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CALX - Q4 2015 Calix Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Calix fourth quarter 2015 earnings conference call.

(Operator Instructions)

Also as a reminder, this conference is being recorded. I'd now like to turn the conference over to your host, Mr. Tom Dinges, Director of Investor Relations. Thank you, you may begin.

Tom Dinges - *Calix Incorporated - Director of IR*

Thank you, operator, and good afternoon, everyone. Today on the call, we have President and CEO, Carl Russo, as well as Executive Vice President and Chief Financial Officer, William Atkins. This conference call will last approximately 60 minutes, and will be available for audio replay in the Investor Relations section of the Calix website at www.Calix.com.

Before we begin, I want to remind you that in this call we refer to forward-looking statements, and actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause actual results and trends to differ materially are set forth in today's earnings press release, and in our annual and quarterly reports filed with the SEC. Calix assumes no obligation to update any forward-looking statement, which speak only as of their respective dates.

Also on this conference call, we'll be discussing GAAP and non-GAAP financial measures. We provide non-GAAP financial measures to enhance an understanding of our operating performance excluding certain items, which we believe with not indicative of our core operating results. These non-GAAP financial measures are used in addition to and in conjunction with our GAAP results.

A reconciliation of GAAP to non-GAAP measures is included in our earnings press release available at our website at www.Calix.com. All numbers that are discussed in today's conference call are non-GAAP unless otherwise noted. As a reminder, our earnings press release, the supplemental financial data, and an accompanying earnings release presentation are available in the Investor Relations section of the Calix website.

For the quarter ended December 31, 2015, Calix reported revenues of $105 million and a non-GAAP loss of $0.03 per share. In just a moment, William will take you through the quarter and the year in greater detail, and Carl will conclude with his thoughts on Calix's strategy and market outlook. This will be followed by questions from analysts.

With that, I would now like to turn the call over to Calix's Executive Vice President and Chief Financial Officer, William Atkins. William?

William Atkins - *Calix Incorporated - EVP & CFO*

Thank you, Tom.

We last provided you with guidance regarding Q4 on October 29. And in that guidance, we called for revenue of between $102 million and $106 million, a gross margin of between 47% and 48%, and operating expenses in a range of $51.5 million to $52.5 million, thus resulting in a net loss per share of between $0.07 and $0.03. Actual revenue for the quarter was $105 million, and EPS was a loss of $0.03 per share with revenues near the top end of guidance and the loss per share at the top end of guidance as well.

Gross margin was 46.5%, and operating expenses came in at $50.6 million. This is our eighth consecutive quarter of meeting or beating revenue and EPS guidance. Product and customer mix drove our results at the gross margin level, with the greatest contributor being the higher proportion of international revenues in the quarter.

Operating expenses came in below guidance. The major factor leading to lower than anticipated operating expenses was a slower than originally anticipated pace of hiring.

We saw timing of revenue being more concentrated towards the latter part of Q4, resulting in negative operating cash flows of $4.1 million. This and the share repurchase spend of $16.1 million were the primary drivers in the reduction in our aggregate balance of cash and marketable securities to $73.6 million from $93.9 million in the prior quarter.

Getting into a bit more of the detail. Our $105 million in revenue for the quarter showed a decrease of $6.6 million or 5.9% from last year's fourth quarter level of $111.6 million. At 14.6% of our Q4 revenues, international revenue was $15.3 million, up from its 10.6% or $11.8 million level in Q4 of last year. We had one 10% or greater customer again this quarter.

As I noted earlier, at 46.5%, Q4 gross margin was just under the guidance range with the main driver being the higher relative level of international sales in the quarter. This gross margin in Q4 was down from Q4 2014's 48.1% level.

Q4 operating expenses at $50.6 million were up $3.6 million from the same quarter a year ago. With this year-over-year increase primarily due to additions in year-over-year headcount, particularly in research and development. This higher level of investment in R&D represents our long-term stance of positioning ourselves to take advantage of growth opportunities in 2016 and beyond.

Our level of investment in platforms, software and services in 2014 and 2015 culminated in 2015 with the highest number of new product and platform releases in the Company's history. Expenses related to the Occam litigation amounted to $0.8 million in Q4.

