



ADVA Optical Networking Analyst Presentation

Q3 2016

Disclaimer



FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements with words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements involve a number of unknown risks, uncertainties and other factors that could cause actual results to differ materially. Unknown risks, uncertainties and other factors are discussed in the ‘risk report’ section of ADVA Optical Networking’s annual report 2015.

CONSOLIDATED PRO FORMA FINANCIAL RESULTS

ADVA Optical Networking provides consolidated pro forma financial results in this presentation solely as supplemental financial information to help investors and the financial community make meaningful comparisons of ADVA Optical Networking’s operating results from one financial period to another. ADVA Optical Networking believes that these pro forma consolidated financial results are helpful because they exclude non-cash charges related to stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets, which are not reflective of the Group’s operating results for the period presented. This pro forma information is not prepared in accordance with IFRS and should not be considered a substitute for historical information presented in accordance with IFRS.

Business Update and Outlook



Brian Protiva, CEO

Q3 2016 in Review



- Q3 revenues rose by 30.4% vs. the previous year to EUR 159.5 million. This result is another record quarter for us as a company and is at the upper end of the guidance provided on July 21, 2016 of between EUR 150 million and EUR 160 million
- Q3 pro forma operating income* was EUR 8.3 million or 5.2% of revenues, in line with guidance between 3% and 6% of revenues
- Eleventh consecutive quarter with year-on-year growth; Revenue and profitability guidance met or exceeded consistently, quarter on quarter
- Continued financial strength with cash and cash equivalents as well as net liquidity at EUR 81.2 million and EUR 20.3 million respectively
- Our focus on open connectivity solutions for data center interconnect (DCI) applications is delivering results. We took the global number one position for metro DCI in the ICP/CNP segment and continue to expand our leadership in private enterprise networks
- Overture integration completed; first cross-selling success in our Ethernet Access portfolio

* Pro forma operating income is calculated prior to non-cash charges related to the stock option programs and amortization and impairment of goodwill and acquisition-related intangible assets.

Prospects for Q4 2016



- Q4 revenue forecast for more than 18% growth YoY; mid-point of guidance is at EUR 132.5 million vs. the previous year of EUR 112 million; we maintain strong growth rates
- Cloud continues to drive demand for open connectivity solutions; further revenue growth opportunities across all segments and most regions, driven by accelerating adoption of metro 100G and DCI applications
- Stronger RFP activity in the cloud access space plus cross selling opportunities between ex-Overture and traditional ADVA accounts will provide further opportunities for our expanded Ethernet access portfolio
- The successful upgrade of our entire portfolio including our FSP 3000 CloudConnect™, Ensemble software architecture and strategic parts of the FSP 150 portfolio, prepare us well for 2017
- Strong market, strong execution, more software products and tight control of operational expenses will result in increasing profitability in Q4 and 2017

Cloud and Mobility



Cloud Services



UHD Video



RAN¹ Extension



Internet of Things

The optical networking market is on track for \$18bn by 2020²

1) Radio Access Network; 2) Ovum Market Share Report: 2Q16 Optical Networking Global

The Optical Megacycle – Hype or Reality?

