**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): May 4, 2023

## Clearfield, Inc.

(Exact name of registrant as specified in charter)

| **Minnesota** | **000-16106** | **41-1347235** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **7050 Winnetka Avenue North, Suite 100, Brooklyn Park, MN** | **55428** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**(763) 476-6866**
Registrant's telephone number, including area code

**Not Applicable**
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.01 par value | CLFD | The Nasdaq Stock Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

**Item 2.02. Results of Operations and Financial Condition.**

Clearfield, Inc. (the "Company") hereby furnishes as Exhibit 99.1 its "Earnings Presentation" relating to the second quarter ended March 31, 2023, that was issued via webcast on May 4, 2023. The Earnings Presentation is a slide presentation and an embedded script of remarks by Cheryl Beranek, the Company's President and Chief Executive Officer, Daniel Herzog, the Company's Chief Financial Officer and Kevin Morgan, the Company's Chief Marketing Officer. Simultaneously with the webcast, the remarks relating to the second quarter ended March 31, 2023, were also delivered via telephone conference.

The information in this Item 2.02, including Exhibit 99.1, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall it be deemed incorporated by reference into any Company filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits are being furnished herewith:

99.1 Earnings Presentation for Second Quarter ended March 31, 2023 issued May 4, 2023.
104 Cover Page Interactive Data File (included within the Inline XBRL document).

**SIGNATURE**

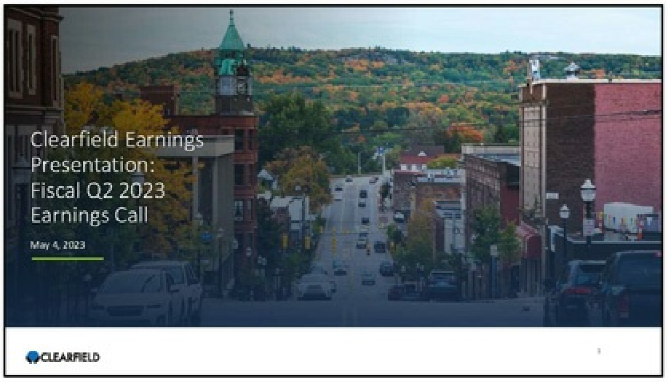
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CLEARFIELD, INC.

Dated: May 8, 2023

By: /s/ Cheryl Beranek
Cheryl Beranek, Chief Executive Officer

Exhibit 99.1


Clearfield Earnings Presentation: Fiscal Q2 2023 Earnings Call
May 4, 2023
CLEARFIELD


Thank you.

Joining me on the call today are Cheri Beranek, Clearfield's President and CEO, Dan Herzog, Clearfield's CFO and Kevin Morgan, Clearfield's CMO.

Please note that during this call, management will be making remarks regarding future events and the future financial performance of the Company. These remarks constitute forward looking statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

It is important to note also that the Company undertakes no obligation to update such statements, except as required by law.

The Company cautions you to consider risk factors that could cause actual results to differ materially from those in the Forward-Looking Statements contained in today's press release, earnings presentation, and in this conference call.
The Risk Factors section in Clearfield's most recent Form 10-K filing with the Securities and Exchange Commission and its subsequent filings on Form 10-Q, provide a description of those risks.

With that, I would like to turn the call over to Clearfield's President and CEO, Cheri Beranek. Cheri.

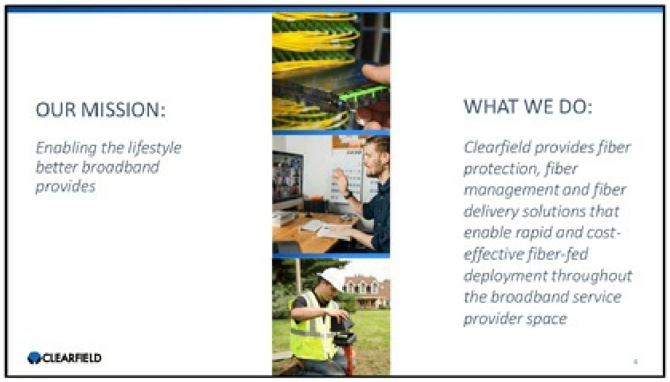

Good afternoon everyone, and thank you for joining us today to discuss Clearfield's results for the second quarter of fiscal 2023. We will also provide an update on our business and current market trends.

Before I review our performance and current market dynamics, I want to emphasize that we remain more confident than ever that the long-term demand for fiber broadband remains exceptionally strong as the superiority of fiber as both a technology and an investment is well established. Accordingly, we are focused on positioning the company to capture market share once industry ordering patterns return to more normalized levels. I'll discuss these initiatives in more detail shortly.

Clearfield has always differentiated itself on its crisp execution. As demand increased throughout the pandemic, Clearfield was able to respond quickly, driving revenue beyond 40% growth for the previous 9 quarters. Moreover, our execution allowed us to move into larger accounts and take share as demand for hardware intensified. We intend to remain focused on execution as the industry works through the near-term dynamics and prepares for the return to growth led by significant government funding initiatives.

Our second quarter fiscal 2023 revenue and net income per share came in relatively in line with our forecast for the quarter. Total net sales for the second quarter were $72 million, which includes an $11 million contribution from Nestor Cables. However, following our first quarter report, what we originally thought was a transition to a more normalized, seasonally driven ordering and deployment pattern by some of our customers has developed into a much more significant lull in demand as inventory is digested. Specifically, we have experienced order pushouts by several Large Regional Service Providers and some Multiple System Operators ("MSO" or Cable TV providers) who had accumulated an excess inventory position during the pandemic period.

In light of this inventory digestion, we expect revenue to be lower than we previously anticipated. Accordingly, we are updating our revenue guidance for fiscal year 2023. We now expect revenue for the full year to be in the range of $260 to $275 million. Additionally, we are updating our 2023 net income per share guidance. We now expect net income per diluted share to be in the range of $1.80 to $2.10. The majority of this downward revision to guidance is due to a pause in orders at the Large Regional Service Providers and to a lesser extent, the MSOs. Of the approximately $120 million in revenue reduction at the mid-point of guidance, a significant portion was due to pushouts in orders while the remainder was due to an inventory overhang related to purchases during the pandemic.




As we discussed on our previous earnings call, throughout the pandemic our customers ordered products early in their deployment schedules to stay ahead of any supply chain challenges. This "just-in-case" approach, particularly at our Large Regional Service Providers, led to growth in our backlog, which reached record levels by the end of fiscal year 2022. As our customers digest this inventory buildup, we are rightsizing capacity levels with this lull in demand. In light of this inventory digestion, we expect revenue to be lower than we previously anticipated. In order to provide more visibility into this dynamic, starting this quarter, we will break out revenue contributions from our Large Regional Service Provider customers, such as Lumen, Frontier, and Windstream. Historical financials for the new market segmentation can be found in the Appendix on slide 22. I want to stress that we have not lost any customers in this segment, and we believe we will continue to take share in this segment when growth returns.

We remain confident that long-term demand for high-speed broadband remains strong and that we are well-positioned to benefit from the significant rural broadband build that is still in front of us. While we are rightsizing capacity levels to meet current demand, we are maintaining the infrastructure and processes for long-term growth and continue to design products to address our customers' biggest pain points and reduce the amount of skilled labor required to install.

As many of you are aware, our primary end market is Community Broadband, which is predominantly comprised of Tier 2 and Tier 3 incumbent local exchange carriers as well as a number of municipalities, utilities, co-ops, and wireless carriers. While there are pockets of excess inventory within this market segment, we believe it has less exposure to these headwinds.

I now want to highlight how Clearfield is preparing to take share once we get through this period of inventory digestion.