Turning now to the balance sheet. As noted earlier, we ended the quarter with total cash and marketable securities of $73.6 million, a decrease of $20.3 million from Q3, and a decrease of $38.1 million from last year's Q4 level.

Receivables DSOs were a healthy 35 days, compared to 37 days in the previous quarter and 34 days in Q4 2014. With the year-over-year comparison reflecting the more back-end loaded revenue trend in Q4 of 2015, relative to a more even distribution of revenues in Q4 of 2014. The quality of our receivables and our collections performance remained strong.

Inventory levels increased to $47.7 million in Q4, up from Q3's $43.8 million level and also up from $46.8 million in Q4 2014. The sequential increase in inventory reflected the back-end loaded nature of the quarter, as well as some incremental inventory to support the network improvement project that we highlighted last quarter. Inventory turns decreased to 4.1 times in Q4, from 4.6 times in Q3 and from Q4 2014's 4.8 times.

This close out of Q4 gives us the opportunity to review 2015 in full. As anticipated by us earlier in the year, 2015 was back-end loaded, with 53% of our revenues booked in the second half, in line with 2014's 54% level for the same period. For the full year, we recorded revenues of $407.5 million, up 1.6% from 2014's $401.2 million level, and we produced gross margins of 49%, up from 2014's 46.7% figure.

Revenue growth was broadly balanced between domestic and international customers, with international comprising 12% of revenues in 2015, the same as 2014's 12% level. Our largest customer accounted for $89.6 million in total for 2015, or approximately 22% of our 2015 annual revenues versus $91.2 million or approximately 23% of our 2014 annual revenues.

Operating expenses were $193.3 million in 2015, up 12% from 2014's $172.1 million number. With this increase primarily driven by personnel related costs stemming from the headcount increases that I referred to earlier.

Net income for 2015 reflected these movements in gross margin and operating expenses, and was $6.4 million or $0.12 per share versus 2014's $14.7 million or $0.29 per share. Occam litigation related expenses totaled $3.3 million for the year. We expect to continue to incur these expenses as we head towards trial, currently scheduled for April of 2016.

In terms of guidance for the first quarter of 2016, we expect revenues to be above last year's Q1 levels. And to be in a range of between $95 million and $99 million, with a mid point of $97 million up 7% from the $91 million level of Q1 of 2015.

We are guiding gross margins to a 47% to 48% range from Q1, down from last year's Q1 level of 49.2%. With this difference largely driven by potential increases in international revenues, and in turnkey network improvement project revenues. Operating expenses are expected to be in the range of $52 million to $53 million, up from last year's Q1 level of $48.1 million, reflecting some incremental hiring costs as well as sequentially higher litigation expenses.

Occam litigation related expenses for Q1 are expected to be approximately $2.6 million. The expectations that I've just finished taking you through result in a guidance range for Q1 of a net loss per share of $0.15 to $0.11, or $0.10 to $0.06 after taking litigation related expenses into account.

At this point, let me hand the call over to Carl. Carl?

Carl Russo - *Calix Incorporated - CEO*

Thank you, William. Before I speak to what is ahead, I would like to highlight a few items from the quarter and year just completed.

First, bookings in Q4 got off to a slow start, but finished strongly and we expect that strength to continue into this year. Second, we have been receiving CAF II related orders since early in Q4. And while there has been some discussion in the market around the CAF II program driving incremental revenue, our view remains unchanged.

We see the effects of CAF II as setting a floor underneath our customer's access market CapEx plans. We are reminded of the broadband stimulus program years ago that was expected to be additive; however in retrospect, it was substitutive. This time could be different; however, we have no indication that this is the case.

Third, I am encouraged by the progress of our partnership with Ericsson, as we are collaborating on significant opportunities in both international and domestic markets. Finally, our AXOS and Compass platforms are well and truly in the market, and the solution offerings based on them continued to show good traction throughout the quarter.

As to the future, I would like to share my views on what you should expect to see from the market and from Calix in 2016. In order to have a better understanding of where we are going, it helps to understand where have come from.

The last three years have been challenging in the access market. While many of our peers have actually been shrinking, we have been growing, although that rate has continued to slow from 16% in 2013 to 5% in 2014 to 2% last year.

