by strong demand characteristics and the best set of customer relationships in the industry. We are well positioned to expand our addressable markets for future growth opportunities in other markets over time.

Of note, we expect tailwinds as we bring new products to market, including WaveLogic 6, WaveRouter and several solutions stemming from the acquisitions we've made over the last couple of years. We are incredibly confident in our business and in the future demand for networking products, services and software.

But before we move to questions, I would like to announce that we recently published our new sustainability report. This report details our commitment to sustainability and provides our stakeholders a comprehensive discussion of our programs and the great progress we have made as a company on sustainability. If you'd like to read the report, it is available on the Sustainability pages of our website or you're welcome to e-mail our IR team, and we will send you a PDF copy.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Simon Leopold from Raymond James.

Simon Matthew Leopold ***Raymond James & Associates, Inc., Research Division - Research Analyst***

I want to start out with the WaveRouter announcement. You talked about, I think, general availability this year. I'd like to get a sense of when you think about revenue recognition for that product and how we should sort of think about weaving that into the model? I appreciate you're not guiding to fiscal '24, but I guess I'm just looking for some hints as to how to think about contributions to expect from that next year.

Scott Alexander McFeely ***Ciena Corporation - SVP of Global Products & Services***

Yes, Simon, it's Scott. First of all, you have an announcement that was sort of aligned with the MPS Rural Congress. First of all, we got tremendous reception from the customer base with the announcement at the show and lots of press available on that.

I will remind you that it actually is a part of our broader wave-routing family, so it's a continuation of filling out that capability set. You were bang on the general availability of the product is later this year. Revenue expectations would start flowing in 2024. Obviously, we knew this was coming. So it was part of our overall 3-year growth rate that we gave you historically. That was in our thinking there.

Simon Matthew Leopold ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Great. And just as a quick follow-up. Love to get kind of an update on where the India progress is. I know historically, on a small revenue base, it peaked around 9% of revenue. It looks like it was 6% or 7% of revenue this quarter. How should we think about the cadence of the India business for the balance of the year?

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

I would expect it to continue to be strong, Simon, both in the second half and as we get through '24. I think there's a -- as opposed to the rest of the industry, which is not particularly cycle-based, I think India is going through a big cycle of 5G rollout and extension. And I think that's going to happen over the next 1 to 3 years. I would -- and we have #1 market share there across a large number of carriers. So we're very enthusiastic about that market for the next 1 to 3 years.

We're seeing growth, both in the expansion of rollout of 5G but also, again, putting broadband out into some of the larger areas as well. So I think we're very bullish about the Indian market. What that can be as a percentage of our revenues, tough to tell because the rest of our business is growing well, too, including the cloud players. Cloud players are also playing a big part in India. I would also say that both in the submarine elements to it and obviously directly via carriers into the India market. It's the fastest-growing Internet market in the world right now.

Operator

Our next question comes from Tim Long from Barclays.

Timothy Patrick Long ***Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst***

Yes, 2, if I could. First, Jim or Gary, can you just give us a little bit more color on kind of the order book-to-bill backlog drawdown in the quarter, just so we can get a sense of how we're working down that balance? And maybe related to that, I guess there's no way to use other backlog to fill in holes. It looks like the second half was lowered a little bit, so maybe a little bit on the fungibility of that backlog. And then I have a margin follow-up.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Yes, Tim. Backlog went down by roughly $600 million. It's about [$3.5 billion]. Remember, we said that our backlog at the end of this year will be roughly double our sort of historical backlog at the end of the year. So we did expect and we continue to expect a decline in backlog. And remember, that's mainly because lead times are down, customers no longer have to order so much advanced gear. So all of this is in keeping with the general situation in the industry.

