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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the II-VI Incorporated FY '20 Fourth Quarter Earnings Conference Call.

(Operator Instructions)

I would now like to hand the conference to your speaker today, Mary Jane Raymond, Chief Financial Officer. Please go ahead, ma'am.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Thank you, Joelle, and good morning. I'm Mary Jane Raymond, the Chief Financial Officer here at II-VI Incorporated. Welcome to our earnings call today for the fourth quarter and the year-end for fiscal year 2020. With me today on the call are Dr. Chuck Mattera, our Chief Executive Officer; and Dr. Giovanni Barbarossa, our Chief Strategy Officer and the President of the Compound Semiconductors segment. This call is being recorded on Thursday, August 13, 2020.

Our press release and our updated investor presentation are available on the Investor Relations tab of the website, ii-vi.com. Just as a reminder, any forward-looking statements we may make today during this teleconference are given in the context of today only. They contain risk factors that are subject to change, possibly materially. We do not undertake any obligation to update these statements to reflect events subsequent to today, except as required by law. A list of our risk factors can be found in our Form 10-K for the year ended June 30, 2019, as well as in the Form S-3 filed with the SEC on June 30, 2020.

We will also present some non-GAAP measures for which the reconciliations to GAAP are found at the end of each document that includes those measures such as the press release or the investor presentation.

With that, let me turn the call over to Dr. Chuck Mattera. Chuck?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Thank you, Mary Jane, and good morning, everyone. What a year. Our employees came together and really accomplished a lot in a short time, including coping with the pandemic. I am very pleased with our performance and our progress on a number of fronts. On a consolidated basis for fiscal year 2020, we delivered revenue of $2.4 billion, with a non-GAAP return on sales of 11% and record cash flow from operations of $297 million and record free cash flow of $160 million.

When we received approval to complete the Finisar transaction, we hit the ground running and leveraged the best that Finisar and II-VI had to offer. As One II-VI, we began serving our end markets and customers with great results. Among our many achievements in a short period of time, we enhanced our $1 billion datacom transceiver business and delivered strong operating performance underscored by improved margins. We began shipping the indium phosphide based devices to the OEM market a year ahead of schedule. We are on track to deliver double our announced cost synergies by the end of our first 12 months. We strengthened our long-term market position in silicon carbide devices by continuing to ramp our capacity for silicon carbide substrates and by pursuing strategic partnerships that enable our vertically integrated technology platforms. Our sales and procurement organizations drove profound improvements in the organization, simplifying our processes, expanding the scale and implementing successful change programs that contributed to our top and bottom line results, while teams have dedicated One II-VI employees worldwide, confronted a worldwide pandemic and sustained compliant, safe and secure operations in every country that we operate in.

Underlying these accomplishments were 4 solid quarters of the kind of heavy lifting that a competitive market requires. Our fourth quarter cap this trend of strong achievement with revenue coming in above our June 30 revised guidance, driven by strong sequential growth, especially in communications and 3D Sensing.

We delivered fourth quarter revenue of $746 million, booked $810 million in new orders and ended the year with nearly $1 billion in backlog. Thanks to our global operations teams, the consolidated revenue impact of COVID-19 in the quarter was not material. As the digital transformation accelerated, we achieved a 25% increase sequentially in the communications market, which drove the majority of our growth. Revenue was split about 50-50 between telecom and datacom as trends in work, learn and play from home, accelerated with COVID-19 and continue to fuel what many believe is a strong multiyear upgrade cycle that began unfolding even before the pandemic. This acceleration is driving growth in all parts of the network, including intra data center, inter data center, metro and long haul, submarine and of course, 5G access.

Our datacom business grew over 20% sequentially. We believe this growth was driven by businesses moving their enterprise applications to the cloud at a brisk pace to reduce their OpEx as well as carriers accommodating an increased number of subscribers working from home, a trend we believe will continue for some time. Our broad portfolio and diverse customer base, combined with great execution, were instrumental in the delivery of our strong performance in this competitive segment. We also believe our customer intimacy enabled us to grow our datacom business with some of our legacy Finisar customers who had taken a cautious posture prior to the acquisition, but returned to us in our second quarter.

Finally, we have also started to see the benefits of our integration and synergy plans as they relate to the datacom components business, which we believe will put us on a trajectory to capture over the next few years, about a 40% share of what we estimate to be greater than a $400 million indium phosphide laser device merchant market by 2022. Our telecom business grew 29% sequentially, driven by strong demand for our ROADMs, DWDM components and subsystems and our portfolio of undersea components. Our industrial laser business mitigated the impact of COVID-19 while delivering sequentially flat revenue with upticks in the 1-micron laser market. Sequentially, we are seeing encouraging signs of overall recovery in the industrial laser market, led by customers in China.

Our semi cap equipment materials business grew 6% in the quarter compared to the previous year. The industry continues to outfit next-generation fabs with advanced technologies, including EUV, and we saw a strong demand for those products. While travel restrictions due to COVID-19 have slowed the ramp of some new fabs, the longer-term outlook remains strong. Our vital -- our emerging and vital life sciences business grew 12% sequentially. It has also more than doubled its bookings sequentially as it continues to provide critical materials based components to customers engage in a design and production of reliable diagnostic testing and instrumentation, including those used for COVID-19. At this point, we have 50% order coverage for fiscal year 2021.

Turning to 3D Sensing. Growth was exceptionally strong at 32% sequentially. For the year, we will report record revenue well above our plan, thanks to the competitiveness of our vertically integrated platform and the successful execution of our integration and synergy plans. All of our 3D Sensing operations are performing well, and it's exciting to be shipping to our largest 3D Sensing customer from all of our locations. As it relates to ESG, we are increasingly recognized as a company that is advancing the goals of clean energy and operations. I would like to acknowledge our team's sustainability efforts, including those that enabled us to be included in Apple's clean energy program. Announced in July, we were recognized by Apple being committed to powering all of our production for them with 100% clean energy. Advancing our broad goals around clean energy is what makes the GE partnership so exciting. This partnership will enable us to combine our existing capabilities with GE's technology to produce silicon carbide-based devices and modules that will ultimately expand the widespread deployments of clean power.