Over the past two years, we have made deliberate and significant investments in R&D to position ourselves in front of what we believe could be the biggest shift our market will have ever seen, and that is the shift to software defined access. Our AXOS platform will allow our customers to build an access network that is fast, always on, and simple. And in so doing, allow them to dramatically shift the speed and efficiency with which they bring new services to their subscribers.

AXOS, our operating system for software defined access, and Compass, it's complimentary SaaS platform, position us to improve our R&D efficiency as well. With that, the growth in the rate of our investment in R&D will now begin to slow over the course of 2016. And as William mentioned, as a result of this investment, we have a fantastic set of solutions that are growing fast.

Which brings me to my next subject, and that is growth. As I mentioned, over these last three years, we have continued to grow; however, that growth rate is not what we aspire to. We believe that 2016 will mark a reversal of that trend, with stronger growth this year than last.

With CAF II creating a floor under access market CapEx for several of our larger customers, our expansion will come from new markets and customers driven by our new platforms and products. As an example, our initiative in the unlicensed wireless edge market has resulted in the growth of our combined [Gigacenter] and Compass solution, and I believe that we are just scratching the surface of what could ultimately be a very large market for Calix.

Next generation fiber and copper technologies promise a new set of infrastructure upgrades, as our customers stay ahead of the relentless growth in subscriber demand. And lowering the cost of building and operating these networks is a core focus of AXOS and Compass. In short, we believe we are well placed to take advantage of the entry points these technology shifts afford us.

This all adds up to our primary mission in 2016, establishing the platform for profitable growth. Our focus will be to raise the earnings growth rate, while driving our OpEx growth below our revenue growth. However, as we have reset the baseline investment in the business, this will take some time to achieve.

That being said, I believe that you will see operating income leverage begin to show over the course of 2016. It is in our hands to execute on the opportunity that is right in front of us.

And with that, I will open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question is from James Faucette from Morgan Stanley. I'm sorry, our first question is from Simon Leopold from Raymond James.

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

Thank you for taking my question. A couple things I wanted to check on. I appreciate in the prepared remarks you gave us some color on your top customer for 2015, so thank you for that, I know Carl remembers. Just want to verify that that's the same customer as you had as your top customer in 2014, is that correct?

Carl Russo - *Calix Incorporated - CEO*

Yes, and we wanted to make sure we fulfilled the commitment to Paul Silverstein which I believe was seconded by you last year.

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

That's correct, so you do keep promises. I appreciate that.

Carl Russo - *Calix Incorporated - CEO*

We kept that promise.

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

Yes, that one for sure. You knew I was going to hold you to it also. So I'm definitely understand and heard you in terms of CAF II and reiterating the view that it's not necessarily additive, but could be substitutive CapEx.

But can you help us understand the timing issues? Because I recall last quarter, you went into some discussion about timing issues while the customers were doing engineering designs and planning, help us understand where we are in terms of timing.

Carl Russo - *Calix Incorporated - CEO*

So as you may be aware, there is an ultimate hurdle that forces the timing which is at the end of two years. So basically at the end of 2017, they have to be 40% complete with their build. So the easy math is to say well that's 20% per year or 5% per quarter.

I think we all know that to assume linearity would be a little silly, because these things get off to a little bit slower start, there's always more complexities in them, et cetera. Having said that, we are seeing all of our customers actually get up on their plans pretty quickly.

The order flows are building, so I don't think it's going to be a wildly non-linear event, i.e. that all of it would be in next year and none of it this year. But I think some portion less than 20% will be this year, and some portion more than 20% will be next year. How much those differ 18% and 22% or 19% and 21%, that's the way I would characterize that from a timing standpoint.

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

Does this establish essentially a deviation from your past seasonal patterns for 2016? In other words, you've given us a forecast for the first quarter, but should we anticipate a better than seasonal ramp in the June quarter?

Carl Russo - *Calix Incorporated - CEO*

So the answer is, I don't believe so, Simon. Again, you'd have to go back to our operating thesis which we were informed by a lot of experience that we had in broadband stimulus. This feels like it sets the floor, and the way I look at it is it should raise our predictability, in other words, our ability to forecast, but I don't think it's going to change the ramp demonstrably from what we think we can do ordinarily. William, do you have any -- ?