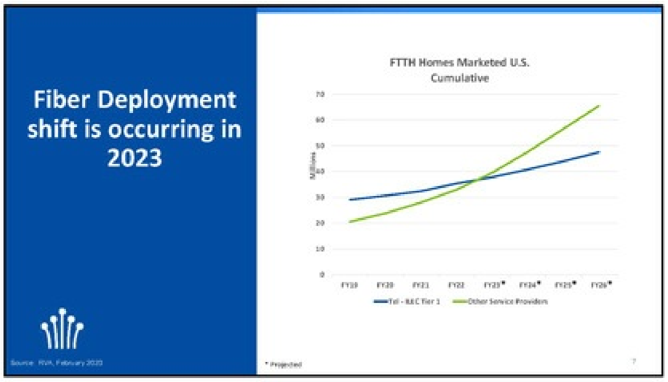

First, we continue to design our product line to be craft-friendly in the field, reducing both the amount of necessary skilled labor needed for installation and the level of skill required to install our hardware. As illustrated on slide five, the most recent example of this strategy is our SeeChange product. SeeChange is designed to enable customers to complete their deployments faster and more efficiently, accelerating their time to revenue. As a reminder, labor accounts for approximately 70% of total deployment costs, so these savings can be significant. SeeChange has already received significant positive feedback from multiple carriers.

Second, the scalable nature of our equipment allows customers to pursue a "pay-as-you-grow" strategy. Our Clearview Cassette has changed the rules of fiber management. This integrated fiber management system is based on multiples of 12 fibers and can be utilized whenever and wherever it is required in the network. Other vendors' equipment is customized to specific parts of the network, an approach which requires more labor to install and resources to manage.

This modular and scalable strategy has allowed us to extend our market leadership in underserved rural broadband to become the leading provider. Additionally, we have been able to move up market to larger customers looking to accelerate their deployment cycle and reduce labor costs. We intend to keep delivering additional craft-friendly products that shorten the deployment time. Combined with superior execution, this proven strategy will allow us to continue taking share.


Please turn to slide 6. To further enhance our positioning, we have worked to improve our product delivery lead times. During the pandemic, lead times reached a height of 20 weeks due to supply constraints. Lead times are now in the range of six to eight weeks and we are targeting long-term lead times of four to six weeks across all product lines with the exception of active cabinets, which still face supply constraints. This work to improve our lead times comes as our customer ordering cycles return to pre-COVID patterns but at post-COVID volumes.

For some additional insights on what we are seeing in the market and the significant long-term opportunity, I would like to welcome our Chief Marketing Officer, Kevin Morgan, to the call. Kevin.




Thank you, Cheri. It's great to be joining all of you this afternoon.

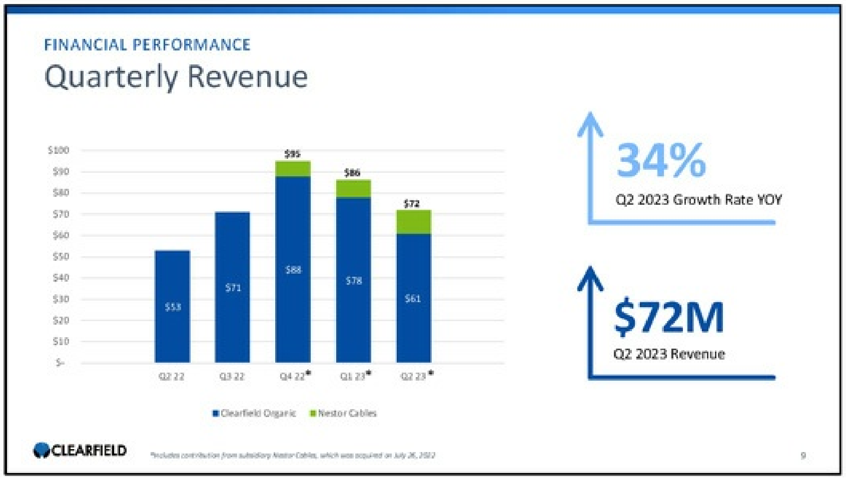
The latest market research forecast from RVA, a leading market research authority in the field of fiber optic telecommunications market research, reflects the industry commitment to fiber expansion. As you can see from the chart, the Tier 1 Independent Local Exchange Carriers, or ILECs, led the initial buildout phase of the Fiber to the Home market during the first 20 years of deployment. However, in 2023 a shift is occurring in the market. According to the data, the other service providers in the market collectively will surpass the cumulative Fiber to the Homes marketed total of the Tier 1 ILECs. Other Service Providers include the Community Broadband and MSO customer segments.

The appetite for high-speed broadband communications has never been greater and shows no sign of letting up. This continues to drive fiber deployments deeper into every corner of society and across all market segments. As Cheri mentioned, we believe our work to maintain our world-class lead times and further progress our LEAP strategic plan enhances our position for the long-term demand environment. In 2022 Fiber Provider Survey, published in December, the Fiber Broadband Association estimated a 10-year annual average run rate of 11.3 million fiber deployments. In 2022 alone, fiber providers passed 7.9 million additional homes, representing a new record for annual deployment. This momentum gives us a powerful foundation for 2023 and the years ahead. We're positioned within an investment cycle that has yet to reach its peak. We continue to view the gradual disbursement of ARPA and RDOF funds—and the upcoming distribution of BEAD funding – as meaningful, but gradual, industry tailwinds that further expand our market opportunity.

Turning back to Clearfield's fiscal second quarter performance, I'd now like to pass the call over to our CFO, Dan Herzog, who will walk us through our financial results for the fiscal second quarter of 2023.


Thank you, Kevin, and good afternoon, everyone.

Please turn to slide 9 to look at our fiscal second quarter 2023 results in more detail…



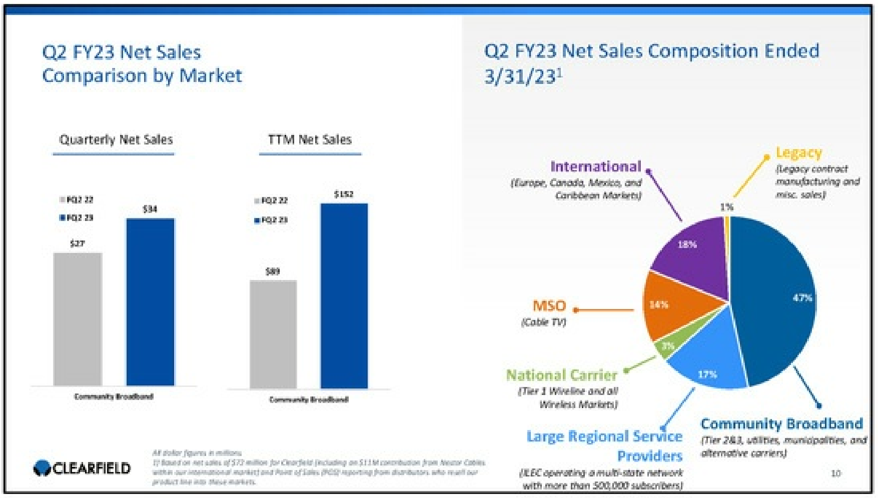

Consolidated net sales in the second quarter of fiscal 2023 were $72 million, a 34% increase from $53 million in the same year-ago period.

This figure includes $61 million of organic net sales from Clearfield and an $11 million contribution from Nestor Cables, reflecting a 50% increase from Nestor Cables over the previous quarter. As many of you are aware, we acquired that business in July of last year. We are investing in capital equipment with faster processing capability to reduce costs and improve margins at Nestor. Furthermore, the discovery process on how to best provide higher margin connectivity solutions into the European market continues.

The year-over-year increase in net sales was due to higher sales across our core end markets, particularly in our Community Broadband and MSO markets, along with the contribution from Nestor Cables in our International market.