Timothy Patrick Long ***Barclays Bank PLC, Research Division - MD and Senior Technology Hardware & Networking Analyst***

Okay. Great. And then the -- on the gross margin, could you just -- obviously, there's a lot of mix shifts. I think you had talked about some new network construction coming, which is lower. But can you kind of walk us through the moving parts and as you gain back some margin from supply chain, logistics, et cetera, how would that balance over the next year or so?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

On the supply chain dynamics, we said last year that we thought that the exception costs, meaning the cost we pay to brokers to buy components as well as the higher logistics costs, were roughly $150 million to $160 million last year, 4 million -- 4% or so gross margin hit last year. This year, we said that, that's going to come down to sort of 200 basis points or something like that in gross margin. So all those conditions are getting better. I'm not sure what it's going to be next year, but we think over time, those exception costs are going to return to historical levels, which were essentially in the single-digit millions of dollars. So that's going to happen, might not happen all next year, but it will happen over the coming years.

The other -- but the other thing I'd say is that the driver for our gross margins historically has always been product mix. That's been the single largest component of swings in gross margin. Typically in the past, when we put out new line systems, which are low capacity in terms of capacity to deliver bandwidth demand, those are lower gross margins. And as we add capacity, adding modems to the systems, those are higher gross margin, and it's the mix of those 2 that determines, in large part, our gross margin. Of course, routing and switching software tends to be a little higher overall, and so that helps. As those grow as a percentage of our business over time, we think that will add to our gross margin.

We also said this year that we're having a particularly heavy mix of line systems, and that is impacting our gross margin this year. So all of those things are working together to produce the 42% to 44% that we expect in gross margin for this year. Over time, we think we'll get back to the mid-40s, maybe even better.

Operator

Our next question comes from Amit Daryanani from Evercore.

Amit Jawaharlaz Daryanani ***Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst***

I guess maybe to start with, you folks are talking about a broader range of outcomes in the back half. And I think the way you kind of talked about, it was -- it's pushouts of deliveries that you're seeing with North American service providers. Is that the extent of where you're seeing these delivery pushouts? Or could you maybe talk about are you seeing it elsewhere? Or do you think there's risk that it spreads to other geos or other submarkets as well?

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Yes. Thanks, Amit. It's very specific to North American Tier 1. And as I said in the earlier remarks, we saw that with the cloud players fairly early on, where it really, I think, is the ability. Those 2 sets of customers, both the cloud players and North American Tier 1, we're in a position to place larger forward orders given the supply chain challenges. We did not see that dynamic, particularly internationally, for example. We did not see that phenomena or really in a lot of Tier 2, Tier 3 players in North America. So we think it's really isolated to those 2 groups.

The cloud ones, we saw that earlier on, and that's all reprofiled and now rolling out. And you're seeing the strength -- notwithstanding that, you're still seeing the strength of the cloud players increasing their revenues this year. So this is really North American Tier 1 players.

And I would say a couple of things. It's a confluence of elements. It's -- all of this stuff is suddenly coming out. And not just our equipment, but the broader sort of general technology industry. The supply chain challenges have been ameliorated, and they're all kind of coming at once to them. And these carriers are dealing with both alignment to budgets, the logistical aperture that they have and deployment and absorption. So it's understandable, much the same as we saw with the cloud players that they're balancing this out. We are not seeing cancellations with them. I would also say, we really haven't had any conversations around this being a macroeconomic caution. It's really one kind of to be expected around the whiplash effect of supply and demand.

Amit Jawaharlaz Daryanani ***Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst***

Got it. That's really helpful. And maybe if I can just kind of follow up on this a bit. Kind of let's say, the magnitude is $80 million, $100 million, I think, something thereabout from this push out basis, do I just think about this as this is just something that's going to flow into fiscal '24 for you? So essentially the way you still end up with the revenues, but maybe growth is a little lower than what you thought, but a lot smoother with the extended duration? So I guess, maybe just talk about does this just flow into '24? And does that just imply that growth rates will be more steady as you go into the out years?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Well, clearly, some of this is moving to '24. I wouldn't -- right now, I wouldn't do anything to change our call for '24. I wouldn't suggest that you changed your numbers for '24. We think '24 is going to be very strong for us, by the way, because we see the demand from our customers, and we have the opportunity to take some of that expanded TAM. So it's going to be a good year. But I wouldn't just sort of take the -- whatever number you're projecting that we -- I'm not going to deliver this year and add it to your call for next year. I don't think that's the right way to think about it.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

But to your point, Amit mean, I do think it should give us greater visibility into next year. And if that -- if we play that dynamic through, we're still going to enter the year with sort of double what our backlog levels would normally be. So I think this transitionary period will be -- as we start to exit the year and things get more into balance, then I think we get into a more normalized set of dynamics around order and delivery and shipment. But I do think we're going to have better visibility into '24 as a result of this scheduling.