We also announced yesterday our intention to acquire 2 important technology companies. The first is Ascatron, a leading innovator in silicon carbide epitaxial wafer and power electronic devices. The second is INNOViON, a leader in ion implantation as well as semiconductor fabrication services for engineered materials and devices. Clearly, we are continuing to build out key elements of this exciting technology platform. All of this will accelerate by a number of years, our work to expand into silicon carbide-based devices. While this expanded platform will take a few years to fully develop, we are aiming to be positioned as a strong market player in what we believe will be a long-term secular growth trend driven by global emissions regulation and the convergence of electrification and renewable energy.

Regarding our silicon carbide substrate business, revenue grew 26% sequentially, driven by wireless as we continue on our path to increase capacity 5 to 10x over the next 3 to 5 years to support our exciting growth targets.

Finally, regarding the overall market conditions, the world is still dealing with an incredible number of crosscurrents in trade and market dynamics, including possible changes in the geopolitical landscape and the widespread effects of a pandemic. Since our inception, we have positioned our company to develop products that bring innovations to the broadest number of customers possible across all geographies. We are, therefore, very well positioned to accommodate our customers who are now increasingly diversifying their global footprint and mitigating their risks while strategizing on the most sustainable way to manage their operations. All of this is consistent with our vision of a world transformed through innovative materials vital to a better life today and the sustainability of future generations.

With that, let me turn it over to Giovanni. Giovanni?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Thank you, Chuck, and good morning. 5G represents the most extensive opportunity II-VI has experienced for some time. Our vertical integrated product portfolio includes components, modules and subsystems that are deployed into all parts of the network that will continue to grow, driven by demand for 5G services.

Starting at the base stations, our silicon carbide substrates and soon, our gallium nitride on silicon carbide amplifiers in partnership with SEDI, represent a great growth opportunity in the wireless market. Our optical transceivers, enabled by our own platforms for lasers, detectors, optics and integrated circuits, connect the base stations to the first point of aggregation in the optical network, where we offer an end-to-end vertical integrated portfolio of transmission, amplification, switching and monitoring products. It is a very exciting end market for II-VI.

With regard to the partnership with saving that we previously announced, the gallium nitride on silicon carbide program, which relies on our 150-millimeter substrates is on track. And our power amplifiers are meeting the stringent requirements for the 5G base station market. We have hit our scheduled milestones to date, have multiple qualification efforts underway and expect to be in volume production in the first half of calendar year 2021. We are excited about the progress made to enable rapid adoption and scaling of critical 5G infrastructure with our vertically integrated platform.

Our planned capacity expansion for silicon carbide substrates is also on pace to meet our internal and external demand for RF devices. The competitive advantage of our $1 billion datacom transceiver business is rooted in the differentiation of our components and better integration. These advantages derived from proprietary device level technology platforms, such as indium phosphide, gallium arsenide and analogue integrated secret design expertise dedicated to the transceiver products. All developed, thanks to the close collaboration of a world-class multi-disciplinary team. While the datacom transceiver market is characterized by multiple suppliers, many of them mainly perform assembly operations. In our view, the upcoming upgrade cycle to high-speed optics will alter the competitive balance in sale companies like II-VI that are vertically integrated and have a compelling technology and product road map resulting from innovation at all levels of the transceiver design.

Innovation in optical and electronics components technology, along with advanced packaging and assembly automation that enable new levels of performance and integration will become essential as the industry migrates to higher data rates in shrinking form factors. For example, we have been investing in the high-performance indium phosphide and gallium arsenide devices, including 100G data convexes, which enable 400-gigabit Internet transceivers for different reaches. Led by our CTO, Chris Koeppen, we have stepped up our investments in wafer-level integration platforms, including silicon photonics and have significantly increased our investment in integrated circuit technology, which we believe is critical to our road map and competitiveness.

In telecom, we are seeing the strong customer demand for our 25G tunable transceivers for the 5G wireless front haul. And for our laser solutions, which grew 38% quarter-over-quarter, driven primarily by strong growth implant laser and our Wavelength Selective Switch product lines. For OEMs and module integrators, we are also ramping production of our components for 400G coherent optics, including our highly integrated tunable transmitter receiver assembly.

Looking beyond the communications market, our Aerospace and Defense business grew over 20% in FY '20 for the full year. Aerospace and Defense is increasingly turning into a significant growth market for us. In addition to our long-standing contribution to the F-35 aircraft and other strategic platforms that support vital intelligence, surveillance, reconnaissance and targeting applications, we are further positioning II-VI to address exciting new opportunities in hypersonics and directed energy as well as satellites and contested space.

Our 3D Sensing business, once again, grew sequentially and in a seasonally low quarter. This month, we began our fourth year of volume shipments in this important supply chain that started with our first shipments from our Warren plants. We have also accelerated the pace of development of our next-generation devices to increase our by shortening our time-to-market even further. The emergence of world-facing LiDAR sensors so smartphones and tablets underlines the strategic importance of 3D Sensing. We believe that world-facing LiDAR sensors will enable several applications, driving demand for 3D Sensing functionality in multiple end markets. We also believe it will increase the dollar content per device, it will be one of the growth drivers for 3D Sensing this year. We continue to be part of key next-generation 3D Sensing design engagements and are in a position to supply VCSEL products from our entirely U.S.-based vertical integrated facilities. We expect to continue to grow our VCSEL business and to gain market share in the upcoming product cycle by leveraging our state-of-the-art manufacturing operations in Sherman, which were qualified last quarter and where production continues to ramp.

Finally, as it relates to our announcement yesterday, I reflect on our strategy and demonstrated ability to identify and execute on valuable long-term investments. We saw the INNOViON opportunity and the importance of ionic implantations years ago. We made our original investment in INNOViON in fiscal year 2018. Yesterday, we announced our plans to acquire all the outstanding interest of the owners of the parent of INNOViON. Along with our team and global footprint, INNOViON will make a great addition to our differentiated technology platforms. We similarly see significant long-term value and differentiation in Ascatron's silicon carbide epitaxy and device technology, and we're excited for them to become an integral part of II-VI too.