Order backlog declined 21% to $108 million on March 31, 2023, down from $136 million on March 31, 2022, and $136 million on December 31, 2022. We expect backlog will reduce further and that it will be roughly equavalent to quarterly revenue.

While we will continue to disclose backlog based on the feedback we received from our investors, we believe our lead time progress remains a more meaningful measure of our operational performance going forward. As Cheri noted, our lead times are currently six to eight weeks with the goal of getting down to four to six weeks, excluding active cabinets.

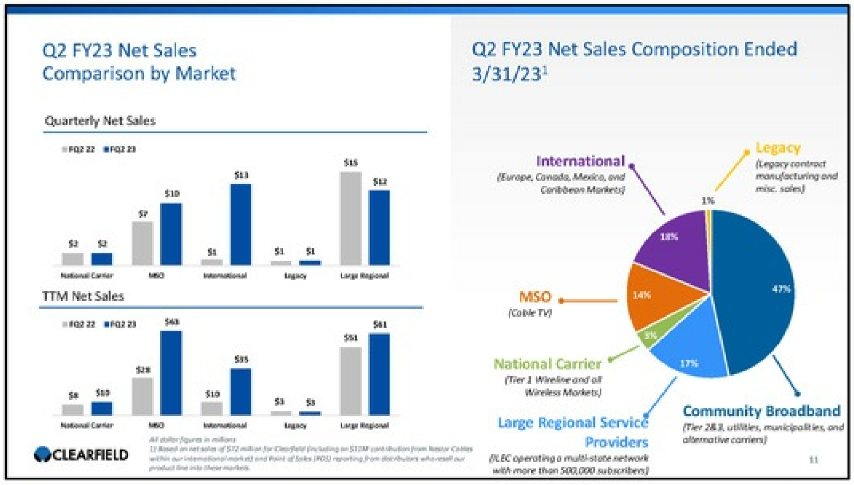



Turning to slide 10, I will now review net sales by our key markets.

Sales to our primary market, Community Broadband, comprised 47% of our net sales in the second quarter of fiscal 2023. In Q2, we generated net sales of approximately $34 million in Community Broadband, up 26% from the same period last year.

In addition, for the trailing 12-months ended on March 31, 2023, our Community Broadband market net sales totaled approximately $152 million, which was up 72% from the comparable period last year.

As Cheri indicated, we are breaking out revenue contribution from our Large Regional Service Provider customers, which was previously included in the Community Broadband and National Carrier market. We believe this new customer segmentation will allow investors to better understand the near-term industry dynamics Cheri highlighted earlier. To provide clarity to this customer group, we have broken apart our Community Broadband customer market to disclose revenue from the traditional smaller providers and from ILECs with footprints of 500,000 subscribers and above, which we refer to as Large Regional Service Providers.

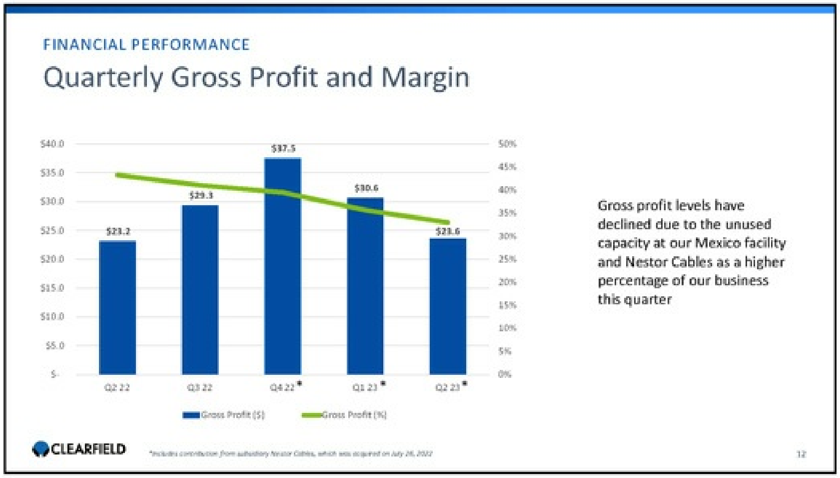



While net sales in our Large Regional Service Providers market were up 19% over the trailing 12-month period, net sales for the second quarter declined by approximately 17% year-over-year for this market. We anticipate the revenue decrease among this customer group will continue for a period of time. Please refer to the slide at the end of this presentation to view the historical revenue contribution for this new customer market.

Our MSO business comprised 14% of our net sales in the second quarter. Net sales grew 39% year-over-year and are up 127% for the trailing 12-month period.

Net sales in our National Carrier market for the second quarter decreased by approximately 16% year-over-year. On a trailing 12-month basis, net sales in our National Carrier market were up 25% from the year-ago period.

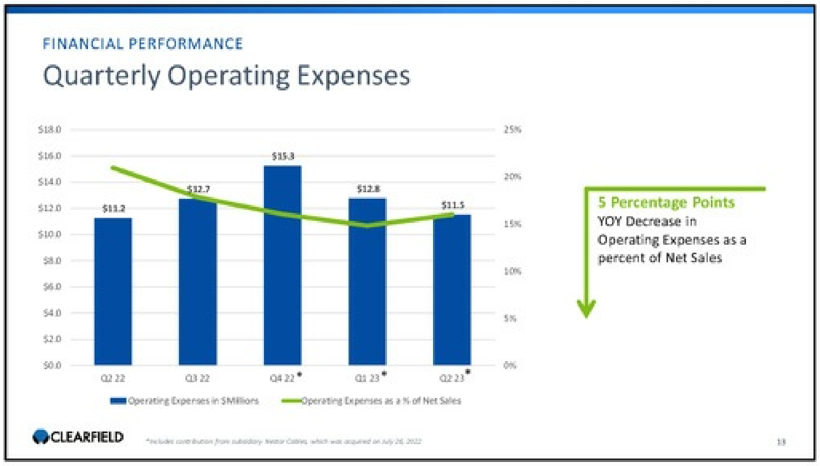
Finally, net sales in the International market increased 800% year-over-year in the second quarter compared to the same period last year, and we are up 255% in net sales year-over-year on a trailing 12-month basis due to the acquisition of Nestor Cables, who contributed $11 million toward this market.




As detailed on slide 12, gross profit margin in the second quarter declined to 32.8% of net sales from 43.3% of net sales in the same year-ago quarter. Our gross margin was impacted by unused capacity in our Mexico facility due to the lower levels of demand as well as Nestor's lower gross margins, as its revenue contribution represented a higher percentage of overall revenue.

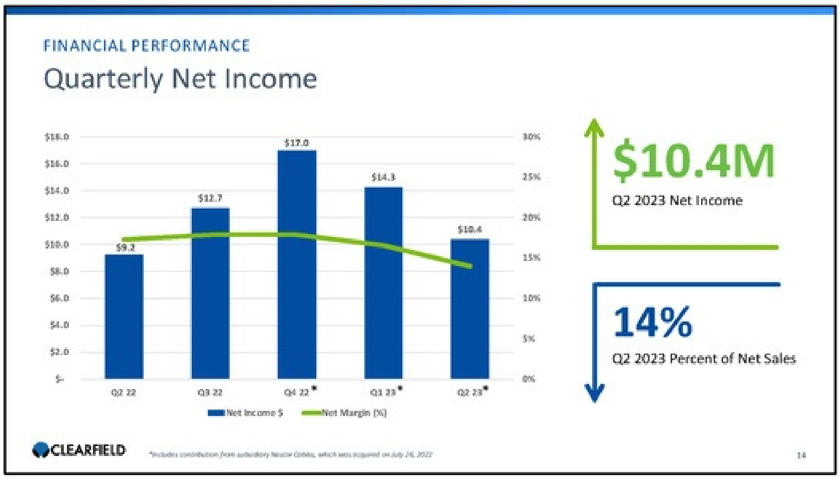
Given the dynamics impacting the industry, including rising supply costs, as well as our exposure to Large Regional Service Providers, we now expect gross margins to finish the fiscal year near 30%, and expect to achieve mid 30's to 40% when volumes ramp up to our initial fiscal year 23 revenue guidance levels.