Operator

Our next question comes from Alex Henderson from Needham & Company.

Alexander Henderson ***Needham & Company, LLC, Research Division - Senior Analyst***

So just a couple of quick clarifications. What do you think the normal backlog is that you're going to stabilize around? And how is that going to be different from where you were prior to the supply chain pressures? I think it's probably a little longer than normal historical.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Well, it's hard to make an exact prediction of where our backlog is going to end up, because it will depend upon 2 critical variables. One is where our lead times are; and second, what customer behavior is with respect to lead times and how much security they want to have in terms of making their demand visible to us.

If you go back historically, our backlog into the year for many years was roughly 1/3 of the coming year's revenue, roughly 1/3. Now as we came into this supply chain situation, and we had massive orders -- extended orders and extended lead times, it went up to something like 65% of our expected revenue for '22 and 90% of our revenue -- expected revenue for '23. We think that it's going to go back down towards that 35% of expected revenue. But it might not go all the way down, because our lead times might not be quite as short as they were in the past and customers may choose to give us advanced orders. So it's hard to know. But we're going to have probably a higher backlog at the end of this year than we will as the situation totally gets back to something approaching normal.

Alexander Henderson ***Needham & Company, LLC, Research Division - Senior Analyst***

And then -- so you talked about the optical line systems being a larger percentage of sales this year than normal. And I assume that, that's also the case with your backlog. But when you sell optical line systems almost invariably, that turns into additional future sales of optical transmission components. So can you talk about whether that additional capacity to widen up the optical line systems is in backlog? Or is that something that we should expect once these are delivered, once they're installed, once they're put in with the ROADMs that we start to see those additional orders coming in for the high-margin transceivers?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

You are exactly right. We do tend to get higher orders for the capacity after a period of time, during which, we put out line systems. So yes, that does happen.

As far as whether that's in backlog now, some of it is. I mean, a customer is going to give us a set of orders that consists both of the line systems and the capacity to add. But the bulk of it is not. The bulk of it will come over the coming years.

Alexander Henderson ***Needham & Company, LLC, Research Division - Senior Analyst***

So that implies that there is a time lag from the time the order comes in or that's installed to the new orders for transceivers? And what is that lag? Is it -- is that a '24 new order opportunity?

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

It varies tremendously between customers. Some large customers place the line systems out with a small amount of capacity in it, then that gets layered in after that. Submarine cables tends to be higher initial deployments. For example, they tend to put more capacity out there from day 1, where terrestrial, I'm really generalizing here, tends to be less capacity to it. But it also varies quite a lot from customer to customer and their varied approach. I think the kind of good news from all of this is we're laying a lot of future track in our business with a lot of new build-outs around the world. So we're very encouraged by the new builds that are going on there, but the mix does vary.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Yes.

Operator

Our next question comes from George Notter from Jefferies.

George Charles Notter ***Jefferies LLC, Research Division - MD & Equity Research Analyst***

I guess I wanted to ask about product lead times. I think you guys mentioned that they're coming down quite a bit. Can you just talk about lead times? Where are they now? Where have they been historically? I'm just curious on the viewpoint there. And then also, is there a possibility that customers are building up excess inventory here, where they've been building big buffers and over ordering? And now the time is they're working off those buffers? Or what's the perspective?

Scott Alexander McFeely ***Ciena Corporation - SVP of Global Products & Services***

Yes, George. On the lead times, obviously, if you resonate with the fact we have a very broad portfolio. So mileage may vary a bit from product to product. But in general, what we said going into the year, our lead times were normally around 52 weeks. As we said in the script, we've cut that by more than half year-to-date, and we would expect to continue to improve that as we go through the rest of the year.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

George, on the second question around excess inventory, I'd add a couple of -- I'd place a couple of comments to that. One, I think really, what we're talking about is the cloud players on the North American Tier 1s. I think it's fair to say they were both in a strong position to -- when lead times really began to move out, they were fairly aggressive around securing future orders.