William Atkins - *Calix Incorporated - EVP & CFO*

No, I think you nailed it on the head, Carl.

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

Great. And then maybe just more of a big picture question. With all the new technologies coming out between GFAS, next generation GPON, can you help us understand how investors should think about the comparison among the participants? In other words, what's your competitive advantage when it comes to building industry standard products?

Carl Russo - *Calix Incorporated - CEO*

It's very clear what our advantage is, and that's based upon software-defined access. So as we lock at where the industry is going and the demand is being placed on the service providers of today and tomorrow, which is their ability to keep up with an ever increasing speed of innovation at the device side that's in the hand of the subscriber. And frankly, even a frighteningly faster rate of innovation in the cloud, on the cloud scale, global players such as Microsoft Azure or Amazon Web Services, they have to somehow move at that rate, and obviously the biggest portion of what they do is in the access infrastructure.

That's what software-defined access is built for, and that's why we built AXOS over these last many years. To your point, the technologies themselves net GPON 2 or G.fast or any of the technologies that are coming, merely afford us entry points into customers that we don't have because the technology shift is occurring. But the competitive advantage has little to do with the physical layer we believe going forward.

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

Great. Thank you for taking my questions.

Carl Russo - *Calix Incorporated - CEO*

Simon, thank you, I'm glad we could meet our commitment from 12 months ago.

Operator

(Operator Instructions)

Our next question comes from the line of James Faucette of Morgan Stanley.

James Faucette - *Morgan Stanley - Analyst*

Hello, this is Mena for James. Quick question.

Just wanted an update on some of the turnkey network improvement projects, and just how we should think of those in terms of gross margins. And then just a second question, if we could just have an update on some of the progress with the G.fast discussions you guys are having. Thanks.

William Atkins - *Calix Incorporated - EVP & CFO*

Sure, I'll take the first half of that question, Mena. And good to hear from you by the way.

Basically, as we do these turnkey network improvement projects, we are going to have a professional services element. Which I hasten to add is not a turf business, it's literally working around getting our equipment into the customer's network.

And inherently, our professional services margin is below our corporate average. But as we go forward and as we get our equipment installed in these customer's networks, it creates the platform for gross margin improvements in the years ahead as we build that footprint of products. I don't know, Carl, if you want to address some of the other issues or go on to the second part of that question.

Carl Russo - *Calix Incorporated - CEO*

Momentarily, they could have a slightly depressing effect on gross margins. But over time, it fits well within our model because again it's aligned professional services with our systems. We are not doing professional services or what are referred to as turf contracts on other people's equipment or things that we don't produce. We don't have any value add there or any competitive advantage.

On G.fast, and I think you're specifically talking about G.fast as a technology. I guess the best way I could characterize it, Mena, is there's everything going on out there and a lot of it right up into deployments, so we're in pre deployment phases in the market. Everything between there and trials and sales opportunities and labs are ongoing.

James Faucette - *Morgan Stanley - Analyst*

Great, thank you, guys.

Carl Russo - *Calix Incorporated - CEO*

You're welcome. Thanks, Mena, say hello to James, please.

Operator

Our next question comes from the line of George Notter from Jefferies.

George Notter - *Jefferies LLC - Analyst*

Hey, thank you very much. I wanted to ask about your international business. The revenue was up a bit certainly this quarter.

From the monologue you talked about the Ericsson relationship improving both internationally and domestically, and obviously its been a tough road there for the last number of years. I guess I was curious about why you made those comments and what's changing there. Thanks.

Carl Russo - *Calix Incorporated - CEO*

Yes, it's in a continuum actually what we've been talking about, George, and you're right. Its been an interesting ride.

But what we are seeing it as the relationship and we've learned more about Ericsson and how they want to work with us and vice versa, it's continued to improve. And we're now collaborating globally around the world in different markets, in different customers, so you can think about the effect that that has on our business.

Secondly, its becoming increasingly focused on our core products, as opposed to products that we acquired from Ericsson. And so as that happens and the whole model starts to align with what is strategically important to us, the whole thing is starting to resonate.