While Clearfield does not compete on price, we have been prudent in how we pass along rising costs to our customers in the interest of maintaining our long-term relationships. We will continue to be thoughtful in addressing these costs with our customers going forward.

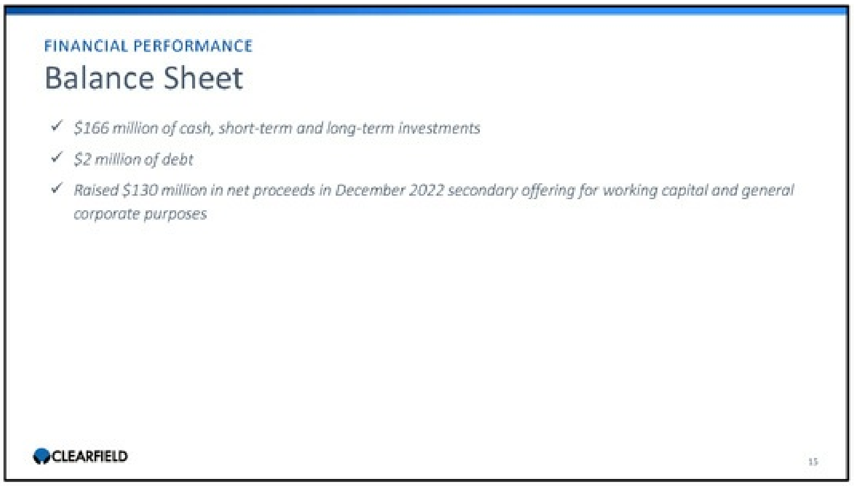



Now please turn to slide 13. Operating expenses for the second quarter were $11.5 million, which were up slightly from $11.2 million in the same year-ago quarter.

This increase is the result of the addition of operating expenses of the Nestor Cables business acquired in July 2022, offset by the reversal of performance-based compensation accruals during the fiscal second quarter.
As a percentage of net sales, operating expenses for the second quarter were 16%, down from 21% in the same year-ago period, which reflects improved operating leverage.




Turning to slide 14, net income in the second quarter increased 12% to $10.4 million from $9.2 million in the same year-ago period and was down from $14.3 million in the first quarter of fiscal 2023. As a percentage of net sales, net income for the second quarter was 14%, down from 17% in the same year-ago period and down from 17% in the first quarter of fiscal 2023.




As illustrated on slide 15, our balance sheet remains strong with $166 million of cash, short-term and long-term investments and $2 million of debt. We had $2.5 million in capital expenditures in the quarter, mainly to support our manufacturing operations. Our inventory balance increased from $90 million to $101 million in the second quarter, driven by the industry dynamics we have discussed.

While we expect inventory levels to increase slightly throughout the year, we do not expect them to do so at the same levels as we experienced in fiscal year 2022, resulting in improved free cash flow in the fiscal year ahead.


As Cheri noted, we now expect revenue for the full year to be in the range of $260 to $275 million. Additionally, we now expect net income per diluted share to be in the range of $1.80 to $2.10 per share.

With the capital raise we undertook last year, we plan to continue investing in our infrastructure and other necessary strategic areas. Additionally, our strong balance sheet ensures that we are well-positioned to effectively compete for larger customer opportunities and the ability to pursue strategic opportunities to enhance our product portfolio.

That concludes my prepared remarks for our second quarter of fiscal 2023. We appreciate the support of our investors as we continue to work to drive shareholder value.

I will now turn the call back over to Cheri.


Thanks for the financial update, Dan. Turning to slide 17, I would now like to provide an update on our multiyear strategic plan LEAP, which is our roadmap for how we intend to capitalize on the significant opportunities ahead.

Starting with L, which stands for leverage. We remain focused on leveraging our significant relationships in Community Broadband by listening to our customers and responding with solutions that address their pain points. As I mentioned earlier, we recently announced the launch of SeeChange, which reduces deployment time and labor costs. We expect to make similar announcements throughout the year.

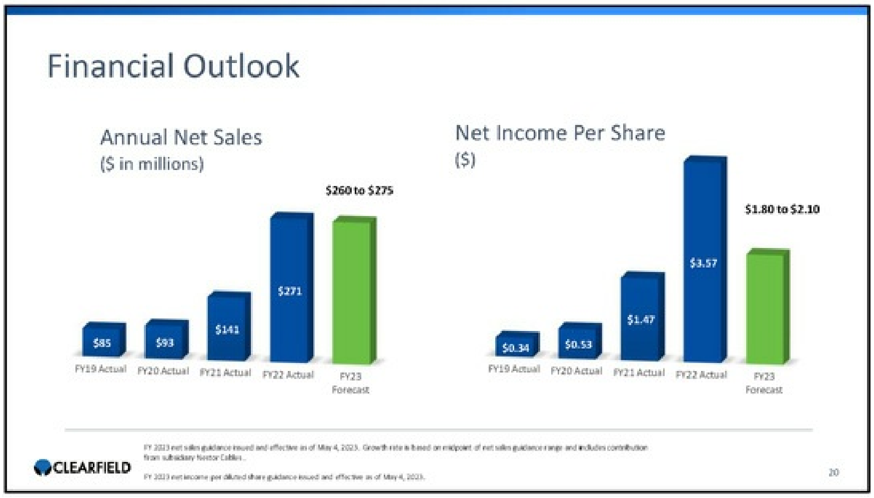
E stands for execution…To that end, we are currently rightsizing our capacity in our Mexico facility in order to navigate current market dynamics while ensuring we are ready to meet the market opportunity ahead. Likewise, we remain focused on reducing our lead times by strengthening our supply chain partnerships. Finally, we are pursuing cross-selling opportunities with Nestor's fiber cable both domestically and, at some point in the near future, Europe.

The A in our LEAP plan is to accelerate infrastructure investment. We expect investments in our systems to continue to drive incremental growth and margin expansion going forward. We will also continue to expand Clearfield College to provide online and infield training support as our industry navigates the ongoing shortage of skilled labor in the market.

Finally, the P in LEAP stands for position innovation at the forefront of our value proposition. To that end, we intend to increase the cadence of our product releases while ensuring we provide the best value for our customers through our innovative product design.

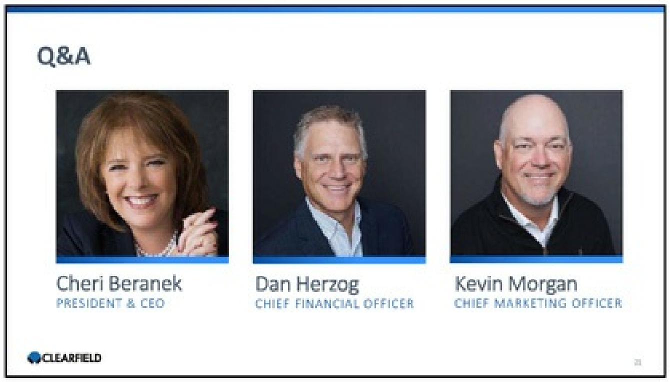

Several third-party analysts have estimated the total government funding for underserved and unserved markets to be approximately $100 billion over the next several years. Moreover, this funding is aimed at those markets in which we are a clear leader. As Kevin highlighted, this funding will drive a sizeable shift in the coverage of fiber deployments such that the share of households passed will shift to the smaller and alternative carriers. Clearfield is favorably positioned to benefit from this shift and expects to recognize revenue from these funding initiatives beginning next year.