With that, let me turn it over to Mary Jane. Mary Jane?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Thanks, Giovanni, and good morning. We closed our year with a strong performance that demonstrates our experience in integrating acquisitions and picking our market spots very well. On a pro forma basis, our revenue grew 12% in the quarter compared to Q4 fiscal year '19, and was flat for the entire year. The pro forma measurement gives effect to the Finisar revenue that was present at the same period last year prior to the acquisition.

Our non-GAAP gross margin was 42.3% and 38.3% for the year, nearly at or above the II-VI non-GAAP gross margin for fiscal year '19. Our non-GAAP operating income margin was 16.7% for the quarter and 13.6% for the year. We delivered $160 million of free cash flow for fiscal year '20, exceeding the original business case that assumed breakeven cash flow for the first year. We are tracking well against our target of $150 million in annual cost synergies within 3 years after the close of the transaction. The delivery of our synergies through June 30, or 9 months into the first year, is $50 million, and we still expect to reach $70 million or double the first 12-month estimate.

During the quarter, our total revenue of $746 million was split 72% in communications, 9% in industrial, 6% in Aerospace and Defense, 6% in consumer, 4% in semiconductor capital equipment and the rest is in other markets. For the year, the total revenue of $2.4 billion was split 67% in communications, 12% in industrial, 7% in Aerospace and Defense, 6% in consumer, 5% in semiconductor capital equipment and the rest in other markets. We had no 10% customers.

From a growth perspective in the quarter, sequentially, communications grew 25%. Consumer grew 27%, life sciences grew 12%, Aerospace and Defense grew 5% and semiconductor capital equipment grew 4% with the remainder of our end market being flat.

Growth in the quarter came primarily from China, the U.S. and Japan. Geographically, for the quarter, revenue was 48% in North America, 27% in China, 16% in Europe, 7% in Japan and 2% for the rest of the world.

Quarterly GAAP EPS was $0.53 and non-GAAP EPS was $1.18, with after tax non-GAAP adjustments of $67 million in total. The Q4 GAAP and non-GAAP EPS were significantly affected by a tax benefit for the final year-end tax rate. We had 102 million diluted shares in the quarter because the 2022 convertible debt was dilutive in the quarter.

For the full year of fiscal year '20, the share count was 84.8 million, the weighted average of the shares outstanding for the full year. For the quarter, GAAP return on sales was 6.9%, and non-GAAP return on sales was 15.8%.

At the segment level, the non-GAAP operating margins were 17.2% for Photonics and 15.6% for Compound Semiconductors. Photonics benefited from operating efficiencies and a very rich mix, including nearly doubling its submarine pump sales again, this quarter compared to the same quarter last year. Compound semi also benefited from its strong sales of 3D Sensing arrays and demand for datacom components. For operating expenses, or OpEx, the total for the quarter was $235 million on a GAAP basis and $191 million on a non-GAAP basis compared to $154 million in the third quarter of fiscal year '20, mostly due to incentive compensation. We expect our run rate depreciation to be $44 million to $48 million a quarter at the current fixed asset level for fiscal year '21. The 1-year measurement period for purchase accounting will conclude on September 23, 2020.

Stock comp was $24 million in the quarter and transaction expenses, including severance, were $5.3 million. Stock comp for fiscal year '21 is expected to be about $68 million or about $17 million a quarter. Though this value does vary with the stock price for some components.

Our June 30 backlog was a remarkable $957 million consisting of $587 million in Photonics and $370 million in Compound Semiconductors. This compares with last year's consolidated backlog of -- this compares with last quarter's consolidated backlog of $893 million, with $518 million in Photonics and $375 million in Compound Semiconductors. The backlog contains orders that will ship over the next 12 months. Capital expenditures this quarter were $29 million. For the full year, CapEx was $137 million. For fiscal year '21, we expect CapEx to be between $190 million and $240 million. The FX loss in the quarter was $6.3 million and $14.4 million for the year, affected by the extreme fluctuations in currency during the January to June period.

Interest expense for the quarter was $25.5 million. The tax rate in the quarter was a 26% benefit and for the full year, it was a 5% expense. The explanation of the fiscal year '20 tax rate is complex due to purchase accounting. The strong operating performance in Q4 improved the full year tax rate, and the adjustment of the first 9 months year-to-date tax expense to the final fiscal year '20 tax rate drove a large tax benefit in the fourth quarter. For next year, we expect the tax rate to be between 20% and 30%.

Turning to our capital markets raise completed on July 2. The company raised a total of $920 million and after all fees, the company retained proceeds of $882 million. Shortly after settlement, we paid off the balance of the term loan B of about $715 million, taking our net debt leverage ratio on the basis of our credit facility to 2x. The forward interest expense is expected to be about $16 million a quarter or about $64 million a year, including the amortization of remaining fees. Q1 fiscal year '21 will have a $24 million onetime noncash write-off for the bank fees incurred to raise the term loan B in September of 2019 or Q1 of last year.

The share count to be used for fiscal year '21 is 116 million shares. This assumes that our 2022 convert is dilutive and the preferred equity is anti-dilutive, thus we include the 7.3 million shares for the 2022 convert. And we do not include the maximum 9.2 million shares for the preferred equity.

In calculating the EPS, the $28 million of annual dividends that will be paid on the preferred equity or about $7 million per quarter need to be deducted from the net income to arrive at the net income available to common shareholders. The preferred equity will be mandatorily converted to common shares in July of 2024. The conversion will be between 7.75 million and 9.3 million shares. The conversion price is $51.60 a share. At the June 30 year-end, prior to any effects of the capital markets transactions, our cash was $493 million, our availability on our revolver was $375 million, including outstanding letters of credit, and our net debt position was $1.9 billion. Our net debt leverage ratio on the basis of our credit facility was 3.3x at June 30.