So we felt given what we saw in Q4 that it was worth highlighting that we are definitely seeing more than just green chutes. I think I alluded to green chutes last quarter, so that's the reason for it. So yes, it's encouraging news and it points forward, but more than that I would not say.

George Notter - *Jefferies LLC - Analyst*

Thanks.

Operator

(Operator Instructions)

Our next question is from Paul Silverstein from Cowen and Company.

Paul Silverstein - *Cowen and Company - Analyst*

Thanks, guys. A couple questions if I might. First off, any new non-US revenue customers and what is the total count of non-US now? And if I missed this, I do apologize.

Carl Russo - *Calix Incorporated - CEO*

I don't know that we disclose it, but there have certainly been quite a few new non-US customers added.

William Atkins - *Calix Incorporated - EVP & CFO*

What I would say, Paul, we don't have that number. But in terms of the non-US customers, we won't name them but it's worth highlighting that we're seeing some order flow from what you can call the national former PTTs, which is a nice thing to see. So that's a little bit more color around that if that helps you.

Paul Silverstein - *Cowen and Company - Analyst*

Okay. William, can you tell us the headcount, unemployed and staffing?

William Atkins - *Calix Incorporated - EVP & CFO*

That will be coming out in our K. We don't have the full numbers to give to you yet today.

Paul Silverstein - *Cowen and Company - Analyst*

All right. And then, Paul, on visibility, I appreciate that you're in a business where visibility is always challenging, and I appreciate your comments. So all that being said, a couple of questions around visibility. First off, do your customers that have access CAF funds folks like CenturyLink, FairPoint, et cetera, do they indicate to or do you know whether or not they indicated which projects are being driven by those CAF funds?

Obviously, they're filings. But are you able to if the total relationships X dollars in terms of the next 90 days, are you able to discern what portion of that amount is directly driven by CAF and what portion is non-CAF? To that pregnant question of CAF is hitting a floor, or is it displacing, does it augment et cetera? And then I have got one or two more follow ups if I may.

Carl Russo - *Calix Incorporated - CEO*

So your question was do we know, and the answer is yes.

Paul Silverstein - *Cowen and Company - Analyst*

All right. So that said, when you look at the funds that have been awarded and the projects tied to those funds, are you willing to share with us can you share with us what portion of those awards you're getting? And I understand I'm not asking you to reveal any individual customer.

I understand why you won't want to do that, that you are not going to do that. But as a general proposition, can you give us any sense for what share of the pie you're getting of the broadband equipment piece that you address?

Carl Russo - *Calix Incorporated - CEO*

No I wouldn't comment to it. It probably wouldn't comment to it ever. But I would also tell you that you are early in this program to be making I think any kind of assumptions on that if you were me. How's that?

Paul Silverstein - *Cowen and Company - Analyst*

Got you, I appreciate that. And then, Carl, I might have misunderstood. But if I heard you correctly, relative to your historical growth rate when you smooth it out, the peaks and valleys of the roughly 4% to 5%, we could go back and check the numbers. But when you look forward, and I'm not talking about the next quarter or two, but when you look out over the next two to three years.

Obviously, you've been constructive in your commentary about both AXOS as a product platform and a game changer, as well as market trends. But relative to the bottoming that you're seeing, are you willing to hazard any thoughts about what the long-term growth trajectory looks like for the market? I assume not, but I've got to ask.

Carl Russo - *Calix Incorporated - CEO*

Yes, listen, well look, I was happy just to make sure we met our commitment to you from last year, and shared with you the CenturyLink numbers. But the answer truthfully is, we perceive the market going forward as going through a significant deconstruction, which I spoke to in my prepared comments. We think this represents a sea change in how infrastructure is going to be built, and I think the whole thing gets deconstructed and reconstructed, so I don't know the answer to your question from a market size standpoint.

Here is the way I would choose to answer it. I think where the market is going and how it's going to look is very clear to see. And I believe because of both AXOS from an operating system platform as well as Compass from a SaaS platform, we've built the two right platforms to enable our customers to go transform their business models over top of their access infrastructure. So I think we have an opportunity to grow at a rate much faster than whatever that market is.