In addition to the significant demand generated by the government funding outlays, we are preparing for several large opportunities over the coming years, including expansion into Europe, for which Nestor Cables provides a strong base, the integration of wireline and wireless architectures as 5G ramps up, and the evolution of the fiber network to the edge to manage low latency, data intensive applications.




In summary, while our second quarter financial results and guidance reflect the current state of the market, we are focused on building a strong foundation from which to address the long-term demand for high-speed broadband across our markets. While we are rightsizing capacity levels to meet current demand, we are maintaining the infrastructure and processes for long-term growth and continue to design products to address our customers' biggest pain points and to reduce the amount of skilled labor required to install.

And with that, we will open the call to your questions.

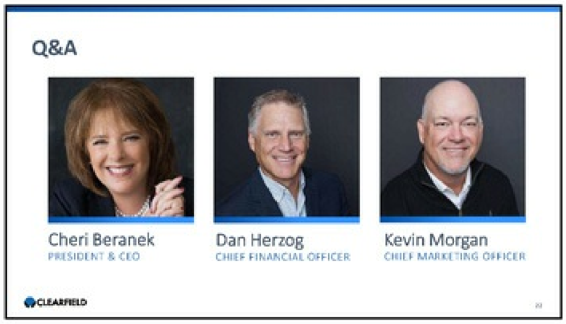



Thank you.

We will now begin the question-and-answer session. Our first question comes from Ryan Koontz with Needham. Please go ahead.

*Ryan Koontz*
*Needham & Company, LLC*
Hi, thanks for the question and thanks for the added metrics on the regionals, clearly an area of concern here. I wonder if you can kind of walk through, I mean, we've seen the regionals, a lot of them downsize their plans and revised CapEx lower this year, that's obviously a contributor and kind of doubling the problem of over buying last year. What if you could reflect on that, and maybe some of the other segments, specifically Community Broadband, and how you think about that market evolving over the next couple of quarters? Where I don't think we were aware of such an inventory issue, but is labor, or labor cost as big of an issue in the Community Broadband side as well as the regionals? Thanks.

*Cheri Beranek*
*President and CEO*
Thanks, Ryan. Yeah, it's, as you've noted, this is very much an industry issue as it relates to the Regional Service Providers in that the economic and world macroeconomic issues across the world and inflation and the like are causing some other Regional Service Providers to readdress their CapEx as they've announced over the course of really the last month. And as you stated, that seemed with the fact that they did place a significant just in case inventory position last year that I think they even came to better understand as we came into the beginning of the build season, because we started our conversations with them in February and March and April, there was definitely a different tune to what they were doing. Long-term absolute commitment to broadband, and as many others in the industry have talked about, today and over the last week, we see a strong return to broadband deployment in the latter half of the year. It's just unfortunate for Clearfield that our latter half of the year is not that far away, since our year-end happens in September.

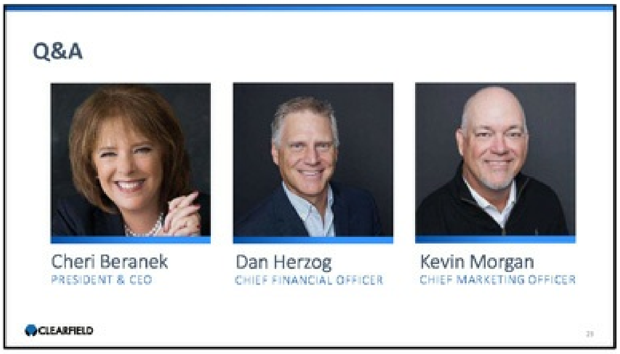



*Cheri Beranek*
*President and CEO*
The EMEA with Community Broadband and comparison to the Regional Service Providers, is a little less inventory intense. There's some pockets out there, but mostly what we see there is a world in which there are so many more Community Broadband providers at a smaller scale, that there's just a number of them that are starting to ramp up that are starting their deployments. And our ability to have such a broad range of customers really shows the strength of our business in Community Broadband. I think in all of the areas, you're seeing issues associated with labor, we've been told that's getting better, but incrementally, not overnight. And the other thing that is emerging, less so in Community Broadband, but absolutely within the Regional Providers is challenges associated with permitting. And permitting is related not only to them being a single provider, but I'm hearing stories of multiple providers going into a market. And as a result, the cities and communities who are providing permits are just overrun with trying to be able to respond effectively. So I think there's a changing world a changing dynamic that's kind of going to have to work itself through. But we're excited and remain excited about our ability to execute within; it is just unfortunately, very bumpy.

*Ryan Koontz*
*Needham & Company, LLC*
Understood, just a quick follow if I could around the ARPA contribution. Are you still seeing momentum there? Is there also a similar pause going on in the area, that these ARPA words that seem to be a nice steady stream of awards over the last few months?

*Cheri Beranek*
*President and CEO*
Right, we're seeing that for the summer, that we will see this kind of revenues associated with that in Community Broadband, smaller providers, they're not going to be passing 10,000 homes this year. But those awards are going to communities that are passing 3,000 homes here 2,000 homes there. But they all add up and we're excited that we're working directly with some of those accounts and very much through distribution as well.

*Ryan Koontz*
*Needham & Company, LLC*
Got it. Alright, I'll pass on to the queue. Thank you.




Operator
Our next question comes from Jaeson Schmidt with Lake Street please go ahead.

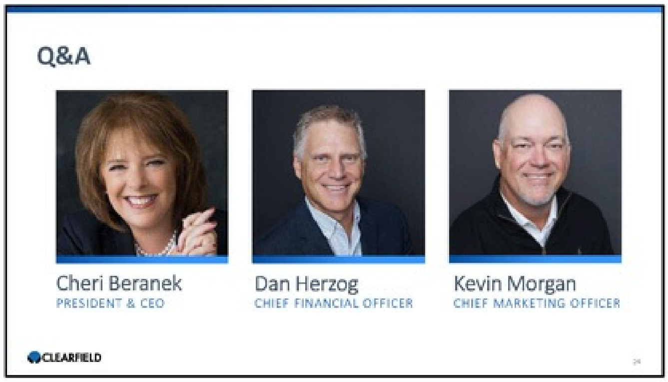
*Max Michaelis*
*Lake Street Capital Markets,LLC*
Hey guys, this is Max on for Jaeson. Just in terms of the guide. I want to get your cadence for the next couple of quarters. In other words, should investors see a drop in revenue?

*Cheri Beranek*
*President and CEO*
We anticipate the next couple of quarters will be pretty consistent with each other. So it'll drop from current conditions, for third quarter and then third and fourth quarter we think will be pretty consistent with each other. At this point the build season, the higher build season, and so as a result we tend to see some nice momentum already, which we haven't unfortunately picked up in March and April. We're looking for that in May and June and because of the lead times now shrinking drastically. That should work out just fine. Hope that answers your question.

*Max Michaelis*
*Lake Street Capital Markets,LLC*
No, it does. Thank you. And then I just want to clear something up. So you've mentioned that GM, you expect gross margin, you expect to be 30%? Is that for the next two quarters? Or do you expect the entire fiscal year '23 gross margin to end up at 30%?

*Cheri Beranek*
*President and CEO*
Yeah, no, that's cumulative. So obviously, third and fourth quarter will be less than that.

*Max Michaelis*
*Lake Street Capital Markets,LLC*
Okay, thank you. That's it for me, guys.

