

Networking & Hardware

Nokia 2Q26 Results Underscore a Ramping Optical DCI Opportunity Amid a Tight Supply Environment

Nokia (covered by J.P. Morgan European Tech Hardware & Payments analyst Sandeep Deshpande) reported 2Q26 results that continued to highlight a strong and building demand environment for the optical DCI market, including scale-across opportunities. The company pointed to strong double-digit revenue growth across its Optical and IP Networks subsegments, as well as triple-digit growth in both revenue and orders for AI & Cloud customers. That said, those strong 2Q26 orders were noted to have benefited from several sizable long-term orders, as customers look to secure supply; *only about half of the orders received in the quarter are expected to convert to revenue over the next 12 months vs. the typical conversion within that window.* On supply, constraints were characterized as broad and industry-wide, with memory flagged as the primary bottleneck. At the same time, Nokia highlighted further progress in expanding its InP manufacturing capacity, including the acquisition of NXP's site in Arizona, which is expected to begin production in 2028 and ramp in 2029. Net-net, we see Nokia's 2Q26 results as supporting a ramping DCI opportunity where supply-demand remains imbalanced, which is relevant to system providers in our coverage, such as Arista, Ciena, and Cisco, as well as component providers and manufacturers, such as Coherent, Fabrinet, and Lumentum. *Key takeaways include:*

- **Network Infrastructure growth led by Optical and IP Networks, particularly in DCI and scale-across.** Net sales in 2Q26 grew +9% y/y on a constant-currency basis, led by +12% growth in Network Infrastructure. Within that segment, Optical Networks grew +20% y/y and IP Networks grew +16% y/y. On a customer basis, AI & Cloud net sales grew +105% y/y, while orders expanded to €2.8 bn in 2Q26 (vs. €1 bn in 1Q26 and less than €0.5 bn a year ago). Nokia highlighted significant demand in routing for DCI, spanning both front-end and scale-across, along with traction in back-end switching, where it also saw some 2Q26 orders come through from the design wins announced in 1Q26. The company further noted that it secured its first multi-rail ILA design win with a major customer and entered trials with a U.S. hyperscaler for a new out-of-band management solution.
- **Lead times in Optical are elongating, especially for leading-edge products.** Nokia cited supply as a key gating factor for generating additional revenue, with memory characterized as the most significant constraint, though the pressures are broad-based and industry-wide. Mitigation efforts are ongoing as Nokia works to secure supply, simplify designs, build out additional capacity, pass through certain input-cost increases, and collaborate with customers for better visibility into demand. In the meantime, the ramp of InP capacity at the San Jose fab remains on track for volume production by year-end, with a meaningful capacity ramp expected in 2027. That said, while Nokia continues to evolve its manufacturing process, management remained non-committal on specific targets or on achieving yield parity with competitors.
- **AI-RAN is a medium-term Mobile Infrastructure catalyst.** Nokia highlighted AI-RAN could reduce reliance on traditional, proprietary baseband hardware upgrades once operators migrate to an AI-accelerated RAN architecture. The platform could also improve operator economics by delivering material spectral-efficiency gains and a software upgrade path to 6G. That said, the revenue impact remains a medium-term story, with pilots

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expected in late 2026, commercial availability in 2027, and more meaningful volume in 2028.

