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DZSI - Q3 2018 DASAN Zhone Solutions Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the DASAN Zhone Solutions, Inc. Q3 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Pei Hung, VP of Finance and Investor Relations. Ma'am, you may begin.

Pei-Hua Hung - *DASAN Zhone Solutions, Inc. - VP of Finance & IR*

Thank you, operator and good afternoon, and thank you for joining us on our third quarter 2018 earnings call. Joining me on the call today are Yung Kim, Chief Executive Officer; and Mikhail Golomb, Chief Financial Officer. This afternoon, DASAN Zhone Solutions issued a press release announcing the results for its third quarter 2018. If you would like a copy of the press release you can access it online in the Investor Relations section of the company's website, www.dasanzhone.com.

During the course of this call, we will refer to forward-looking statements based on our current expectations. These statements are subject to risks and uncertainties. Factors that could cause actual results to differ are detailed in our 8-K filed today, and in our other SEC filings. The company undertakes no obligation to update or revise any forward-looking statements.

Please also note that certain financial measures we use on this call are expressed on a non-GAAP basis. We have provided reconciliations of these non-GAAP financial measures to GAAP financial measures in our earnings press release.

Finally, note that our Q3 2018 results and forward-looking guidance are provided under ASC 606, which we adopted on January 1, 2018, on a modified retrospective basis.

With those comments in mind, I would now like to introduce Yung Kim, CEO of DASAN Zhone Solutions. Yung?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Thank you, Pei, and thanks to all of you for joining us this afternoon. I'd like to begin by discussing our third quarter result and then provide an update for our recently announced acquisition, KEYMILE. We reported better-than-expected results in the third quarter. On the revenue side, we grew our revenue in the third quarter to USD 71.9 million, which represent 8.2% year-over-year growth and was at the midpoint of our guidance. In addition, our GAAP gross margin of 32.6% exceeded our guidance of 32%, while adjusted operating expenses of \$18.7 million came in significantly better than our guidance of \$20 million. For the first 9 months of the 2018, our revenue totaled \$207.7 million, or grew 16.6% year-over-year. We are pleased with this revenue growth as it demonstrate we have many growth shoots in our business. We continue to benefit from our acceleration



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in fiber rollout throughout the world, and believe that we are in middle of a robust \$10 billion-plus multi-year investment cycle for fiber-to-the-home. Our fiber-based broadband access product portfolio is ideally aligned with these strong macro trends. We have seen encumbered telecom operators in some markets completely migrate their legacy customers to fiber with higher speed, triple play bundles, even non-telecom providers such as local municipalities and the co-ops. Utilities and other alternative ISP providers are investing in fiber-based achieve on technology, which we believe provides a future-focused technology option available at significant OpEx and CapEx savings to legacy copper, given the significant bandwidth capacity from fiber deployments. We are equally excited about both new product introductions and new customer wins announced this quarter that will be additive to our core growing broadband access business. As an example, we are seeing strong customer response to our new end-to-end 10G PON in OLTs and ONTs. One of our strengths is our product leadership into operability. As service providers look to extend the use of their existing technologies and advanced their networks with next-generation 10G PON broadband solutions, we play a critical role in bridging their existing investments, while providing next-generation offerings.

As an example, we are able to fit into their existing portfolio as we offer one of the largest interoperability feature set in the industry, and offer a broad selection of interoperable gateways.

In the quarter, we won a significant contract with LGU Plus to provide our carrier-grade M3000 ultra-low latency switches to be deployed in the first commercial 5G wireless network in the South Korea market. We think this opportunity, although not in our public forecasts, can be translated into what we would consider a tens of millions type of revenue opportunity in the next 2 to 3 years with further upside as we cross-sell this M3000 offering to a broader set of our customers in other regions.