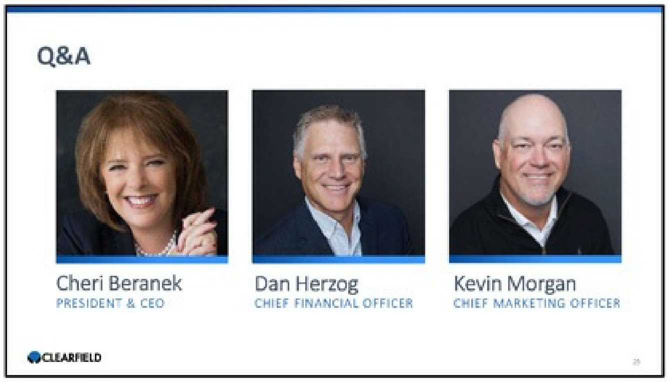



Operator
Our next question comes from Tim Savageaux with Northland Capital Markets. Please go ahead.

*Tim Savageaux*
*Northland Capital Markets*
Hi, good afternoon. A couple of questions. As you look at your kind of reclass, you're going to assume you took Lumen out of National Carrier and insert it to Regional. But now if we look at that particular segment of revenue, I mean, should we consider that effectively going to de minimis levels, immaterial levels, the next couple of quarters as a primary driver of the revenue decline?

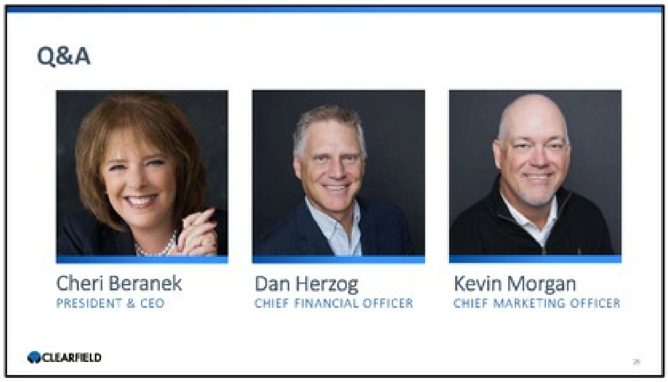
*Cheri Beranek*
*President and CEO*
Yeah, third and fourth quarter, it'll be it will be very small. And it's not just it's some situations about inventory push outs and then it's the order push outs, but then also our anticipation when we put together the initial guide for follow on orders that have not yet materialized. Now, with that said, looking forward, that's a very strong market opportunity for us. And our products are as well respected in that market as they are in Community Broadband. And none of those carriers represented more than 10% of our business in a single quarter. But, when they are high single digits, and there's multiple ones of them who have had some similar inventory carrying positions as well as some project deadlines associated with CapEx that gets pushed out, it starts to take a significant toll.

*Tim Savageaux*
*Northland Capital Markets*
Okay, well, I guess maybe the reason I asked is that while community broadband, thinking that you obviously had a big second half of last year, the fiscal year. But the impact on the smaller carriers seems much less significant kind of maybe down slightly from current levels. Am I reading that the right way? And I know, you saw a big drop. Let's just hit that one. And we'll go to the next.



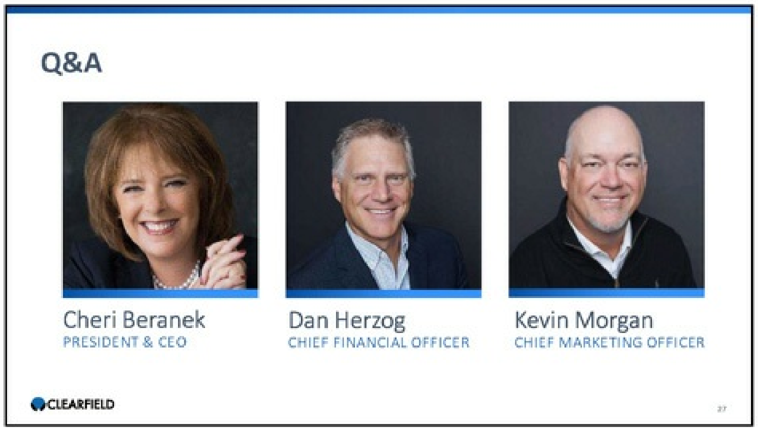

*Cheri Beranek*
*President and CEO*
I mean if we look at the course of Community Broadband as an aggregate, and in second quarter in comparison to the last 12 months. So second quarter is up high 20% in comparison to the 70% some it was up over the course of the last year. So that really represents there are some inventory positions within Community Broadband as well, some pockets and some of the larger Community Broadband carriers. But what's different there is as we look to third quarter is there will be new Community Broadband providers we are working with that will come online. The question really will be how fast they will come online for their permitting and their different issues. Long term, I think we see the balance kind of returning to where we're at today, but there's going to be some downturn over the course of the next two quarters, as you highlighted, it's going to be predominantly because of the large providers who are using the inventory positions they have to deploy for this summer.

*Tim Savageaux*
*Northland Capital Markets*
Okay, got it. And then maybe just kind of a similar question on the cable side. You obviously saw a pretty significant drop off there in the second quarter. But looking forward, you did reference, I guess I don't know, to the extent to which your commentary on cable was about the quarter or forward looking and whether you expect further significant declines from that segment to the balance of the year.




*Cheri Beranek*
*President and CEO*
Yeah, we did mention that it was going to be among the clients were within Regional Service Providers as well as to the more limited basis within the MSOs. So I really don't see that much difference between the segments about the differences in regard to rate. What's different is the single one carrier can represent multiple millions of the forecast in MSOs and in Regional Service Provider, rather than Community Broadband, a much smaller number. So then again, the intent within cable TV, I don't see it as being any different. They're very bullish on being able to protect their strong base of ownership in the residential broadband market. But as some of the CapEx spend among the telcos decreases, the threat that they have been experiencing also declines. And so what I see across the industry is, whereas last year, it was a foot race, for being able to get a land grab, whoever was passing that home first, was going to get that business. And what we see this year is really changing that position from being a land grab to today being more about success-based deployment, and really concentrating on connecting the homes that they've passed already, in addition to additional homes moving forward. So they've got to change, their ROI models have to change, their cost to pass a home was under estimated labor costs are much more than what many of these accounts thought they were going to be. And that said the interest rates now for this year are totally different position than whether business plans were based on. And so it's really pushed out, the opportunity, rather than for it to be just immediate.

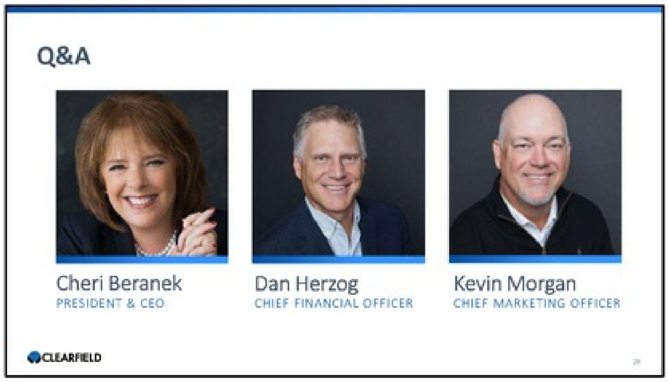
I mean, if we look at the Fiber-to-the-Home Council's numbers, they said we hit a record of 7.9 million homes last year, which is fantastic. But they also said that over the next 10 years, the average was going to be over 11. I mean, it's all just pushed out moving forward, rather than for it to be in a shorter period of time.




*Tim Savageaux*
*Northland Capital Markets*
Okay, thanks very much. Last question from me. I mean, historically, kind of pre the big pandemic-driven surge, you had talked about kind of sustainable growth rates for Clearfield in kind of the double digit 10% to 15% range. As we kind of look forward realizing visibility is not great right now, care to frame growth expectations heading into '24 relative to those historic benchmarks?

*Cheri Beranek*
*President and CEO*
While we're not giving '24 guidance, we firmly believe that Clearfield is in a position, as the shift moves from larger carriers to the smaller alternative carriers, that we can grow faster than market rates. And so that will be our goal, and our positioning by which to do that.