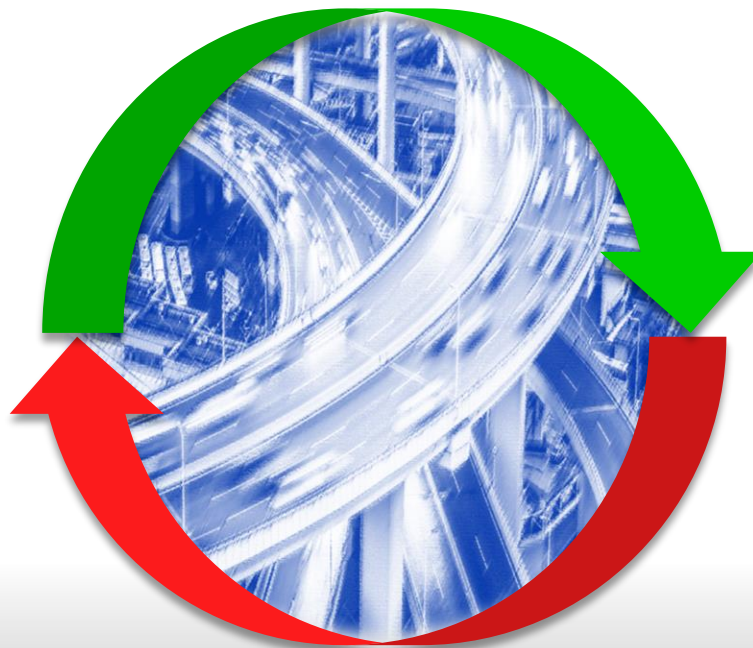


ICP Demand

**Metro Core
(100G)**

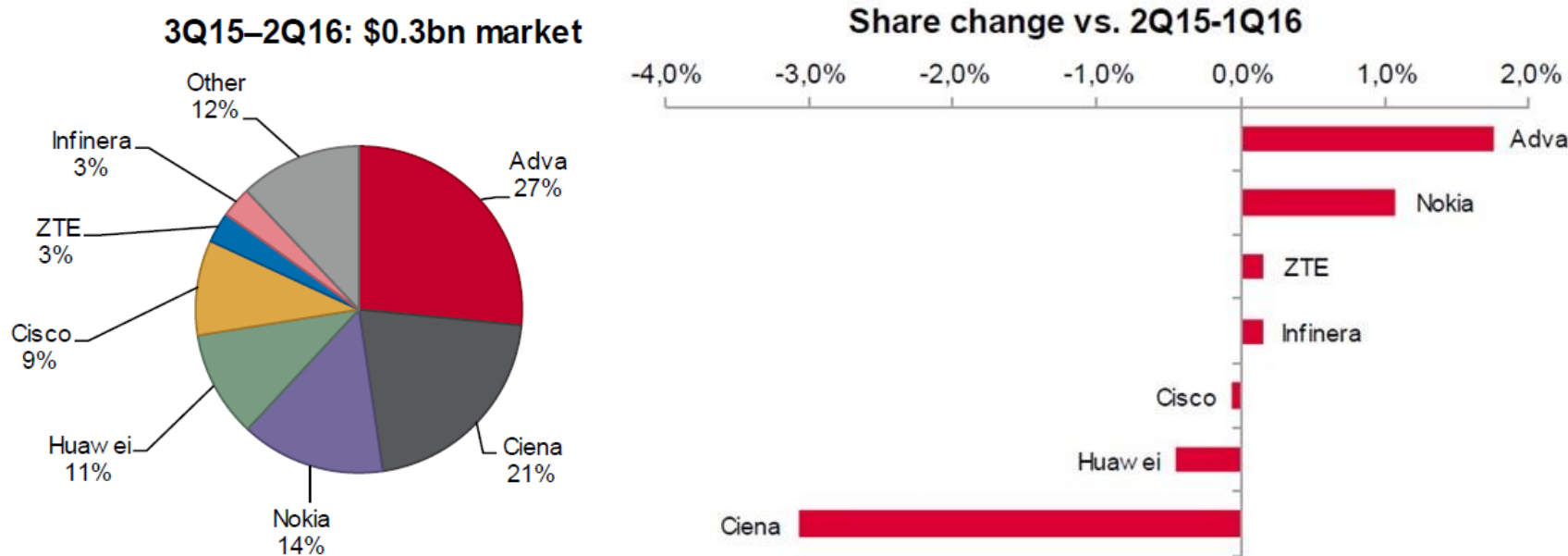
China Demand

Data Comm



Web-scale networks: reshaping optical networks around data center paradigm

Enterprise DCI: Global Market Share



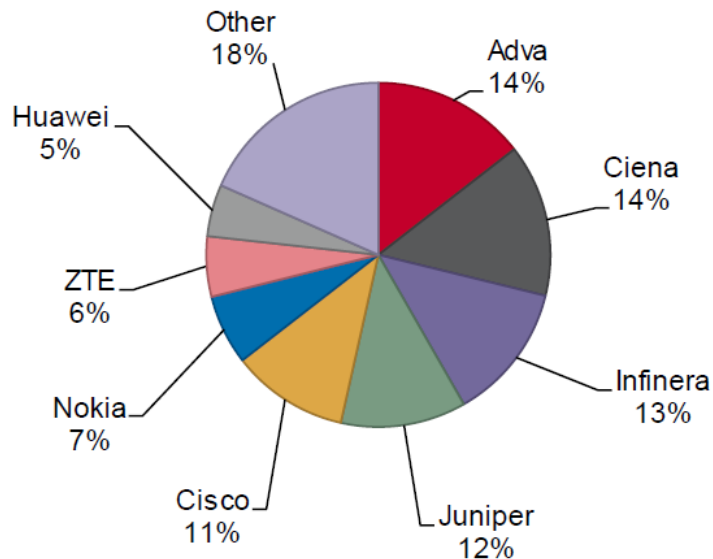
Historically our strength – gaining further market share