Regarding our announced intention to acquire Ascatron as well as all of the outstanding interest of the owners of the parent company of INNOViON. As the press release says, we expect both of these to close by the calendar year-end, if not sooner. Both of them are capability acquisitions. Both adding IT and key process technology to expand our epitaxial wafer platform. The combined cash outlay for both is under $40 million. At close, both will be consolidated into the Compound Semiconductor segment. Revenue is immaterial from both for fiscal year '21. Today, our shares in INNOViON are accounted for as an equity investment. Transaction fees for both are about $2 million, and we have included the $2 million estimate for transaction fees in our non-GAAP items for the first quarter ended September 30.

Turning to the outlook. Revenue for the first quarter of fiscal year '21 ending September 30, 2020 is $700 million to $750 million. And the EPS on a non-GAAP basis is $0.45 to $0.60 per diluted share. This is at today's exchange rate and at an estimated 25% tax rate. The non-GAAP items in EPS include $0.45, including the pretax amount of $20 million in stock comp, $21 million in amortization, $23.6 million or $24 million in debt extinguishment costs and $5 million in cost to facilitate the integration, including the transaction fees. The share count to be used is 116 million shares. The actual dollar amount of non-GAAP items, the tax rate and the exchange rate are all subject to change.

Before we go to the Q&A, as a reminder, our answers today may contain certain forecasts from which our actual results may differ due to a whole variety of factors, including, but not limited to, changes in the product mix, customer orders, competition, changes in trade and tariff regulations and general economic conditions.

(Operator Instructions)

Joelle, you may open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Meta Marshall with Morgan Stanley.

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

Great. Maybe just a question on -- one of your competitors noted that they were selling less directly to Huawei and diversifying with other customers. Could you just give us any insight into kind of what you're seeing in the interplays within kind of customer sets within China that you're selling to? And then maybe as a follow-up question, just some help with kind of thinking about the operating margins and the guidance?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Meta, this is Giovanni here. I'll -- first of all, we are not 10% customer. Okay. So that's clear. We have quite diversified in general, particularly in telecom and datacom. And so the -- there is no doubt that China is very strong at the moment. There is a demand for particularly compound semiconductor devices. We began selling our first indium phosphide lasers and detectors there to become eventually -- overtime a leader in those products. And everything else that we make from Wavelength Selective Switches to amplifiers to 980 pumps, and of course, an array of transceivers all in strong demand. But we have been quite balanced in generally across the leaders in the telecom and datacom world. So I can only say that we have not been affected by sanctions, for example. But having said that, I think we still have a very good pull from China and from the European as well as North American customers. And I'll let Mary Jane comment on the margin.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Right. So with respect to the guidance and the op margin. So first of all, particularly, you're comparing it to Q4. The first thing you need to do is reverse out the tax. So we -- if you remember, set the guidance for Q4 with what we expected to be about a 12% tax benefit, and it was actually 25%. And as we go into Q1, we are expecting about between 20% and 30%, so we use 25% tax expense rate. So that's the first change. The second change compared to Q4 is the share count. So instead of 102 million, it goes to 116 million. But with respect to the foundational part of your question with respect to operations, we had a very, very, very good mix in the quarter. And we are being a little bit more cautious on that mix as we start the year because Q1, the September 30 ended quarter, is usually our smallest quarter of the year, especially in some of the more margin-rich products of II-VI. So I will say, absolutely in setting the guidance, we're a little bit cautious on the op margin. But generally, the biggest changes, especially you're comparing to Q4 on the tax rate and the share count.

Operator

Our next question comes from Samik Chatterjee with JPMorgan.

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

If I can just start with the strength that you're seeing in China, and particularly, I think, Chuck, you also mentioned kind of looking at a multiyear investment cycle here. I think that's one of the questions that we keep getting off from investors to the timing or the length of the investment cycle, particularly in China. So I just wanted to ask you based on your experience of previous cycles, how are you thinking about the length of the investment cycle here that you're benefiting from on both telecom and datacom? And then I have a follow-up.

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Samik, this cycle may not be exactly like the last ones. There are a lot of facets to this one. Our understanding in discussions with our customers and with our customers' customers is that we should expect this to be a multiyear investment cycle. And it might actually have more than 1 phase to it. So we are cautious to begin with. And including, if we look back because we can't ignore the past. So our sensitivity and sensibilities are focused on not getting swept up with the tide and getting too carried away with over the long term projections. But we have to be conscious that there's a value proposition for the things that we do that are enabling a lot of this to take place. And that's only part of the things that are really exciting about this for us. And of course, we could see a slowdown and maybe be confused that a digestion phase, if it were to come. At the moment, we don't see that. It's strong as our fourth quarter results suggest. And the momentum that we have suggest, it's going to continue at least in the near term, okay?

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

Got it. And if I can just follow-up. Made a good set of results, but what stood out to me the most was the cash flow and the strong cash conversion that it's implying. How should I think about sustaining that free cash flow conversion into next year? And what were the primary areas of improvement rate because that service -- remarkable improvement in the free cash flow conversion?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Yes, of course. Thank you. So well, first of all, we worked very hard on the cash flow conversion this year since it was the first year with a new company. And also, as many of you have commented through this entire year, we had a significant level of debt that we hadn't had before, and it was important to us to be sure that we were able to service that debt. So a couple of things going forward. First of all, if you think about the CapEx range I gave of $190 million to $240 million. During fiscal year '20, the year we're just leaving. We did two things. One, we were extremely cautious on capital either because as we started the year, we weren't sure how trade was going to play out. Second of all, then because of COVID. The second thing was, Chuck, in particular, and, Giovanni, with our Photonics President as well drove the operations considerably strongly to move beyond, say, 16/5 or, in some cases, 10/7 in terms of operating hours to really being more across the board 24/6. So our growth operations were always 24/7, but not everything was. And we did that to be able to really start to moderate the curve on CapEx spending.