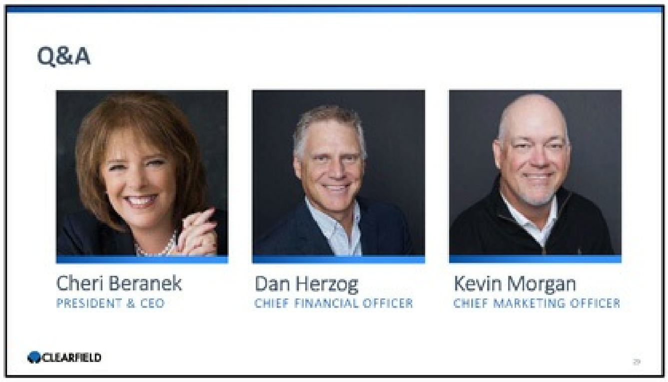
*Tim Savageaux*
*Northland Capital Markets*
Thanks very much.




Operator
Our next question comes from Scott Searle with ROTH. Please go ahead.

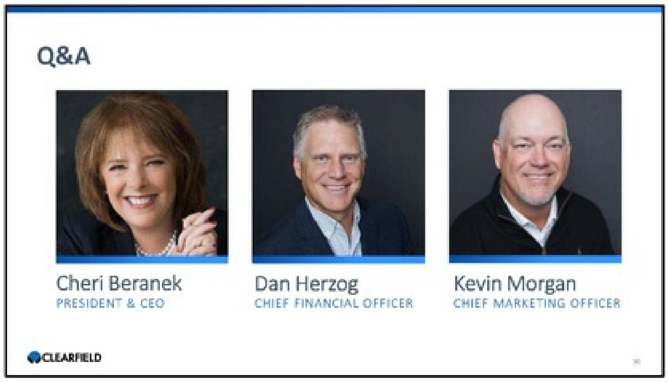
*Scott Searle*
*ROTH Capital Partners, LLC*
Hey, good afternoon. Thanks for taking my questions. Cheri maybe, just looking at the mix of business, across the different customers. Last year, was really a coverage year of building out the footprint, but you also get paid for the connection in the success-based CapEx. I'm wondering if you could give us an idea about what that mix of business looks across the broader base in general, where you're seeing the growth and how the gross margins compare, then a couple of follow ups.

*Cheri Beranek*
*President and CEO*
Our gross margins for homes passed, as well as homes connected are actually quite similar. So that's doesn't change the gross profit outlook. We as a company have a much higher penetration in homes passed with our cabinet line than we do with the number of homes connected and that our share among homes connected is less than in our share of homes passed. One of our big initiatives this year is to establish ourselves and maybe to caveat in Community Broadband we have a much higher penetration of homes connected than we do in the Large Regional Service Providers. In the Regional Service Providers, we're very much about passing homes, and have not yet become a portfolio provider for the full range of our solutions. One of the reasons that we saw a need for even simpler products than we currently had. And so in addition to the terminals and drop cables that we had provided previously, this spring, we launched a product line called SeeChange. And SeeChange is an entirely pack and play, no splice, plug it in and move on solution. So not only it is easier to install, but it is easier to prepare. And so that is a patent protected new proprietary product to Clearfield, that's just been on the market now for about 60 days. And so it'll be as we look forward into '24 and beyond one of the tools by which that will have to increase that penetration rate into homes connected.

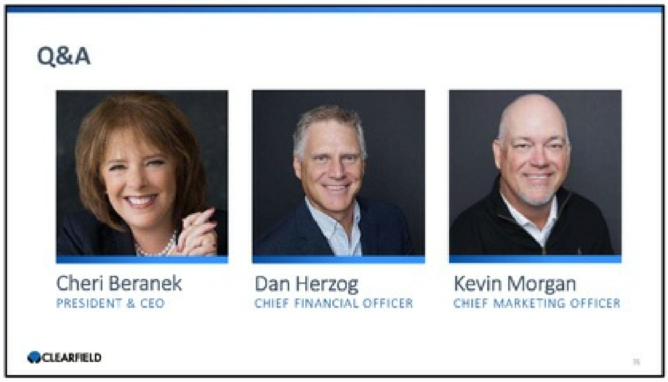



*Scott Searle*
*ROTH Capital Partners, LLC*
Right, very helpful. And maybe to follow up. I know, we talked a lot about excess inventory and kind of hitting the pause button and a number of the different categories in terms of Regional Providers and MSOs. But do you have an idea of what the existing inventory levels look like, within those two groups? It seems like it's built into the expectations now have, it's going to persist into June and September timeframe. But it also seems like you're seeing some indication that maybe in December, there starts to be a pickup. So thoughts on inventory within those customers, and two quarters to kind of work through those inventory excess levels.

*Cheri Beranek*
*President and CEO*
Yeah, so we do have visibility into some of the accounts directly into their own Excel charts and their own inventory levels. And we do it into the distributors, but not necessarily into every Community Broadband provider. We do talk with every -- with most Community Broadband customers, at least quarterly and all of the Regional Service Providers probably weekly, if not daily, depending upon who we're talking to. So we don't -- I can't give you an absolute that it's -- it's three months or six months in regard to the inventory position. Because I think part of it is whether or not these customers are going to actually execute to the plans that they implemented. Because last year bluntly they didn't execute to their original plan, which is why they have this excess inventory. So I think my best response to that is we're entirely bullish on the environment, we took a conservative approach to this guidance level, because of the uncertainty and the uncertainty toward their plan versus their execution and their demonstrated history. And we'll keep our investors as advised as we can. And it's why we broke out the additional market segments so that we can continue to be as transparent as possible. But I think one of the fabulous parts about Clearfield is we built this company, they make money from the beginning. And so for nine consecutive quarters, we increased the top-line growth as a company by 40%. While we were delivering high-teens in net income. There's an expense to that, or the return on that has been strongly for investors over the course of the last nine quarters. And now there's bluntly yes, we have a capacity in excess of what current demand is them, but we've executed strongly to demand when demand was there. And I think we know as an environment that the demand will return, our product lines have been well received. And now we have additional infrastructure by which to respond so we can grow to our original forecasted levels not this year, but certainly in the years to come.

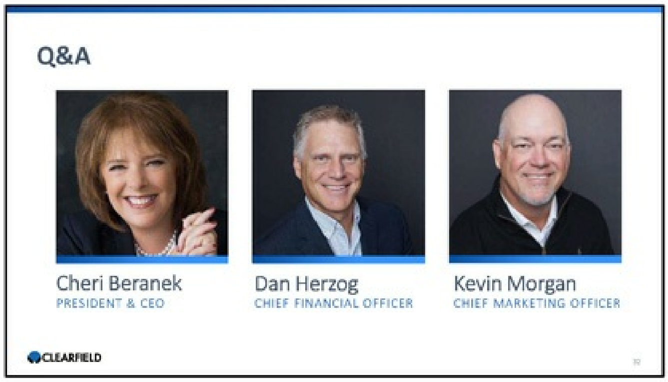



*Scott Searle*
*ROTH Capital Partners, LLC*
Great, very helpful. And lastly, if I could on the gross margin font. Certainly you're going through some absorption issues over the next couple of quarters, but you referenced rationalizing some of the Mexican capacity. What if you could talk about that? And then as well, inventory levels are elevated by design. But now as the world is started normalized from a supply chain perspective. How is that playing into the gross margin headwinds? Because you're not running the factories as hard as well the absorption issues exacerbating that and how quickly do they come back then as with the top-line starting to recover, at some point as we get into fiscal '24, thanks.