Now when all of that comes together at the same time and our lead times come down significantly, as Scott talked about, we're turning up with the truck and their ability to absorb all of that, both from a budget point of view in that particular period and from a logistical point of view is sort of challenged. Whether you call that excess inventory, now it's tough to tell. But clearly, they're not able to absorb the equipment all in one hit like that.

So we saw that reprofiling with the cloud players. And we're seeing that reprofiling and rescheduling with the Tier 1s. But frankly, that's kind of to be expected given the whiplash that has gone on here. But I think we've now got pretty good visibility with that from a profile point of view. And it's sort of, I think, part of the normalization process that we're going through is the supply chain lead times have come down.

George Charles Notter ***Jefferies LLC, Research Division - MD & Equity Research Analyst***

Are your lead times still longer than your competitors, just out of curiosity?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

We don't think so. By the way, any competitive (inaudible) as customers and ship, we're kind of ahead of others. We tend not to do that. We tend to play it fairly right down the middle (inaudible) serve. But competitors can prioritize certain customers if they choose to, and it could appear in limited circumstances that their lead times are long or shorter now. But as a general, we don't take longer.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Well, I think the other sort of point, just to underline that is, you look at our revenue growth, even the bottom end of our range. You took an 18% growth. I don't know any other optical player of our size and scale that's doing that kind of piece. So we're clearly taking market share.

Operator

And our next question comes from Samik Chatterjee from JPMorgan.

Samik Chatterjee ***JPMorgan Chase & Co, Research Division - Analyst***

I guess if I can start with the orders, I think the -- just the rough math indicates your orders last quarter were about 900 million, then moderating to about 500 million. But it's largely a function of lead times coming in. Is there a bit more visibility in terms of when the orders start to stabilize on a sequential basis? Just -- and maybe if you can share any insights in terms of what have been the early order trends in the quarter were. When do you think the stabilized as lead times sort of the duration of the order book becomes more consistent going forward? And I have a follow-up.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Well, the first thing I'd say is that if you just run the math on our comments around backlog, we do expect that orders will be a bit lower than revenue for each of the next 2 quarters, most likely. Now who knows, as we approach the end of the year, sometimes customers start to order in advance and so that might change our view. But if you just take the rough math over the next couple of quarters, we do think that orders will be less than our revenue.

Now as we go into next year, we think that orders will recover. We can't give you a date on that precisely. But underlying demand for bandwidth is continuing to grow. All of our conversations with our customers show that the market will continue to grow. We've gone through a very tumultuous time with respect to lead times and availability of supply and orders, and all those things have gone through enormous change. It will begin to get back towards a more stable environment sometime next year in terms of their ordering patterns and our backlog.

Samik Chatterjee ***JPMorgan Chase & Co, Research Division - Analyst***

Okay. Got it. And for my follow-up, if I can ask you to sort of dig into the service provider timing sort of issues that you're seeing a bit more in North America. I mean, is it more of delays of complete projects that you're seeing from them? Or is it more of a downsizing of how much capacity that they're looking to deploy? And if you can compare it to on a related magnitude, how much of a push out are you seeing greater to the web scalers that you had highlighted the issue with last quarter.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

I would say that it's largely the larger North American Tier 1 players. It's more about their ability to absorb and deploy and deal with logistics with all of this stuff coming at a given point. It seems like the supply chain is really resolving fairly quickly, and that's across not just our industry, but a number of other technology industries that they deal with. And so across their whole supply chain, they're really seeing a high influx of equipment and products, and they're having to manage that, both from a logistic point of view, a budget point of view, a deployment point of view, all those various elements. And it's still going to be up year-over-year because they need the kick, but their ability to actually absorb and schedule all of that is obviously challenging for them at any one given point in time.