Source: Ovum Market Share Report: 2Q16 Optical Networking Global

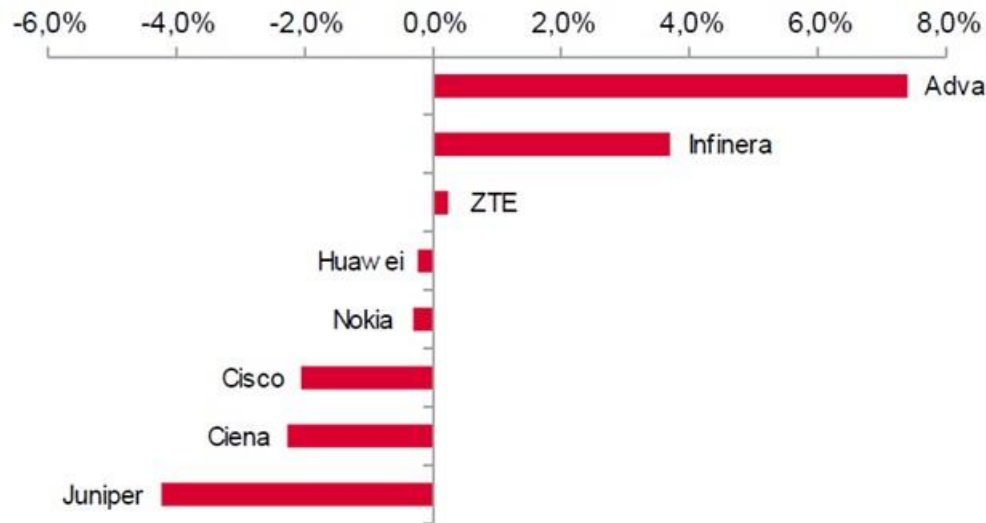
Metro ICP/CNP* DCI: Global Market Share



3Q15–2Q16: \$0.6bn market



Share change vs. 2Q15-1Q16



We are the fastest growing vendor, taking pole position

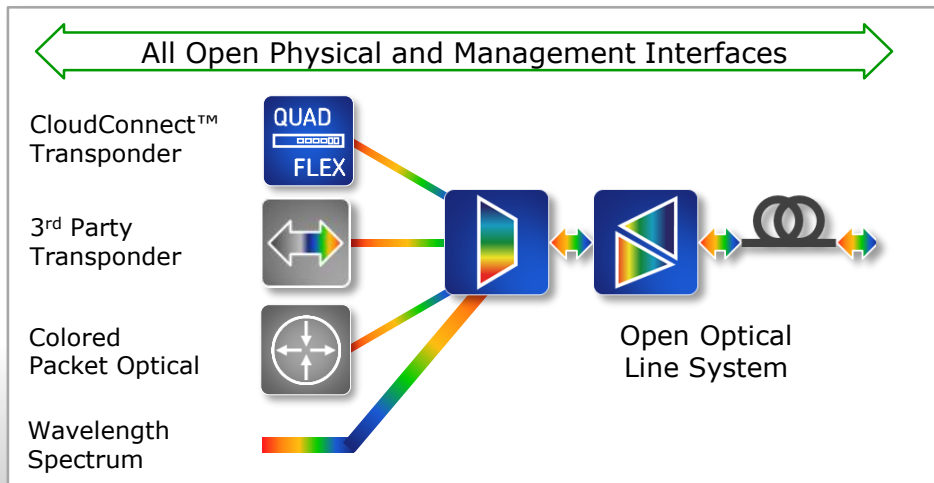
Source: Ovum Market Share Report: 2Q16 Optical Networking Global

*Internet Content Provider / Carrier Neutral Provider

DCI: Open System – Or Purpose-Built Box?