*Cheri Beranek*
*President and CEO*
So you're right, we have capacity allocations that are being--- overhead allocations that have not been absorbed. We have, on some of the variable costs, we have reduced our costs by having fewer workers in some of our factories. And from an inventory standpoint, there is an increase associated with our inventory ----some of it organic Clearfield, and also a significant increase at Nestor Cables. And we couldn't be more proud of Nestor Cables' increase over the first quarter of almost 50%. The demand opportunity in Europe is proving to be significant. And when we anticipate to see a strong Nestor Cables' contribution in third quarter. And that's the good part. The unfortunate part of that is they're at a lower gross profit percentage than organic Clearfield is so the mix between Clearfield and Nestor is going to bring that number down. Now, we are significantly investing in additional equipment and lines and capacity in Europe so that we can increase the gross profit of Nestor, and not necessarily on the cables to Clearfield connectivity levels, but as we introduce connectivity products into Europe, we'll see our global gross profit numbers going up. As we look into '24, it will be -- it's still we can't take the fixed costs out of our Mexican facilities and our Minneapolis facilities. But we're certainly managing the variable costs to the best levels that we can. And we anticipate we would be at a gross margin level, close to what we forecast of about 40% once we hit the revenue lines that we had in this year's guidance program.

*Scott Searle*
*ROTH Capital Partners, LLC*
Thank you



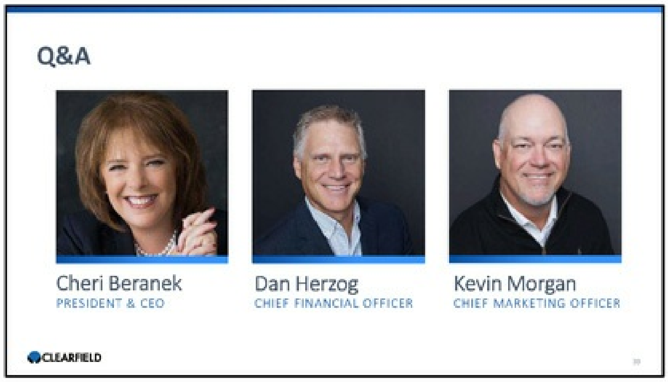

Operator
Our next question comes from Greg Mesniaeff. Please go ahead.

*Greg Mesniaeff*
*WestPark Capital*
Yes, thank you. When you look at the order intake softness across your various customer categories. I'm assuming that the vast majority of it relates to products designed for the residential broadband market and therefore the small to medium sized businesses, is that correct?

*Cheri Beranek*
*President and CEO*
Our product line, the Clearview Cassette, can be used for residential as well as for business class deployment. It's one of the advantages of our architecture, so that you use all of the same products regardless of where it's being deployed.

*Greg Mesniaeff*
*WestPark Capital*
Right, but you don't know -- you don't know whether the lower orders are related to softer residential demand on the part of your customers or business. That's not...

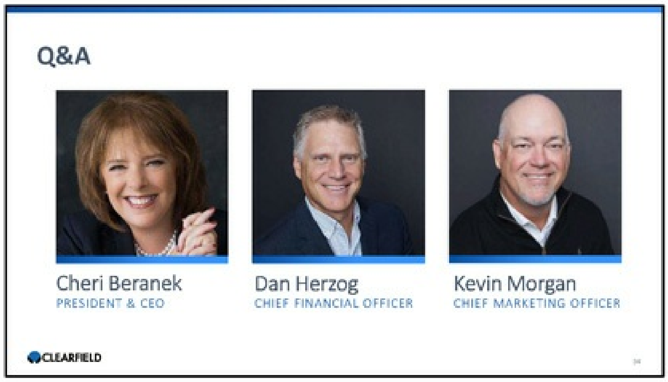
*Cheri Beranek*
*President and CEO*
No, I couldn't tell you that.




*Greg Mesniaeff*
*WestPark Capital*
Okay. And second part of the question is as you as your customer base, moves further upstream to the larger carriers, what kind of if any competitive landscape issues are you running into as far as competition?

*Cheri Beranek*
*President and CEO*
Well certainly as we move up into the Regional Service Providers, we're coming up to the larger competitors on a more aggressive basis. And last year and the last couple of years during the COVID environment, when our competitors did not have capacity to respond to these providers, it gave us the opportunity to compete for business. And it's important for us during that period of time that we did not simply take orders. I wanted share, I wanted the opportunity for repeat business. And we did a number of trials to facilitate and identify the labor savings, and how we could be long term customers, long term suppliers into that environment. Now larger service providers typically, are going to lower gross profit than Community Broadband. But that will be hidden in our numbers moving forward. Because of the overhead absorption was going to be at a level that it'll hide the increased margin that we would normally see by a straight Community Broadband business.

*Greg Mesniaeff*
*WestPark Capital*
Thank you for that. And then one final, any commentary or color on use of proceeds from your raise.




*Cheri Beranek*
*President and CEO*
We were very fortunate to be in a position to raise money last winter. And our balance sheet being very strong and has given us that the opportunity to really look at a variety of factors. Certainly in a time of uncertainty like now, having a strong balance sheet gives us a lot of considerations. It allows us to compete for big business and bigger customers. And it also allows us the opportunity to strategically look at opportunities to expand our product lines or to expand the channels by which we offer them. So no definitive plans at this point. But we are looking and managing our balance sheet with a very disciplined orientation.

*Greg Mesniaeff*
*WestPark Capital*
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Cheri Beranek for any closing remarks.

*Cheri Beranek*
*President and CEO*
Thank you very much. It's certainly been a challenging time and I take it very personally to disappoint investors in that your support and confidence in us is something that we take great pride in. I believe in this company, I believe in everything that we're doing, and I look forward to continue to earn your respect and your trust moving forward.

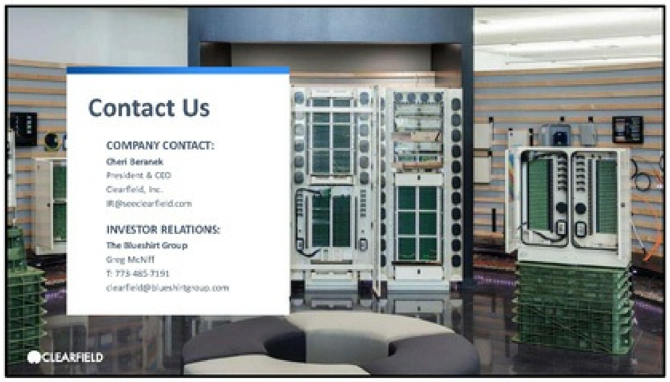
Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

# Appendix

**Net Sales by Market**
**Trailing 8 Quarters Through March 31, 2023**
***(in thousands)***

| Market | Q2 23<br>3/31/2023 | Q1 23<br>12/31/2022 | Q4 22<br>9/30/2022 | Q3 22<br>6/30/2022 | Q2 22<br>3/31/2022 | Q1 22<br>12/31/2021 | Q4 21<br>9/30/2021 | Q3 21<br>6/30/2021 |
|---|---|---|---|---|---|---|---|---|
| International | $13,538 | $10,204 | $9,345 | $2,515 | $1,462 | $1,994 | $3,542 | $2,929 |
| Legacy | 593 | 751 | 557 | 624 | 708 | 725 | 906 | 636 |
| National Carrier | 1,954 | 2,305 | 2,713 | 3,510 | 2,326 | 1,845 | 2,170 | 2,076 |
| Large Regional Service Providers | 12,498 | 14,637 | 17,468 | 16,323 | 15,078 | 16,152 | 11,387 | 8,508 |
| MSO (Cable TV) | 10,100 | 20,819 | 21,316 | 10,414 | 7,282 | 9,048 | 6,961 | 4,288 |
| Community Broadband | 33,526 | 37,226 | 43,630 | 37,864 | 26,639 | 21,343 | 20,270 | 20,298 |
| **Total** | **$71,809** | **$85,942** | **$95,029** | **$71,250** | **$53,495** | **$51,109** | **$45,236** | **$38,735** |

CLEARFIELD



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