While there is significant growth with just the 5G mobile backhaul use case, we see product extensions from our core office infrastructure segment into the metro network. We are confident we can offer freedom of choice to a broad set of customers that may not have considered us for their metro network portfolio, including WAN switch use cases. We can easily adopt this carrier-grade switch into a broad set of environments to deliver the same experience of load latency, capacity and performance to other applications. Lastly, I want to touch on the introduction of our Whole Home WiFi this past quarter. We believe this offering can benefit our service providers as it increases ARPU, provides cloud-based analytics and improve service delivery through manage the Wi-Fi delivery tools. The Whole Home WiFi offering also plays strategically into our broadband freedom of choice message as our offering will support other third-party CPEs. Now let me spend some time discussing our KEYMILE acquisition, which we announced in early October for a cash purchase price of EUR 10.25 million. KEYMILE is a strategic acquisition for us. That provides significant customer and geographic synergies as well as efficiencies through people, technology and manufacturing. On the geographic and customer side, we believe in think global, act local in our go-to-market approach. It has worked well with our own diversified base of Tier 1 carriers in Asia and the Middle East, as well as Tier 2 and Tier 3 carriers and alternative providers in North America and Latin America. As such, KEYMILE will be an important part of how we grow our geographic and customer footprint in Europe, Latin America and other markets. KEYMILE brings a base of over 160 active customers comprised primarily of Tier 1 and Tier 2 service providers across 31 countries. On the product side, we can tailor our broadband solutions based on fiber to complement the strong copper offering from KEYMILE. KEYMILE offers ultra-fast broadband copper access based on CDSL factoring and the G.fast technology. On the people and technology side, we can leverage KEYMILE's world-class European design center and R&D lab, which complements our own R&D centers in the U.S., Korea and Vietnam. On the manufacturing side, we benefit from increased scale from a material sourcing purchasing perspective. We can also leverage additional production capacity and flexibility with this centrally located European manufacturing hub to complement our existing U.S. and Asian productions. In summary, we are excited that the acquisition of KEYMILE will help us capture broader global market opportunities in the years to come. We also believe that our own organic growth opportunities are significant, and we are driving innovation throughout increasing the software and service-led offerings, which should position our company to see continued long-term success.

I will now turn the call over to Mikhail, who will discuss our quarterly financial results in more detail. Mikhail?

Mikhail Golomb - DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary

Thank you, Yung, and good afternoon. Today, I will speak about our third quarter 2018 results and discuss what we are seeing for the fourth quarter 2018, as well as provide an outlook for the full year 2018 revenue. We last provided you with a guidance regarding the Q3 2018 quarter on August 9. In that guidance, we called for Q3 2018 revenue to be between \$70 million and \$74 million, a GAAP gross margin of 32%. Adjusted operating expenses, which exclude depreciation and amortization, stock-based compensation expenses, acquisition-related expenses from the KEYMILE



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acquisition of \$20 million for the implied adjusted EBITDA range of between \$2.4 million and \$3.7 million. I'm happy to report to you today that relative to that guidance, our actual revenue for the third quarter came at the middle point of the guidance at \$71.9 million, which is up 8.2% year-over-year, which we consider to be a solid growth quarter in spite of the exceptional strong year-over-year growth we experienced in the prior quarter. As you may recall, we saw a 27% year-over-year growth in the second quarter 2018, due primarily to significant contract in India. We saw particular strength in the Middle East and in our Asia Pacific markets, with especially strong customer activity in Southeast Asia. Overall, the North American market was softer at \$12.3 million of revenue compared to \$14.6 million in the prior year period. International markets grew 15% year-over-year to approximately \$59.7 million of revenue from \$51.9 million in prior period. In the September quarter, we generated approximately 83% of our revenue outside of North America. Asia Pacific inclusive of Korea and Europe, Middle East and Africa contributed approximately 59% and 14% of Q3 revenue respectively.

Now turning to the gross margin. Positively our gross margin of 32.6% came in above our gross margin guidance of 32%. Even though we had a smaller North American business which tends to see the highest gross margin. We benefited from continuing manufacturing efficiencies as well as the rollout of the APSFL contract in India, which while profitable was below our typical customer margin profile due to the initial ramp-up costs and initial product mix associated with contract in Q2 2018.