We currently address -- we have a very dense footprint, as you know, but we currently address a very small percentage of what overall will become the access service providers worldwide. So I don't know the growth rates of the markets because I'm not sure that they're relevant in the way you're asking the question.

Paul Silverstein - *Cowen and Company - Analyst*

All right. I'm going to apologize to my peers on the call, and if I may, if I could ask you two more quick questions. One, are you seeing Cisco had been out of this market for a long time, and they appear to be back early days. But are you seeing them show up in bidding for business and winning business?

Carl Russo - *Calix Incorporated - CEO*

Actually, we don't see Cisco in our market at all. As a matter of fact, I believe they had a partnership with a Company and they in fact left. So I'm not sure -- you and I would have very different information on that.

Furthermore as we view Cisco, and don't take anything I'm about to say as anything I know directly from Cisco. But Cisco obviously has entered into a partnership with Ericsson, and obviously we have a partnership with Ericsson. So, no, I haven't seen anything like that, so go to your second question please.

Paul Silverstein - *Cowen and Company - Analyst*

So finally, and again, my apologies. But if you address this -- apologize again, but on the gross margin both for the quarter looking forward, remind us what are the key variables impacting gross margin?

William Atkins - *Calix Incorporated - EVP & CFO*

Sure. The key variables impacting gross margin for 2016 versus last year, specifically about Q1, and we already saw the beginning of that trend in Q4. So we called out the two major drivers when commenting about both quarters is growth of international, whereas you know, we expand our footprint with customers and we do that with lower margin initial sales to then reap the rewards of higher margins later.

And then these turnkey network improvement projects, where we get our equipment again into customer's premises in larger quantities than what otherwise had been the case. And in order to do that, we have professional services revenues around getting that equipment installed into their networks. So it's those two -- overly wordy explanation, in summary, it's international and professional services increasing as portions of our revenues.

Paul Silverstein - *Cowen and Company - Analyst*

All right. I'll pass it on. Thanks, guys.

Carl Russo - *Calix Incorporated - CEO*

Thank you.

Operator

(Operator Instructions)

Our next question is from Tim Savageaux from Northland Capital Markets.

Tim Savageaux - *Northland Capital Markets - Analyst*

Hello, good afternoon.

Carl Russo - *Calix Incorporated - CEO*

Hey, Tim.

Tim Savageaux - *Northland Capital Markets - Analyst*

Couple of questions. Just following up the previous comments around international, which where you have seen some I guess modest revenue declines these past couple of years. It sounded like you were ready to forecast that you expected the international business to grow.

Certainly if you look at these last couple of quarters on a run rate basis it would grow quite spectacularly. But I wonder if you could maybe flesh that out a bit more in the context of where I guess you put the bar, which is you expect revenue growth reaccelerating above 2015 levels in 2016? How do you lock at that from a domestic versus international standpoint? And then I'll have a follow up.

Carl Russo - *Calix Incorporated - CEO*

Yes, so good question, Tim. And so very clearly, we are encouraged by what we've seen in international, and forward-looking we believe we have a good growth year in front of us. I don't know that I would comment on the relative growth in North America versus international, and which will out pace the other which would speak directly to your mix question.

But I think we have growth available in both. And I'd almost ask you to come back next quarter and ask that question as we get a little deeper into the year, and maybe I'll be able to give you some color.

Tim Savageaux - *Northland Capital Markets - Analyst*

Okay. Well maybe we can just get a one step granular and ask you a question you probably won't answer. Which is then when you look within the domestic mix, there's obviously been a difference in trajectory in terms of what you've been doing with CenturyLink and what you've been doing with the balance of your we'll call it tier 2, tier 3 carrier type population which has been acting a bit better. Do you have any comments with regard to any expectations for changes in that relationship, or put more succinctly, do you expect your business with CenturyLink to grow in 2016?

Carl Russo - *Calix Incorporated - CEO*

So let me approach it differently. I think we see, to your point, favorable things happening across the different segments that we have. So let's take an example. We talked about CAF II putting a floor under the access market CapEx, so you can look at the recipients of CAF II.

In the smaller service providers, as you may be aware, USF is probably going to be negotiated and announced here in the next week or so. And I won't preface what the announcement might be, because frankly I don't know. We have some insight, but it looks favorable.