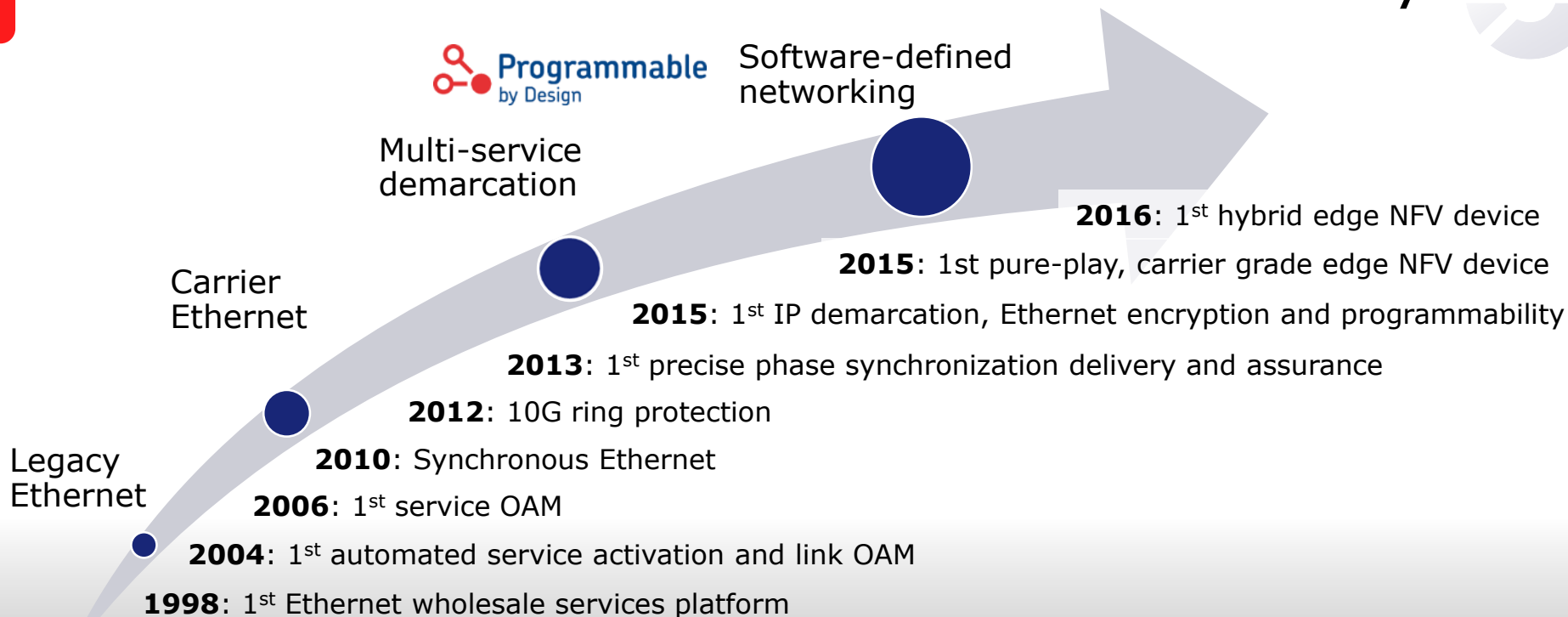


- Open Optical Layer
 - Long history of supporting 3rd party optical interfaces
 - Partnerships with Juniper and Arista
 - Demonstrated interworking with Cisco routers
 - Global deployments
- Open Software Layer
 - Simple and flexible
 - Standards based
- Fully Flexible 'plug and play'
 - Optimized solutions
 - Highly modular approach