In Q3 2018, total non-GAAP adjusted operating expenses were \$18.7 million, which came in significantly better than our guidance of \$20 million. Moreover, on a year-over-year basis even with revenue growth more than \$5.5 million from Q3 2017 to Q3 2018, we managed to reduce our total non-GAAP adjusted operating expenses by \$1.3 million this quarter as compared to \$20 million for the third quarter 2017. On a quarter-over-quarter basis, we've reduced total non-GAAP adjusted operating expenses by approximately \$1 million from \$19.8 million in Q2 2018. The difference between GAAP versus non-GAAP operating

(technical difficulty)

Expenses in Q3 '18 was due to depreciation and amortization expenses, stock-based compensation expenses and acquisition-related expenses from the KEYMILE acquisitions. On a non-GAAP basis, our adjusted EBITDA for the third quarter '18 was \$4.4 million, reflecting a margin of 6.1%, which is also exceeding our previously provided guidance range of between \$2.4 million and \$3.7 million, benefiting from a strong revenue growth and decrease in operating expenses.

In the third quarter 2018, GAAP net income attributed to DZS was \$1.8 million or \$0.11 per diluted share as compared to the net income of \$1.4 million or \$0.09 per diluted shares for the third quarter of 2017. More importantly, for the first 9 months of 2018, we generated net income attributed to DASAN Zhone Solutions of \$3.3 million or 20% per diluted shares, which reflects solid year-over-year improvement over the first 9 months of 2017, which saw a net loss of attributed to DASAN Zhone Solutions of \$3.2 million or \$0.19 loss per diluted share.

In summary, our solid financial performance over the past 9 months this year, in terms of both strategically plan global long-term revenue growth and well-managed OpEx are now beginning to bring proper results to the bottom line and ultimately to our shareholders.

Now turning to another topic at hand, I would like to address the KEYMILE acquisition. Much likely transformational merger of DASAN and Zhone 2 years ago, this acquisition represents an attractive opportunity to grow in markets where we have -- historically have smaller footprint and to build on the momentum in our business. We will execute to the same prudent playbook around sustainable, profitable growth and continue to be a good stewards of capital with the KEYMILE acquisition. Total consideration for this acquisition is EUR 10,250,000 in cash with closing. The transaction is expected to close by the middle of December. Subject to regulatory approvals in Germany, specifically getting foreign trading regulation or also known as AWV clearance from the German Federal Ministry of Economics and Traffic. While we issue a separate 8-K with pro forma combined financials, we wanted to share additional financial color on this call.

Based on unaudited management accounts report under IFRS accounting standards, we expect KEYMILE to generate at least EUR 40 million in revenue and EUR 4 million in adjusted EBITDA for the full year 2018. We will come back with a fully audited figures that reflect the conversion of IFRS into U.S. GAAP reporting. We expect that this financial analysis will be ready when we issue our 8-K at closing. We are excited that KEYMILE is an incredible acquisition for us. The purchase price reflects less than 1/2x KEYMILE's revenue. This acquisition represents an attractive opportunity to deploy our capital in meaningful way for our shareholders, and to continue to be a good stewards of our capital.



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Now turning back to our financials. I would like to provide you another positive news, and update you our revenue outlook for the fourth quarter 2018 and provide a revised full year 2018 revenue guidance.

For the fourth quarter of 2018, we expect revenue to be in the range of \$74 million to \$78 million or approximately 8% to 14% year-over-year increase from prior quarter of \$69 million. We expect our Q4 2018 GAAP gross margin to be between 32% and 33%, which reflects continued strength of our Asia Pacific region. We expect Q4 2018 non-GAAP adjusted operating expenses to be approximately between \$21 million and \$22 million, which reflects timing of certain year-end accounting and sales commission expenses and so a slightly higher legal and R&D expenses. For the full year 2018, we are increasing revenue guidance to be in the range of approximately \$282 million and \$286 million, or approximately 14% to 16% year-over-year growth as compared to prior guidance provided back on August 9 in the range of \$280 million to \$285 million, which was -- which represented 13% to 15% year-over-year growth. We're also providing a full year 2018 adjusted EBITDA forecast of greater than \$11.5 million. And believe there is room for further EBITDA upside, especially given we have generated approximately \$9.1 million of adjusted EBITDA in the first 9 months of 2018.