I think as we go forward into fiscal year '21, first of all, as we've just talked about, a lot of the growth that we're seeing, we will have some capacity expansion then to meet it. So that's the first thing. The second thing is, I think on the working capital elements, the 2 companies coming together and the merging of particularly inventory practices, probably helped us to get some good savings on the inventory side as well as cleaning up kind of past due receivables. Those as you know, don't actually keep happening, right? You sort of get them cleaned up, you get to a more steady rate. That said, I would still say that cash flow is going to remain very, very important to the company. And while I don't think this will quite be the conversion, I do think that the company will strive to be sure that somewhere in the neighborhood of a good, call it, 30% to 40% of free cash flow -- of the cash flow from operations is coming available to free cash flow. So that's just an estimate right now. As we look at the capacity increases for this year and the investments, particularly in silicon carbide-based devices, that could obviously move. But those would be the main drivers, and that's the main story on fiscal year '20.

Operator

Our next question comes from Tom Diffely with D.A. Davidson.

Thomas Robert Diffely ***D.A. Davidson & Co., Research Division - MD & Senior Research Analyst***

First, Mary Jane, you talked about how the cost synergies were coming in faster than initially planned. I'm curious, are you seeing additional cost synergies that you weren't expecting? Or is it purely just an acceleration of what you had planned from the beginning?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

I would say, Tom, if I were really kind of going to call it, it's probably 70% getting the existing ones we thought out faster. And maybe 30% some cost synergies we hadn't thought of. But generally, I wouldn't -- before you take my $150 million and multiply it up by 30%, I would say that part of the synergies in the third year are the more complicated ones that come from process reengineering, right? So getting everybody on the same system, all that sort of jab. As we start that because that starts in the first year, we see other things that are potentially possible to do. In the supply chain, which is the largest part of the COGS synergies, you don't always know exactly what you're going to find. So generally speaking, I would say, it's really mostly receiving them faster. And so at this point, I would not move the $150 million. We're still not all the way a whole year into this yet. But generally speaking, the best way to think about our company is we never met a synergy we didn't like.

Thomas Robert Diffely ***D.A. Davidson & Co., Research Division - MD & Senior Research Analyst***

Yes. Okay. That makes sense. And then as a follow-up, Giovanni, you talked about working on the next-generation 3D Sensing device. Are there capabilities you need to add? Or is this more of an efficiency cost reduction effort?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

No. We are very much vertically integrated, as you know. There is no further capability we need to add. It's really about designing new devices, typically higher speed devices. So these are lasers array that worked at pretty high speed. So that's where the new challenge is. But particularly when you have a strong experience and share in the market with high-speed datacom lasers, I think it's -- the task is a little bit easier, I think, for us than maybe for others. So I think we are well positioned to have a significant share of that application, too.

Operator

Our next question comes from Paul Silverstein from Cowen.

Paul Jonas Silverstein ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Chuck and Giovanni, can you all hear me okay?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Yes.

Paul Jonas Silverstein ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Two questions, if I may. First off, on the eligible components, how big an impact, how quickly can you have now that you're starting to ship into the market? And then if I could return to the Huawei question, I recognize it hasn't been 10%, it wasn't 10% of Finisar. But if we think about Huawei, not just Huawei direct, but all of those subsystem component suppliers that sell into Huawei. Many, if not all, of whom you sell into. But ultimately, the sale is going to a Huawei system that's being deployed mostly within China, but also by non-Chinese service providers and others, how much is that exposure broadly defined? And how much does that factor into your future revenue?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

There was a lot of questions, Paul. Let me -- all in one. Let me try to take it this way. I have a substantial echo on my end, I hope you can hear me. Okay. Well, the China market itself continues to be an important market for II-VI. And with regard to your specific question about Huawei, the -- and indirect sales to Huawei. As our business grows, we are attempting to be able to invest and manage and grow with a wide variety and a wide diversity of customers. And we have -- as we operate at 3 levels of integration, materials, components and subsystems, we have business. And serving into a large ecosystem, we don't have the kind of full visibility that I think that you're asking if we do. But for sure, to come back to a simple answer to a complicated question is that China is an important market for us. I think Mary Jane said that it represented in our fourth quarter 27% of our sales. And there are large players today in the market, and we expect that smaller companies who are innovators are going to represent even bigger opportunities for us in the future. I hope I answered your question, Paul?

Paul Jonas Silverstein ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Yes. Well, Chuck, the related piece of that will be, I assume your position at Nokia, CNN and the other major optical suppliers to assume they were to pick up share from Huawei outside of China. I assume you have equally, if not exact same position, but in a strong position in each of those as well?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

We have a leading position into that marketplace, Paul, and the supply chains as they become reordered over time -- as the supply chain has become reordered, our enthusiasm for serving all the large OEM equipment suppliers into the optical communications market is going to continue to remain strong. And so we have a handful of extremely important customers and we will continue to enable them to grow in whichever markets they're participating in regionally, okay?

Paul Jonas Silverstein ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

And Chuck, in the optical components, how far? How fast in datacom?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Let's see. Can you repeat the question, Paul?

Paul Jonas Silverstein ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

Yes. Now that you're shipping optical components into datacom, which Finisar hadn't done historically, how far, how fast in terms of impact? What is your expertise?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Okay. I'll ask Giovanni to take that one, Paul.

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

So there is no doubt there is -- Paul, there is quite a strong demand out there. So we have been -- if you want, there couldn't be a better timing for us to really penetrate and gain share in the market. So as I mentioned during -- in the script, we have already started selling quite in -- and shipping in quite high-volume indium phosphide lasers and detectors. And of course, we're already shipping all the datacom epitaxial and other kind of, of course, the subcomponents like Faraday rotators and the like. And -- but the most important ones were really those that we acquired with Finisar. And as you know, they've been a leading platform, particularly indium phosphide for years. And so penetrating the market with existing devices, so really qualified with years and years of reliability data and very competitive platform given the volumes of the internal consumption. I think it's been pretty straightforward and really demonstrating the validity of our strategy in the acquisition of Finisar, at least one of the reasons why we were so much interested in combining with Finisar. So this has been pretty fast. Again, we are shipping today in volume to a number of customers, products that have never been on the merchant market before.