But if you look through all of that, you look at pretty steady growth. And in fact, even if you drew a line pre-COVID right to the end of the year, depending on what your assumptions are, you're looking at very good growth within the North American Tier 1 carriers with us. And even if you look through this rescheduling, you're still seeing very healthy growth this year. And obviously, the cloud players, we're saying is actually going to grow faster than whatever we end up with our corporate average as well. So it's a healthy environment. They're just dealing with this transitional period on the supply and demand dynamics.

Operator

And our next question comes from David Vogt from UBS.

David Vogt ***UBS Investment Bank, Research Division - Analyst***

I had a near-term question and then maybe a longer-term question. I think midway through the quarter, you announced that, obviously, you were going to make the quarter. You weren't affected by some of your partners sort of variable -- variability in their numbers. But I think I also heard Jim say that improvements in components late in the quarter really drove sort of the upside. So can you maybe just help us understand how the quarter is tracking from a linearity perspective? And was the upside in the quarter, I guess, in the third month?

And then I'll give you the second one as well. From a long-term perspective, I think I also heard Jim talk about, expect the fiscal '24 to be a relatively strong year as well. I would imagine that would mean -- I would take that to mean that's above the longer-term average in the growth of the optical industry and your ability to take share. If that's right, I'm just trying to think, does that mean we get back to a more normalized cadence in the out year, let's say, call it, fiscal '25, where we're no longer in this transitional period?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Yes. The thing I'll remind you, you, David, and others, is that the supply of components and the constraints on supply components particularly affected us in our ability to deliver modems, which are capacity units and are typically higher volume. That has been the most significant constraints as well as we experienced the highest degree of volatility and variability in delivery of those components.

What's happened is that we have now come to a point in time where the volumes of deliveries of those components and the timing is approaching normal. And when I say timing, I mean relative to expected dates, the lead times are still a bit extended. But we're getting the components that we order now on time and in the volumes that we ordered. That was not true for any of the last 6 or 7 quarters. But in this most recent quarter, we still had an experience where we -- our estimate as to what we would get in terms of these modem components was less than what actually came in. It did come in, in the last month of the quarter. And we -- and so consequently, that drove a revenue upside and a bit of a margin upside, to be honest with you. We don't expect that to reoccur because, as I said, now these component suppliers are delivering per their lead times and in the volumes that we order. So that's what I'd say about the quarter.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

David, in terms of your question about '24, obviously, it's way too early for us to give a guide for '24. But as Jim said earlier, given the dynamics that we're seeing, we feel very positive around that. We're obviously going to go in with a strong backlog, good visibility to North America and cloud players into the first part of '24. That's for sure. We're seeing very good engagement around pipeline and demand for '24. And obviously, we've got a lot of new products and technology coming into market, WaveRouter, et cetera, WaveLogic 6. We've got all of the PON stuff that's coming through. So we do feel that it's going to be a strong year in '24.

Operator

Our next question comes from Tal Liani from Bank of America.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

What is the risk of cancellation of backlog? Given that we're seeing pushouts, where is the border line between the pushout and a constellation of order? And the second question is, can you give us the -- what are the differences in the trends you're seeing in terms of pushouts, the trends you're seeing with cloud versus service providers versus cable? Are these all the same? Or are you seeing different trends in each one of them?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Tal, I'll take a stab at it, and Gary will probably chime in as well. There's a clear line between the cancellation and a pushout. Cancellation means that they take the order away from us. We're not seeing that anymore. As you'll recall, we did see a bit of that at the end of last year, but it was a trickle. And we really haven't seen much in the way of cancellations.

What we're seeing is pushouts. What they're saying is they want the gear and they wanted it -- but they want it at a later date. So that's what I'd say. It's a very clear line, not question at all. And I'd also say this, as they're looking at their needs and what they've already placed, they certainly have the opportunity to cancel these orders if they wanted to. We're not seeing it. They didn't do it. They pushed it out. They want the gear.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

And in terms of the segmentation, Tal, in there, I think we saw this phenomenon happen with the cloud players a little bit earlier. They're all reprofiled and playing through. We've got good visibility to the second half and for the first half of '24, and we're involved in their projects.