In the Q4, we will likely accrue for onetime nonrecurring performance-based bonuses for employees subject to board approval, which will be paid in the mix of cash and stock in Q1 2019. To be clear, even inclusive of the potential nonrecurring expenses, we continue to forecast greater than \$1.5 million of adjusted EBITDA for the full year 2018. Our 2018 guidance reflects continued solid growth in our run rate business without the benefit of new product introductions and new customer wins, announcing the the second half 2018, nor does it include potential revenues synergies with KEYMILE. While we believe there are continued growth opportunities for many of these levers, we have not captured them in our 2018 guidance. At this point, let me turn back the call to Yung. Thank you.

Il Yung Kim - DASAN Zhone Solutions, Inc. - CEO, President & Director

Thank you, Mikhail. To wrap up, we are proud of the progress we made in the first 9 months of 2018, where we grew our revenue 16% year-over-year to \$208 million, and grew our adjusted EBITDA to \$9.1 million compared to \$2.1 million in the same 9-month period in 2017. Inclusive of KEYMILE, we are a company quickly growing in scale with a pro forma combined revenue exceeding \$300 million, and with a strong geographic footprint across the United States, Latin America, Europe, Middle East and Africa and Asia. We are truly a global multinational company that can service diverse demand for our service provider and enterprise customers with our comprehensive product portfolio, global workforce and the global manufacturing and R&D presence in the U.S., Europe and Asia. Operator, we are now ready to open up for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Dave Kang with B. Riley FBR.

Ku Kang - B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components

I was wondering if you can talk about next year's expectations with KEYMILE and couple of new product -- project sthat you guys are working on. Can you just give us how we should think about next year, maybe you can break out between core versus KEYMILE versus new projects?

Il Yung Kim - DASAN Zhone Solutions, Inc. - CEO, President & Director

This is Yung Kim. So I think that's the way that I should take my name (inaudible) other people. I think it's too early to include the KEYMILE because we haven't done any sort of auditing of it. But we expect the KEYMILE continue at least the numbers that we have mentioned to you in the call. We believe that our core business, which is we reported around the 15% increase, expected to close with about 15% above -- for 2018. I think getting the kind of a size next year, I'm not the -- as a bullish as that. Let me put it that way, and I think it will be a high -- I'll initially go with a high single-digit percentage increase, and that's the way I'm planning our cost structure. And if we increase our revenues just like, what I have done in



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early 2018, 2019 will start like that. And as we progress, I will be guiding you appropriately as we achieve first quarter. But at this stage, I would put a caution that we will grow -- or at least plan the OpEx below assuming that we are going around slightly less than 10%.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it. And what about like Passive Optical LAN and software? When did they start to ramp? And can you just kind of quantify the opportunities going forward?

Mikhail Golomb - *DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary*

Can I do that, because we have not yet launched. I think we are just about -- we got all the products ready. I think it's shipping out to our (inaudible) retailers for try -- internal training and the running trials. I will come back early next year. But we see a lots of attractions. I have more than 10 U.S. and international (inaudible) retailers all waiting for the shipment to validate.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it. And then during second quarter you had that major Indian customer, can you tell us what happened to that customer in third quarter? And can you just talk about follow-on opportunities with that particular customer?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

We actually are in the final stages of something, because they published their RFP, and we are responding to that. But being already a major supplier to them, I think we have a pretty good chance of being selected. If it does -- if we are selected, then it will give us huge opportunity in 2019.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

And could that opportunity be kind of comparable to what you saw in the second quarter.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Probably more. If we...

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

I mean, on a quarterly basis, I mean, that's what, I mean, apples-to-apples...

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

On a quarterly basis?

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Yes.

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Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Probably not as big as Q2, but it would be certainly 2 or 3x bigger than the annualized. So.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it, got it.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

So over 9 months is already represented about 10% of our revenue. So you can see that we will be probably doing double that amount if we are selected. So here's a caution if we are selected.