Operator

Our next question comes from Richard Shannon with Craig-Hallum.

Richard Cutts Shannon ***Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst***

Mary Jane, I think you talked about a fairly rich mix in the June quarter here with some very good gross margins here. While we know that your submarine pump laser business can be very lumpy. You talked about also mix benefiting 3D Sensing and datacom components, which I'd assume would still be a benefit here in the September quarter. So are you suggesting the mix is going to be less rich here? And if so, can you describe where that's coming from?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Well, I think I said that we have baked into our guide forward that we may not have as rich a mix, but I'm not going to break down the mix by segment. Generally speaking, we -- if you take the mix we had, very, very good operating efficiencies. Going into Q1, we'll need to start to expand capacity in some places. As I said, we're just guiding more conservatively on the margin.

Richard Cutts Shannon ***Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst***

Okay. Fair enough. Perhaps I'll follow-up offline on that one. My second question is on your transceiver business for datacom. Chuck, I think you referred to that as a $1 billion business. Obviously, the datacom market here is positive, but you're shifting more towards a component strategy. Can you tell us whether you're expecting your transceiver business to grow in fiscal '21? And if so, how does that happen? How do you see the mix there?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Okay. Richard, thank you for your question. I'm expecting the transceiver business will grow in FY '21, but I'm not going to give you a forecast for that transceiver business growth. There's a lot of opportunity. And as a leading supplier, along with the differentiated platforms that Giovanni discussed, I feel very, very good about our prospects, about the demand, about our technology and about our team. And customers have taken note of it. And that's another very important and exciting feature. Giovanni, would you like to add anything to it?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Yes. I want to make sure that I clarify, I don't believe we have ever said that we are going to shift from transceiver to components. We -- I believe our story has always been that we intend to become a merchant supplier with a number of components, optical and electronics that Finisar did not have, that Finisar was not standing on the merchant market before. But we have no intention to diminish or decrease our investments and current, I believe, market leadership with our transceiver platform. As a matter of fact, I think that we are investing, as we said, in the -- all the new transceiver designs. And we believe that the most important value that we bring to the table, which has been Finisar's strategy for many years. And I think we have to revive that strategy, really to have this cross-functional, multidisciplinary team, which is pretty unique, under one roof in a single company. And it's really the collaboration of the optical and the electronics engineers as well as the packaging and the manufacturing engineers, all in the same company, creating some new approaches to transceiver design. And we anticipate that in the next 5 years, even the transceivers, as we think about it now will probably change. Will be a significant over time, modification, transformation of the form factors or the miniaturizations and so forth, all driven by speed. It requires completely different approaches that were used in the past. So if in the past, assembling a number of components procured on the merchant market was very important and necessary to deliver transceiver. I think as we move forward to more advanced solutions. I think the close collaborations of the teams that I mentioned, I think, is going to be way more important to establish the significant share of the market. And I think we are well -- very well positioned to do that, thanks to both the Finisar and the II-VI team combined under -- in the same company.

Operator

Our next question comes from Tim Savageaux with Northland Capital.

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

Well, if you didn't want to answer the transceiver question, we'll see how this one goes. But Chuck and team, you mentioned the year flat from a pro forma basis, and that's why a pretty spectacular fiscal Q4. It looks like given what you're guiding to, you're going to see probably double-digit pro forma growth year-over-year. And I wonder if you have a view toward what the medium- to long-term growth rate for II-VI ought to look like as you've had 3 quarters of experience combined with Finisar. Should we be thinking about a double-digit growth company here? Or I'd just be interested in your thoughts there.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

So a couple of things. You're right that while on a pro forma basis, the company was flat year-over-year, the benefit of the great performance in Q4 is that it reversed what had been a year-to-date trend of decline, right? So that's the first thing. The second thing is, back in our Investor Day when we thought about where the growth would come from in our company, we talked about 2.5 to 4x GDP. And we were expecting, if you remember, the mega drivers that Giovanni introduced at the time, that 5G would be one of them. So in terms of being -- would we ever be a double-digit growth company, I think it would certainly be fair to say that, that's the company's aspiration.

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

Great. And if I could follow-up just with maybe the puts and takes in terms of your guide for Q1 on the top line. Obviously, you had a much stronger-than-expected Q4 and maybe digesting some of that. And this is maybe, you touched on a little bit before. Normally, the September quarter's one where you see sharp strength on the consumer side, 3D Sensing. I wonder if you might have seen some of that earlier than expected in June. Or whether that's part of the forecast? And maybe you're digesting some of the growth on the comp side as you look at a modestly down guide from a very strong Q4?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Right. So let's do a couple of them. First of all, even though it is not as big a percentage of our company as it used to be, Q1, the September 30 quarter is usually the weakest for industrial, right? So that's one that you come into. Number two, while I understand there is a view that in a strong communication cycle, there should be ongoing sequential growth for the whole time. The truth is that even in our company, going from Q4 of '16 to Q4 of '17, we had a little bit of a dip in communications, even though we delivered 34% growth in communications that year. So as I look at it, it is true that we could see communications growth into the September 30 quarter, but it's actually kind of a toss up. And I think that's what Chuck meant. It's not actually perfect every quarter. So we are looking at whether that might be a little bit flatter. For 3D Sensing, we did a very good Q3 and Q4, surprisingly so. And I don't know that we're necessarily saying it will be down for the 9/30 quarter. But as a factual matter, right, I mean, it can be strong for consumer in 9/30, but it has historically been the strongest really at the 12/31 quarter. So what quarters that falls in for the strong second half of the year, we're also trying to a little bit take a bet on that. And then 3D Sensing -- excuse me, life sciences, which is a very small market, it's true, but had some very, very nice growth in the quarter. Of course, we would like to see that continue. That is an important, small little market for us. But at the end of the day, it might not be as strong as it was in Q4.

Operator

Our next question comes from Jim Ricchiuti with Needham & Company.