North American one is a bit more of a recent phenomenon with them as we've now sort of improved lead times to them. I would include some of the larger cable players in there as well, to your point. When I talk about large North American Tier 1s, I would actually include the larger players in there as well. And we're seeing the same phenomenon with them.

Operator

And our next question comes from Michael Genovese from Rosenblatt Securities.

Michael Edward Genovese ***Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst***

First question, I just wanted to double check some of this backlog math. I thought that backlog was over $4 billion at the end of 1Q. So if it came down by $600 million, it should have been about $3.5 billion? And I just can't -- I didn't hear earlier whether that was the number you gave.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Yes, that's the number we gave.

Michael Edward Genovese ***Rosenblatt Securities Inc., Research Division - Senior Comm and Cloud Infrastructure Analyst***

Okay. Perfect. So none of it did disappear. So that's good. So then, I guess my real question is, is broadband and strategy in terms of fiber to the home, could you just talk to us a little bit more about that? And I'm particularly interested in what types of carriers, what tier of carrier, what geographies you think you'll have the most success with there?

Scott Alexander McFeely ***Ciena Corporation - SVP of Global Products & Services***

So Mike, our clear strategy on the broadband piece is to go after, I'll say, the next-generation technology as a wedge of opportunity in the marketplace, specifically 10-gig, next-generation PON and above, and not chasing sort of the legacy-gig PON or other technologies there. So that was the motivation for our acquisitions of Tibit and Benu.

In terms of the market traction, we are seeing it actually across the board in terms of examples of Tier 1 service providers that have a very broad broadband access business today to some of the smaller municipality types that are chasing the world of broadband opportunities, but also the cable cos that are looking at when they'd be on their existing footprint, building out fiber versus their DOCSIS approach. So it's sort of pretty broad brush in that sense, but it is an interception of sort of a next-generation technology.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

And if there's anything I'd add to that is, Mike, we are seeing that in a lot of different places around the world. There's a lot of countries really having various broadband similar to exactly, as Scott sort of described, in different parts of the world. So it is really a global opportunity.

Operator

And our next question comes from Meta Marshall from Morgan Stanley.

Meta A. Marshall ***Morgan Stanley, Research Division - VP***

Maybe just is there any more trends on the pushouts? And just whether they're kind of specific regions or new markets or lower speed maintenance purchases that maybe they feel like they have enough or the higher speed refreshes? Just trying to get a sense of are there any trends as to kind of what orders are getting pushed out more than others. And then maybe a second question for me. Any changes you've seen so far and just kind of the makeup of the cloud architectures as some of the Generative AI traffic starts to change traffic patterns within the data center?

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Meta, why don't I take the first part of that. I would say, it's not specific to any particular architectural part of the network. It's really about they placed forward orders. They didn't know exactly when they were all going to arrive. They're sort of all arriving in a very tight time frame, and it's just purely their ability to deal with that, both from a budget point of view, a CapEx point of view and from a logistical point of view. Think deployment, warehousing, et cetera. So it's not specific to any PON or metro or long haul. It's really impacting all of their projects. And they're trying to prioritize certain projects and certain things that they're working, but there's no commonality of that. I think we've looked through any of the carriers. It's purely a high level logistical budget issue as a result of the sort of the whiplash. So there's no really refined firm around the actual elements that they're reprofiling and rescheduling.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

We believe it's an incredibly exciting technology. And with Generative AI coming to play, it's certainly going to change the world. There's no doubt about it. Now the first part of the world that's going to change is inside the data center, because the demands for compute are growing -- will grow at astounding pace. And that will certainly rub off onto our business over time. But we -- I can't say that to date, we've seen any effect on orders or customer behavior with us. It will, though.

Operator

And our next question comes from Greg Mesniaeff from WestPark Capital.