Leader in open solutions, giving our customers freedom of choice

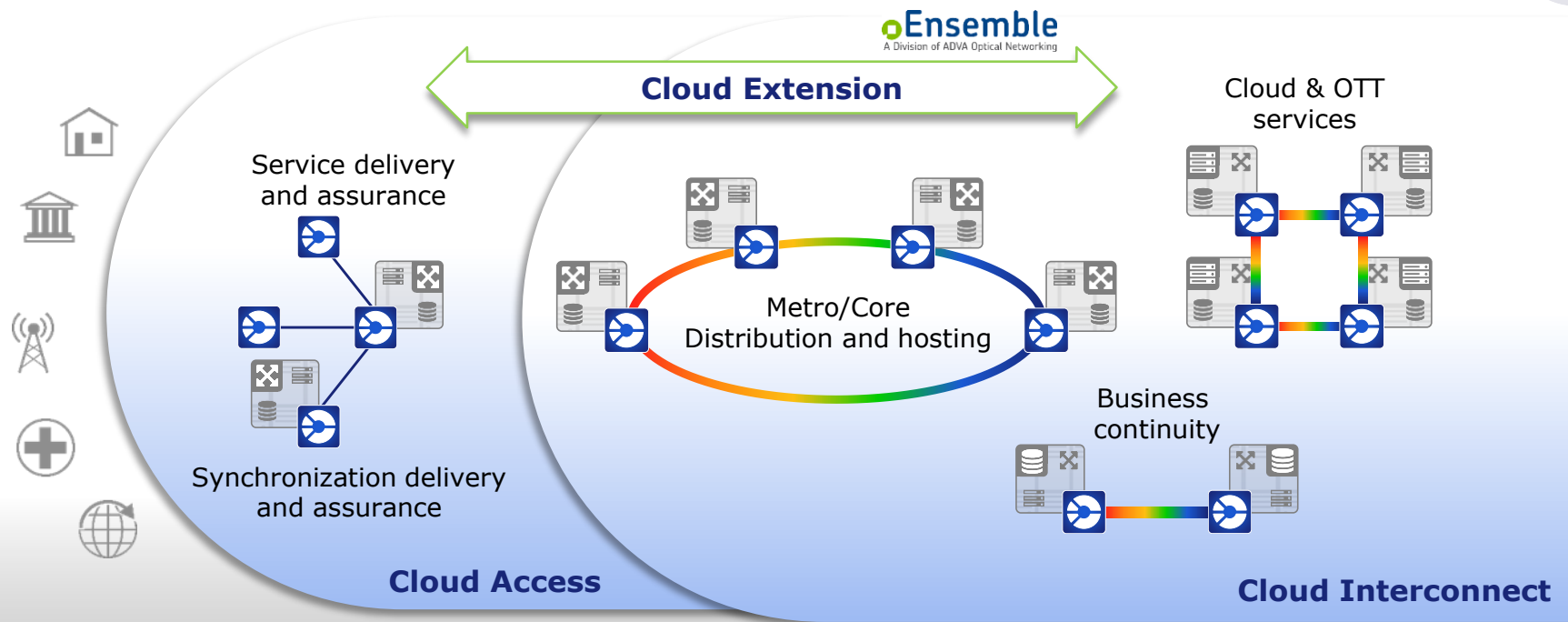
Cloud Access: The FSP 150 Success Story



Additional cross-selling opportunities through expanded EAD* portfolio
(Overture integration)

* Ethernet Access Devices

Solution Summary



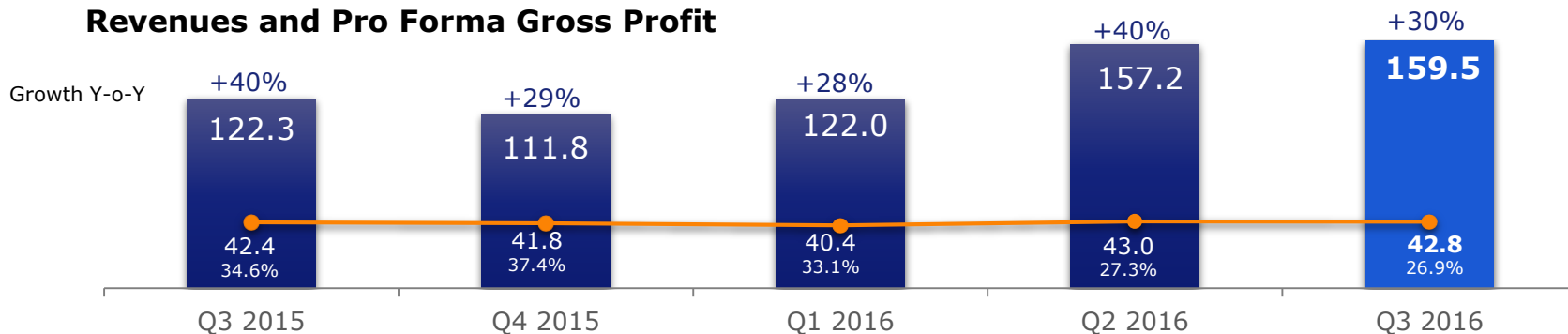
Connecting, extending and assuring the cloud