But more importantly, the fact that it gets announced and has certainty is what matters. And it's been very uncertain over a period of time. Now with that certainty in place, I think that will be a positive for our smaller customers. So those are the general trends. William, do you want to add color to that?

William Atkins - *Calix Incorporated - EVP & CFO*

Yes, I can add a little bit of color to both parts of your question. On international, I take your point as it relates to say 2013 where international was around 14% of our revenues, but in the year prior to that it was 8%. Admittedly, that was the year in which the Ericsson acquisition took place.

So post Ericsson we were at 14%, then we were at 12%, and then 12% again. So yes, it's a decline, but fundamentally it's been I would suggest largely stable.

I take your comment about Q4 trends and revenue share not being indicative necessarily of the future, and I would agree with that. But then again, we have referenced international a little more actively in this call than we have in the past. Indicating that we feel that international could well do better than it has historically as we go forward, and certainly for Q1, we're indicating that international could be a larger proportion of revenues.

But these are choppy, and literally the movement of shipments across quarter end can drive your percentage revenue share one way or the other. So I'd caution you on that.

And then the other comment I'd make on CenturyLink is that if you look at the absolute dollar spend which we've given you in this call, it's basically remained the same year on year. And yet this was a year in which CenturyLink cut their aggregate CapEx. I think that they were originally guiding to 3 and then they guided to 2.8.

I think we'll find out tomorrow as to what the exact number is going to have been for 2015. But this isn't a year where as far as we know today, they reduced their CapEx and yet the absolute dollar spend on us remained constant. So we feel very good about our relationship with CenturyLink. Can't forecast the specifics going forward, but I just wanted to highlight that in a year in which their CapEx numbers did decline.

Tim Savageaux - *Northland Capital Markets - Analyst*

Understood, much appreciated. I'll pass it on for now. Perhaps I'll follow up in a bit. Thank you.

Carl Russo - *Calix Incorporated - CEO*

Thank you.

Operator

Our next question is from Christian Schwab from Craig-Hallum Capital Group.

Christian Schwab - *Craig-Hallum Capital Group - Analyst*

Thanks for taking my questions. As we look at this business over the next three to five years, not the next potential 90 days or some revenue growth greater than a small percentage that you accomplished in 2014 to 2015. Do we have a path or can you help us outline a path how, let's pick a whole number, how long it takes to get to become a $500 million business where the model starts showing some semblance of meaningful leverage in earnings potential?

William Atkins - *Calix Incorporated - EVP & CFO*

The short answer is as you predict, we don't have guidance that's going to go out to any specific date. But as Carl noted in his remarks, 2016 is the year in which we're going to be addressing that difference in the growth curves of OpEx relative to revenues.

And so 2016 is a year in which we are aiming to begin to demonstrate the operating leverage in the business model. And obviously, as you flagged it, it's going to come mostly from the top line rather than from the bottom line, and from essentially it's going to come top line growth driven.

Carl Russo - *Calix Incorporated - CEO*

And back to what you said earlier, Christian. Last year we grew 2%, the year before that 5%, the year before that 15%. The growth rate has slowed, but we've been growing nonetheless. Our goal this year is to actually change the direction of that growth rate, and start to grow at a rate faster than last year and we believe we have that in front of us.

Christian Schwab - *Craig-Hallum Capital Group - Analyst*

All right that's fair. Thanks, guys.

William Atkins - *Calix Incorporated - EVP & CFO*

No worries, Christian.

Operator

(Operator Instructions)

If there are no further questions, I'll turn it back over to Mr. Dinges for closing remarks.

Tom Dinges - *Calix Incorporated - Director of IR*

Thank you, operator. Calix will be reporting first quarter FY16 results on May 3 after market close. In addition, Calix will be participating in a number investor meetings and conferences during the first quarter, holding its 2016 Investor Day on the 16 of March in New York. Information about these future investor events is posted on the Events and Presentations page of the Investor Relations section of Calix.com.

We remain focused on executing against opportunities ahead of us, and we look forward to meeting with you at one of these upcoming events. Once again, thank you for your interest in Calix and thank you for joining us today. Goodbye for now.

Operator

This concludes today's conference. Thank you, and you may disconnect your lines at this time.