James Andrew Ricchiuti ***Needham & Company, LLC, Research Division - Senior Analyst***

I was wondering if you could provide perhaps some additional color on the bookings that you saw the booking strength. And also, maybe discuss some areas of the business where you might be capacity constrained?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Sure. So I would say, across -- we probably had booking strength across the board. The book-to-bill was probably a little bit stronger in Photonics than in Compounds Semi, but generally speaking, it was pretty good really across the board. I was busy last quarter telling you bookings that started with an age were the new normal, and here we go again. So that's probably the first thing. And your second part of your question was, tell me again?

James Andrew Ricchiuti ***Needham & Company, LLC, Research Division - Senior Analyst***

Mary Jane, just the areas of the business where you're just capacity constrained with -- yes.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Yes. Sorry. So first of all, if you look at a little bit vis-à-vis Tim's question, we pushed a lot of the operations to increase their production hours. But I would say it's probably fair to say we're constrained across all the laser devices around the world. We continue to almost perpetually be constrained on pumps. We have some needs and even some of the smaller components we're not always talking about, circulators, et cetera. And in some cases, some of the transceivers. Chuck, would you like to add anything to that?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Yes. Absolutely, Mary Jane. Thanks for your question, by the way, Jim, I would say, I'm going to repeat, our wafer fabs are quite busy. And our opportunity to sell lasers at the moment is exceeding our ability to make them. Also -- and so we're doing something about that. We're focused on the capacity expansions reflected in the capital, but we're also working diligently on productivity efficiency. And the smartest use of the utilization of the fabs. Also, because our module business is increasing and we're forecasting it to increase. Just to address Tim's question, I was pretty clear that I expect the transceiver business is going to grow. And so we have two other places where we need to invest in, and that's in automated final assembly and testing for our transceivers. The -- that's basically it. Lasers and automated assembly and testing. And then we have a host of other platforms that we need to continue to invest in to drive our long-term growth across other markets and across other technologies.

James Andrew Ricchiuti ***Needham & Company, LLC, Research Division - Senior Analyst***

Chuck, would you be willing to say how big the silicon carbide business was in fiscal '20 and the kind of growth you saw?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

I'm not sure. Mary Jane, did you disclose that?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Just let me -- I think we did. Let me come back. Let's go on, and I'll go ahead and answer it. Let me just...

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Okay. Okay. Let's go to the next question.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Yes. I'll answer it, don't worry.

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Sorry, operator, is there -- I think we should probably go to the next question.

Operator

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

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

First question is, I know you're only giving guide for 1 quarter. But in terms of the trajectory, how should we think about fiscal second quarter?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Dave, say a little more. What do you mean?

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

For December quarter, how should we think about whether -- for -- in the September quarter? How should we think about in terms of trajectory?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Dave, with the backlog that we -- Dave -- sorry, Mary Jane. Dave, with the backlog that we have, the visibility that we have and the drive that we have to continue to grow, we're not going to be able to give you a forecast for the second quarter. But I can assure you that we're going to continue to drive growth in this company. And that's what you could expect us to be doing quarter-over-quarter is driving for growth.

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

Okay. Got it. Yes, fair enough. And then just going back to first quarter, Mary Jane, you talked about mix being more conservative. So should we be thinking gross margin to be high 30s to maybe 40%? Is that how we should be thinking about gross margin for first quarter?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

I'd say that I would imagine that the margin range overall, just generally speaking, is probably between, yes, 38% and 42%. And I would expect it would come down, that might not be a bad guess.

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

Okay. And then just my last question, going back to China. It was about 27%, but no 10% customer. So -- and there are the many Chinese customers, Huawei, ZTE, and you mentioned FiberHome in the presentation. So is it fair to assume maybe each of them maybe high single-digit type of a customer?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

They're couple of things...

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

To getting to 27%?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Yes. A couple of things, Dave. I mean, just keep in mind, we're not only talking about communications here, right? So first of all, China continues to be a very good market for us in terms of other end markets, primarily industrial, for sure. And in fact, was probably one of the first places our life sciences business began to actually incubate. So that's the first thing to tell you. It's not just communications. But the other thing is that while our Huawei, for example, is not a 10% customer. It's also not 9.9% nor is it 3%. So you guys can estimate from there, but our China business is not just in communications. As for -- let me just answer the silicon carbide question. So the silicon carbide is probably north of about 4% of sales at this point. And I'd say, overall, it was pretty modest growth in the year, largely because while wireless was very, very strong, EV continued to be somewhat less than it had been in prior years.

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Dave, this is Giovanni. I want to make a comment. I know you listed OEMs. I want to remind you that we are one of the most vertically integrated company in the space. So every single semiconductor lasers needs a governance far devoted. There's only so many companies that make those kind of devices. We make it in New Jersey. And you can expect that we sell those kind of Faraday rotators, not to the OEMs and so forth. So as Mary Jane said, number one, we are talking about in general, China market. But then if you really want to talk about just telecom or datacom, I want to remind that we make a lot of pilots. We make prisms, gradings, lenses, mirrors, you name them. We go into every WSS that we're aware of, Wavelength Selective Switch that we're aware of and so forth. So there is a number of components up we sell that go into products of our competitors, for example. And there is a lot of modules and subsystem customers in China. So you need to count those, and there is a lot of them.

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

And let me just add to that. Let's not forget hyperscale data centers, including in China.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

So guys, we're going to try and get as many of you into the Q&A here, even though we're a little bit over time. So let's move on.

Operator

Our next question comes from Christopher Rolland with Susquehanna Financial Group.