Financial Performance

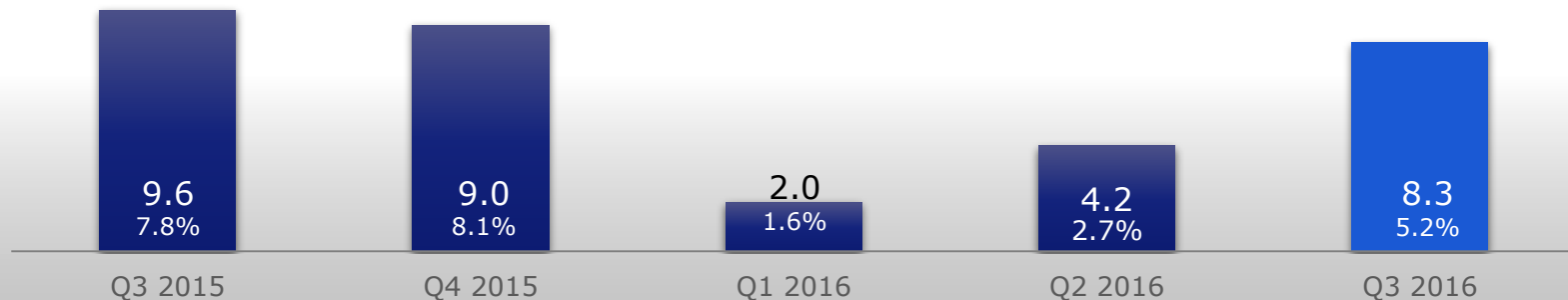


Quarterly IFRS Revenues and Pro Forma Profitability

Revenues and Pro Forma Gross Profit



Pro Forma Operating Income*



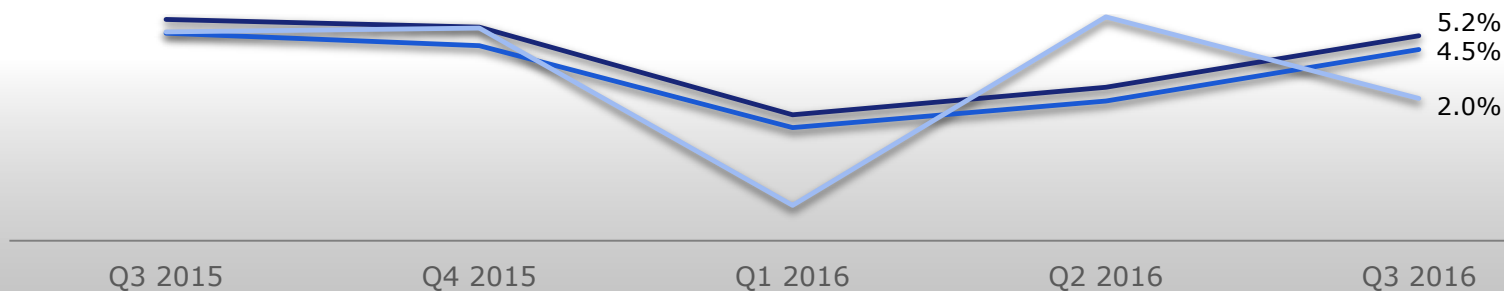
* Pro forma operating income is calculated prior to non-cash charges related to the stock option programs and amortization and impairment of goodwill and acquisition-related intangible assets.