Gregory Mesniaeff ***WestPark Capital, Inc., Research Division - Research Analyst***

I was wondering if you can just quickly touch base on your software business, Blue Planet specifically? I guess that's been kind of pushed to the back burner. And if any of that technology can be reincorporated or repurposed or included in some of your new product offerings, including WaveLogic 6.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Thanks, Greg. No, I understand, given all the supply chain challenges over the last sort of 18 months or so, we haven't talked too much around our software business, which continues to do well. We are taking various elements of that whole automation strategy and putting it in products like MCP, which we've now really pretty much got all of our major customers around the world taking, where we can then put applications on top of that. So we're parlaying that micro services type automation architecture across the portfolio. We're also putting automation into our line systems as well and the most intelligent line systems in the world. And so we very much see automation as a key thread throughout all of our portfolio.

Scott Alexander McFeely ***Ciena Corporation - SVP of Global Products & Services***

And a very specific example of that technology reuse, if you look at what we've announced in our wave-routing family, one of the key attributes of that is to be able to manage a multilayer network in our customer domain. There's key technology in the Blue Planet family around that, that if you're familiar with the portfolio, it's the rollout part of the portfolio, which we have used and integrated into our MCP platform to provide that multilayer administration, which is a key stumbling block for our customers to actually be able to recognize convergence.

Gregory Mesniaeff ***WestPark Capital, Inc., Research Division - Research Analyst***

And a quick follow-up. Can you give us an update on the Huawei replacement time line, both in the U.S. and elsewhere in the world?

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

Yes, Greg, I would say, in the U.S., it continues to roll out, particularly -- now they didn't have a lot of long-haul networks. It's relative small. You've got some broadband stuff, but again, relatively small. We're involved with most of that are customers of ours, so that's playing through.

In Europe, I think that's a longer -- it was a larger installed base. And that takes longer to play through. I still think that's going to take, even on the transport infrastructure side, probably in next 1 to 3 years. Obviously, we're winning more than our fair share of that play out. But to take transport -- embedded transport equipment out of the network is a nontrivial thing and is very expensive for these carriers as well. So that journey continues on the whole Huawei replacement.

In other parts of the world, it happened very quickly. India being a case in point, that sort of happened -- and it's got a little more to finish up, but happened over an 18-month to 2-year period. Europe, I think, is going to be a much longer tail than that.

Operator

And our next question comes from Dave Kang from B. Riley.

Unidentified Analyst

First, just a clarification is that did you reiterate or reconfirm next 3-year CAGR of 10% to 12%?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

We haven't said anything about next year recently. We think it's going to be a great year. We haven't changed anything about our views for the coming years.

Gary B. Smith ***Ciena Corporation - CEO, President & Director***

We would typically operate -- update our long-term CAGR at the end of this fiscal year.

Unidentified Analyst

Got it. And then regarding your backlog before in recent quarters, I believe you said most of your backlog was for immediate shipments. What is the current mix now?

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

For immediate shipments day, is that what you asked?

Unidentified Analyst

Yes. Yes.

James E. Moylan ***Ciena Corporation - Senior VP of Finance & CFO***

Yes. Well, what we said is this, historically, we operated on kind of a just-in-time ordering pattern by our customers and the delivery to them with lead times of 4 to 6 to 8 weeks. That was the way the business works. The supply chain disruptions have changed people's views about the amount of inventory they want to hold. Lead times are probably not going to get back down as low as they were. I'd say that guardedly because I'm not sure. And customer behavior is going to revert closer to what it was, not necessarily all the way to where it was in terms of a just-in-time ordering pattern. So that's what's going on.

We have a fair amount of orders in our backlog, which are for '24 deliveries. Now most of those are early '24 deliveries, but we have those today. And those are -- with longer, in most cases, than our backlog because customers still want to give us visibility to their demands outside of our lead time. So that's what's going on. And I think it will revert closer to the old model. It might not get back down to that just-in-time model that we used to operate on.

Gregg M. Lampf ***Ciena Corporation - VP of IR***

We've reached the end of our time. We appreciate everybody joining us this morning, and we look forward to seeing several of you on the road over the next few weeks. For those we don't see, have a great summer, and we'll talk to you again in a couple of months.

Operator

Ladies and gentlemen, that will conclude today's conference call and presentation. We thank you for joining. You may now disconnect your lines.