Christopher Adam Jackson Rolland ***Susquehanna Financial Group, LLLP, Research Division - Senior Analyst***

I wanted to dig in more on the GE partnership and finished product, silicon carbide. I guess, overall, how big do you see the TAM for finished product? And then maybe if you can talk about where you're technical capabilities from this partnership ultimately end of that TAM, how much do you think you can address with this GE acquisition and the 2 that you did on top of that most recently? And then just lastly, in this market, would you ever consider getting into -- like on semi, for example, is actually going to get into the inverter market? Is that finished modules and inverters? Is that something that you guys would consider as well?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Okay. Let me take it. Chris, thanks a lot for your question. Talking about inverters today is not in the conversation. So that we're focused on laying down a scalable, competitive, vertically integrated platform to carry out the growth of our substrate business. Establishing, which we're now well underway, establishing a silicon carbide epitaxial wafer business through the Ascatron acquisition. Making silicon carbide-based devices and selling them in competitive silicon carbide-based modules. As I alluded to in my prepared comments today as well as when we did the fundraising and announced the GE interaction. These technology platforms take time to put in place. This is going to take place over the next few years. But while we're putting it in place, we intend to continue to grow our silicon carbide substrate business, epi wafer business and begin selling silicon carbide-based devices as soon as we're ready. We characterize, well control and excellent quality that meets demanding specifications. So this is going to unfold over the next few years. And this market is going to be huge. So that's -- I think that's the key point. It's going to emerge. And so it's going to continue to grow. We think for decades. And we think it's just an absolutely great time with a great set of assets, and I couldn't be more excited welcoming the INNOViON and Ascatron team into II-VI and melding and merging their capabilities with our substrate capabilities and a really exciting partnership with GE, okay?

Christopher Adam Jackson Rolland ***Susquehanna Financial Group, LLLP, Research Division - Senior Analyst***

Yes, Chuck. And then quickly, I assume that you believe the demand coming from telco and data center is different than perhaps the traditional boom part that we see of a shorter-lived optical up cycle here. Maybe you can talk about the subtleties that you're seeing versus other optical cycles that we've seen that you believe kind of lends credence to sustainability over the long-term for a very long cycle?

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Okay. Let's ask Giovanni. Giovanni, would you like to comment on that?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Yes. I think the -- I would only talk about the capilarity of the 5G base station network that is necessary. And as soon as you increase 10x the number of base stations that you need to connect, then you get a sense of the amount of input, output of transmission and reception required to connect all of those eventually to a point of aggregation, as I mentioned in my script and so forth. So the -- we're talking about a significant increase in demand of optical gears because of the requirements of an architecture that wasn't necessary for the previous generations. The -- as you know, the -- every single G has been so far, it's taken about maybe 10 years from 2 to 3G to 4G and so forth. And many expect that maybe 5G will go a little bit faster, maybe 8 years. But I encourage you to look at the at the 6G white paper published by Samsung, which is publicly available and to get a flavor on how the entire world is already moving to the next step.

So when you talk about the cycle, the cycles on next-generation wireless connectivity hasn't really finished the 4G yet. We are talking about 5G now and others, a lot of people talk about 6G, too. So it's not going to end quickly because the need for connectivity increases and continues to increase and drive the new requirements that need new solutions. And so I -- there will be ups and downs, of course, over time. But I think the much denser type of network connectivity that is required by the 5G infrastructure, I think, will require a -- volume deployments that we haven't obviously experienced in the past. And of course, with that, all the data storage increase in worldwide will also require an increased level of connectivity that it just wasn't there in the past. So I think the demand will be very healthy for quite some time.

Operator

(Operator Instructions) Our next question comes from Mark Miller with The Benchmark Company.

Mark S. Miller ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

Wanted to talk about 3D Sensing. Typically, September quarter is the strongest, but there's some belief that some of this demand will be shipping into -- slipping into the December quarter. Is that your perception?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Well, go ahead, Giovanni.

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

I'm sorry, you were talking about the 3D Sensing?

Mark S. Miller ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

Yes. Typically, September is strongest, but some of that now might be shifting more into December than traditionally?

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

I don't know, that's -- I don't see that. But we have a multiple design wins that are ramping. And so I don't believe there will be any particular pattern of shipments and so forth other than maybe what we experienced in the past. I think some of the designs will balance with each other in terms of the demand and the pull in. So I -- yes, I think it will be I would expect a similar ramp and the similar demand that we've seen in the past. Just -- I think volume-wise, for us, will be -- we expect, as we said, we expect to continue to gain share over time. We have been doing it, as you can validate with the growth rates we have reported quarter-over-quarter, year-over-year. Obviously, we are growing much faster than market, much, much faster than that. So we expect that, that is an indication of a share gain, and we continue to do that.

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

Let me just add to that before we finish up, and Mark, I'll give you your follow-up. But at least for the last 2 years for our company, the 12 -- maybe for all the years we've shipped, the 12/31 quarter has consistently been stronger than 9/30. So that's what made Q3 and Q4 -- 3/31 and 6/30 being higher than the 12/31 kind of remarkable. But generally speaking, we have not actually seen all the shipments going out in 9/30 quarter. Sorry, Mark, go ahead.

Mark S. Miller ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

Last question for me is ROADM, I assume that was strong. Can any color on that?

Mary Jane Raymond ***II-VI Incorporated - CFO & Treasurer***

So yes, so ROADM -- go ahead, Giovanni.

Giovanni Barbarossa ***II-VI Incorporated - President of Compound Semiconductors & Chief Strategy Officer***

Yes. Yes, absolutely. ROADM is an integral part of out in traffic at the fiscal layer, as you know. And as I said, the new network architectures out there that require way more flexibility to provision traffic at the right place at the right time, really increased the demand for the kind of products versus the previous network architecture. So it has been very strong for us.

Operator

This concludes the question-and-answer session. I would now like to turn the call back over to Chuck Mattera for closing remarks.

Vincent D. Mattera ***II-VI Incorporated - CEO & Director***

Thanks, Joelle. I'd like to thank everyone for joining, and we'll close by summarizing our top 4 priorities for this year.

The first is the care and safety of all of our employees. Second is serving customers and delivering target operating performance. Third is to focus our employee engagement through our shared values of integrity, collaboration, accountability, respect and enthusiasm while keeping an eye to the future as we continue to for through a workplace that is open, supportive and diverse. And fourth is to balance the capital allocation strategically following our prudent financial policy to enable both short-term performance and to be well positioned to continue to drive long-term shareholder value.

Joelle, with that, I'd like to close today's call. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.