IFRS Profitability

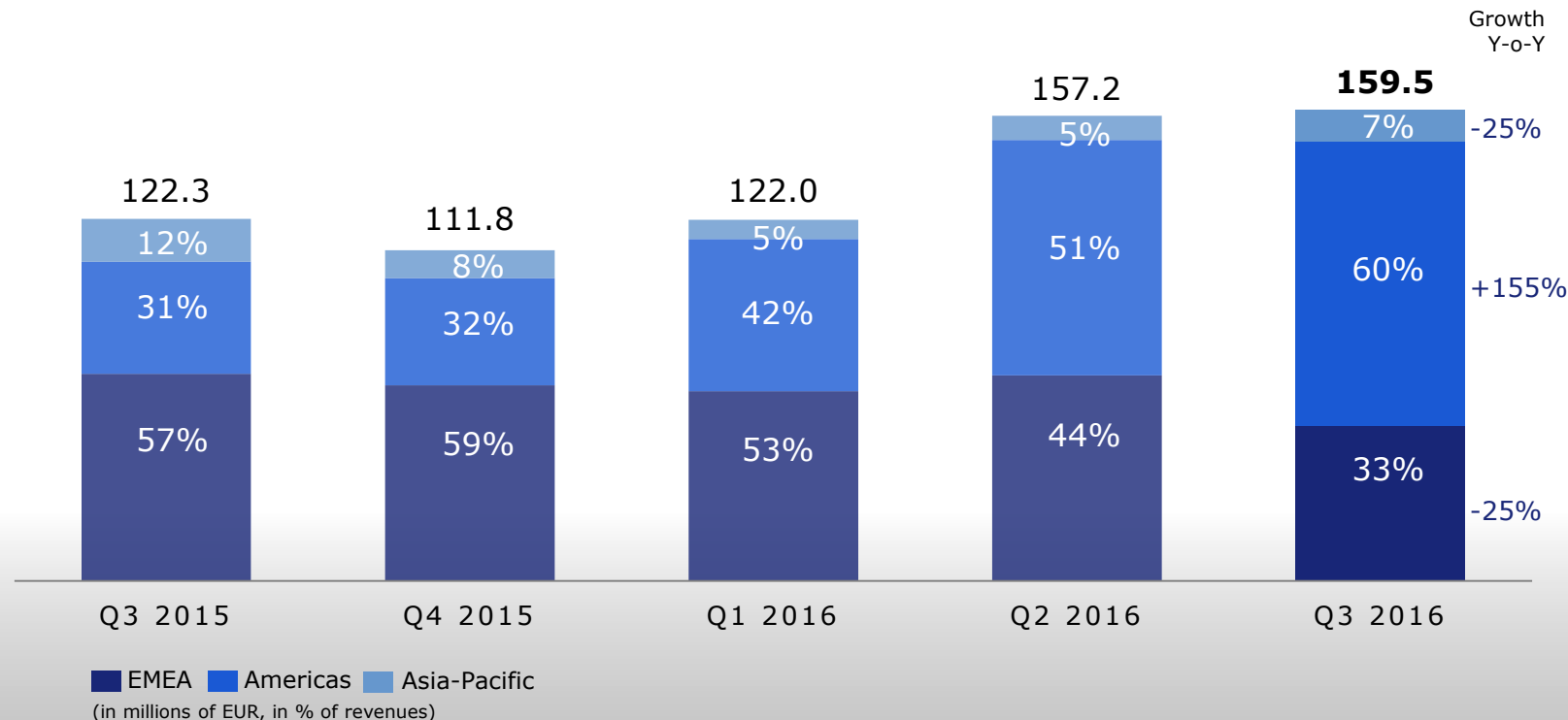


EUR Million	2015		2016		
	Q3	Q4	Q1	Q2	Q3
<u>Pro Forma Operating Income</u>	9.6 (7.8%)	9.0 (8.1%)	2.0 (1.6%)	4.2 (2.7%)	8.3 (5.2%)
<u>Operating Income</u>	8.5 (6.9%)	7.5 (6.7%)	1.0 (0.8%)	3.1 (2.0%)	7.2 (4.5%)
<u>Net Income</u>	8.6 (7.0%)	8.9 (7.9%)	-5.2 (-4.2%)	9.8 (6.2%)	3.3 (2.0%)
Diluted EPS in EUR	0.17	0.18	-0.10	0.20	0.07