Mikhail Golomb - *DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary*

This is Mikhail. Just to comment, this is the only customer that we have that represents over -- just little bit over 10% of our revenue, all other customers are below 10% of our revenue.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it. And when should we expect that decision? Is that going to happen this year or maybe...

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Yes, I think it's just indeed -- question is to come in something around 14 -- November 14. And then we expect they announce before the end of the year who's selected.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Can you tell us how many others are bidding for this?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

As far as I know, all of bidders are Indian local companies.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

And there is -- as far as I know, there is no well-known Chinese company, or Nokia, as far as I know. But May be they may support local company to bid. So we don't know.



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Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Got it. And then my last question is on tariffs. Any impact from tariffs or any news items related to tariffs?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

We don't know. Actually, we know that we already calculated tariffs on the OLTs that we supplied because it's very clear. But other ones, we don't expect any tariffs. But government...

Mikhail Golomb - *DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary*

Yes, this is Mikhail. Are you talking about tariffs between the China in U.S. bids?

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Yes. U.S. and China.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Oh, really, that one. Okay.

Mikhail Golomb - *DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary*

So for this one we have any issues when it comes to that as we discussed. The jury will diversify geographically, eventually once we publish our 10-Q today after that probably we'll be able to see everything and we don't have any issues when it comes to geographic spend as specific United States.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Okay. You're talking about if there's tariffs against Korean or Chinese.

Ku Kang - *B. Riley FBR, Inc., Research Division - Senior Analyst of Optical Components*

Yes, 10% tariffs.

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Yes, we don't have any impact. Literally, if there is any impact, it's sort of a very small single-digit percentages or there about -- no. But it is impact analysis, we track it all the time. But we can always avoid that by manufacturing in U.S or outside -- or in Europe now, we have a factory. So we are not impacted.

Operator

(Operator Instructions) Our next question comes from Christian Schwab with Craig-Hallum Capital.



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Christian David Schwab - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Is your expectation on KEYMILE for that to be a company who should grow on a go-forward basis? And what has been -- can you remind me quickly what its historical growth pattern has been over the last few years?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

KEYMILE, it really have an excellent set of customers in Europe and including Tier 1. What -- their revenue has reasonably been flat over couple of years. However, the reason why they were flat is because they didn't have any investment in our optical FTTH product and that's why they couldn't grow. And if we give them the DZS product especially in GPON, and they have a lots of opportunities there. Actually, already we have strategic agreement for them to market our product. And there is a lots of opportunities they're bidding for. So I expect them to grow and that's -- and given the right product it will be.

Christian David Schwab - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

And then most of my question is -- questions have been already asked. But my last question is, on the new Whole Home WiFi solution, can you give us a range of expectations of what you have for that product may be in 2019 and beyond? How much revenue you think that, that can drive for you?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

I think it is a twofold. We will definitely grow revenue, but I don't think it's going to be a very significant. I'll tell you why, because it is Wi-Fi sort of in-home services and we fell -- repeated those things in-home. But the main reason of that the Whole Home WiFi is more to give our customers the carriers to be able to see what's going on inside home to know all the connections and be able to serve their customers better. So it is a more of a tool to make, managing in-home devices better.

Operator

And our next question comes from Tim Savageaux with Northland Capital.

Timothy Paul Savageaux - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Couple of questions. Regarding your initial growth forecasts for 2019, I want to go back to the LG switch deal that you mentioned. You've mentioned it's not in your forecast, I guess, I just want to confirm that would be the case for your initial high single-digit growth? Or would you include some revenue from that deal in that forecast? And I'd say more broadly, if we look at Korea or some of the early adopters of 5G. To what extent do you see opportunities not only with the switch, but on the fiber-access side, you mentioned backhaul? And [wouldn't] are you already seeing some that in terms of revenue for deployments for 5G or do you anticipate seeing that in '19?

Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

Okay. In Korea, I think fiber-to-the-home infrastructure is already very well established. So there will be some growth but the growth will not be like 10%, 20% growth in the fiber-to-the-home or fiber to the backhaul infrastructure. However, the 5G will create initially a lots of switch-related -- backhaul switch-related opportunity. And we can -- we already have queries from Japan and other countries for our M3000, which are low-latency switches, but I'm sure that we will sell that across the world. And we put a very conservative forecast of -- for next year's figures, okay? Conservative, I mean, a very small amount. Because I don't want to stick because 5G, how much of an investment go in next year, even though it's been said a lots of money is going, I'm not sure how much. But we know LG alone will bring a tens of millions next year that opportunity and there is SK and KT as well in Korea. One more important thing about M3000 that we developed it and been selected, it gives us -- that switch can be applied in a

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much wider area of a business to give a time-sensitive and ultra-fast network requirements that other operators around the world they need it as they remove their connects and FDH network. So we see there is a huge opportunity if we can make that ultra-low latency switch to be applied in many other areas. So that is one of the big investment we made. And I think I'm sure that we can make use of it in many other areas.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Okay, great. And if I could follow up on KEYMILE. I just want to make sure I heard that revenue number right, was that EUR 40 million or -- definitely, I guess?

Il Yung Kim - DASAN Zhone Solutions, Inc. - CEO, President & Director

EUR 40 million. Well, it's more than EUR 40 million, the reason why I didn't want to give you the exact figure or Mikhail didn't give you exact figure is we're still going through the reconciliation of IFRS to a U.S. GAAP.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Got it. Well, EUR 10 million seems like a pretty fair price then. And I wonder if you can comment on the gross margin profile of KEYMILE? Is it similar to the DASAN Zhone, or does it divergent in a meaningful way?

Mikhail Golomb - DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary

Yes. Well, for -- it's just about the same, but again -- once again, we don't want to talk about this right now. It's relatively same. We're still going through this reconciliation and plus it's really looking right now in June accounts unaudited. By the time we're going to go through the exercise and issuing the 8-K at the end of year, and then issue 10-K for the whole year, will provide you the audited financial statements when we share 10-K at the end of the year. And you will able to see the financials for the combined company and segments, of course.

Il Yung Kim - DASAN Zhone Solutions, Inc. - CEO, President & Director

And adding on that, I think currently, we see higher margins. And the reason why CFO is cautious is IFRS standards that he calculated. Therefore, we are cautious. But under IFRS, it's about 7 point higher than ours. And also, the reason for that KEYMILE business is all essential office equipment. They don't do CPEs at all. So the margins are generally high.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Okay, great. And last question for me. As you look at your Q4 guidance for -- pretty felt like sequential uptick. And you mentioned gross margins being impacted by continued APAC strength. Should we infer from that, that geography is the primary driver of sequential growth in the quarter? Or are there anything else notable from a geographic standpoint in your guidance?

Il Yung Kim - DASAN Zhone Solutions, Inc. - CEO, President & Director

You mean -- you're just saying about the Q4 this year?

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Yes.



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Il Yung Kim - *DASAN Zhone Solutions, Inc. - CEO, President & Director*

I think Q4 this year, the strength is not only just Asia Pac, we will see some rebound in Korea and also Europe, and so it's not just the Asia Pac.

Mikhail Golomb - *DASAN Zhone Solutions, Inc. - CFO, Corporate Treasurer & Secretary*

Yes. So North America, we are proud of the 16% revenue growth we have achieved in the first 9 months of 2018. While our international business has grown faster than our North American business. I mean, that's about that. And we think that giving our diverse and global customer base for the company -- then eventually by KEYMILE acquisition will be even stronger in future, right? So -- but yes, Q4, we're going to get to that strong year-over-year performance of 14% to 16% year-over-year growth, which is double digit. So you can imagine that there will -- some territories will be stronger, some territories will be lighter. But again, that's under revenue side, right? And the margin profile we discussed and eventually we're going to try to guarantee or go towards at minimum \$11.5 million of EBITDA, adjusted EBITDA.

Operator

And I'm not showing any further questions at this time. Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

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