Margins, in % of Revenues



Quarterly Revenues Per Region

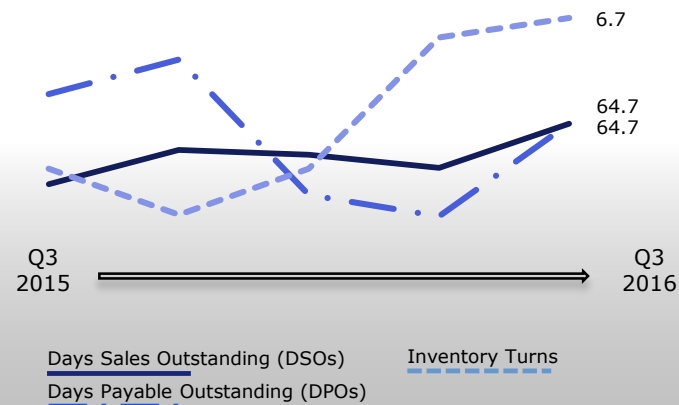
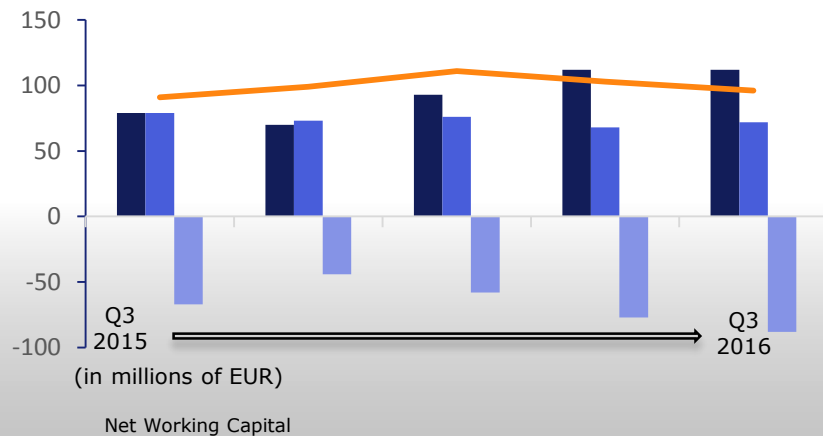


Note: Potential differences due to rounding

IFRS Balance Sheet



Assets	Jun. 30 2016	Sep. 30 2016	Equity & liabilities	Jun. 30 2016	Sep. 30 2016
Cash & cash equivalents	82.5	81.2	Accounts payable	77.1	87.7
Accounts receivable	112.0	112.1	Financial liabilities	62.5	60.9
Inventories	67.7	72.2	Other liabilities	97.1	96.6
Other assets	192.6	200.3	Equity	218.1	220.6
Total	454.8	465.8	Total	454.8	465.8
Net Liquidity	20.0	20.3			



IFRS Consolidated Cash Flow Statement



EUR million	2015		2016		
	Q3	Q4	Q1	Q2	Q3
Net cash provided by operating activities	12.0	10.7	2.0	22.4	15.7
Net cash used for investing activities	-10.1	-10.8	-42.9	-11.4	-15.5
Net cash provided by (used for) financing activities	-1.3	14.5	21.0	-1.9	-1.7
Net effect of foreign currency translation	-0.2	0.2	-0.6	0	0.2
Net change in cash and cash equivalents	0.5	14.6	-20.5	9.1	-1.3
Cash and cash equivalents					
at beginning of period	78.8	79.3	93.9	73.4	82.5
at end of period	79.3	93.9	73.4	82.5	81.2
Free cash flow*	10.4	8.1	-0.6	19.0	11.8

* Free cash flow = Net cash provided by operating activities

./. capital expenditures for property, plant and equipment, finance leases and intangible assets not related to development activities.

Note: Potential differences due to rounding

Guidance Q4 2016



- Revenues between EUR 125 million and EUR 140 million
- Pro forma operating margin between 4% and 7% of revenues*
- ADVA Optical Networking will continue to perform detailed quarterly reviews of the expected business development in respect of all intangible assets, including capitalized research and development expenses; in case of highly adverse business prospects, these reviews may result in non-cash impairment charges.

* Excluding any potential impairment charges.

Summary



- Strong top line growth continues
 - DCI momentum allows us to outperform the market
 - We took number one position in metro DCI (ICP/CNP segment) and expanded our leadership private enterprise networks
 - FSP 3000 CloudConnect™ starting to ramp
- Overture synergies materialize
 - First cross selling success with the expanded EAD* portfolio
- Building thought leadership in network functions virtualization (NFV)
 - Ensemble, our new strategic division focused on NFV, now in more than 20 active customer engagements with carriers around the globe

Connecting, extending and assuring the cloud

*Ethernet Access Devices



Thank You



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