



ADVA Optical Networking Analyst Presentation

Q2 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



Stephan Rettenberger

VP Marketing and Investor Relations

Q2 2016 in Review



- Q2 revenues rose by 40.1% vs. the previous year to EUR 157.2 million. This result is another record quarter for us as a company and above the guidance provided on April 21, 2016 of between EUR 145 million and EUR 155 million
- Q2 pro forma operating income* was EUR 4.2 million or 2.7% of revenues, in line with guidance between 1% and 4% of revenues
- Tenth 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 82.5 million and EUR 20.0 million respectively
- Our focus and innovation in the DCI space allow us to outperform the market
- Integration of Overture is progressing well, nearing completion; while the acquisition reduces net liquidity and EBIT in 1H 2016, we expect a positive impact in 2H 2016
- Our investments in open connectivity and networking solutions, which support the two mega trends cloud and mobility are driving rapid growth for ADVA Optical Networking and winning us mindshare for thought leadership and innovation

* 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 Q3 2016



- Q3 revenue forecast for more than 25% growth YoY; mid-point of guidance is at EUR 155 million vs. the previous year of EUR 122.3 million; we maintain aggressive 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
- Focus on innovation remains a major driver for growth across all segments making us more competitive than ever; we are finalizing the upgrade of our entire portfolio over the coming months including our FSP 3000 CloudConnect™, Ensemble software architecture and strategic parts of the FSP 150 portfolio
- Strong market, strong execution and tight control of operational expenses will result in increasing profitability in H2

Innovation, Innovation, Innovation



Company of the Year 2015 (Public)

ADVA Optical Networking Wins Light Reading's Company of the Year (Public) Award

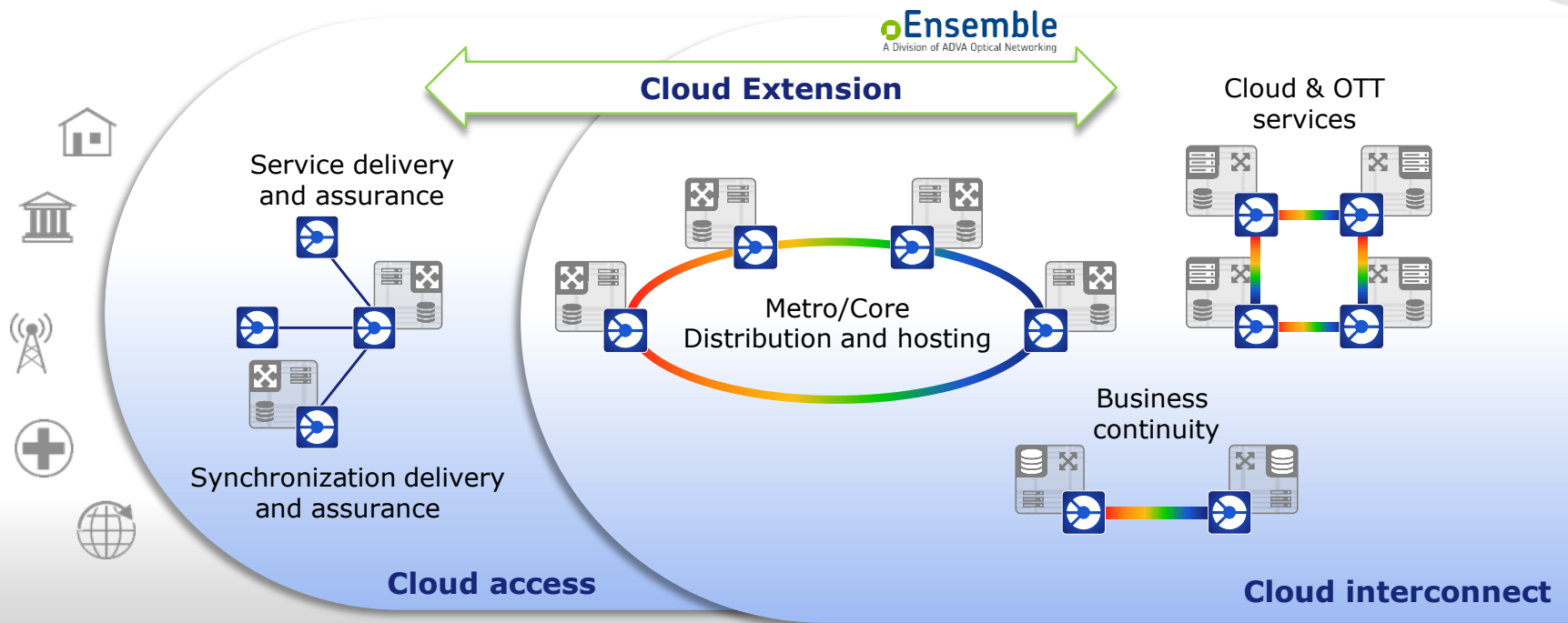
Leading Lights Honor Recognizes Company's Spectacular Financial Success and Key Technology Innovations

May 24, 2016



Innovation is critically important to build share of mind and market

Connecting, Extending and Assuring the Cloud



Open connectivity solutions for cloud and mobile services

Data Center Interconnect & Carrier Infrastructure



ADVA Optical Networking Joins Consortium to Create Revolutionary Data Center Technology

DIMENSION Project Forms Complete Value Chain for Integrated Optical Circuits With Active Photonics

June 09, 2016

ADVA Optical Networking Wins Celtic-Plus Award for Key Role in SASER Project

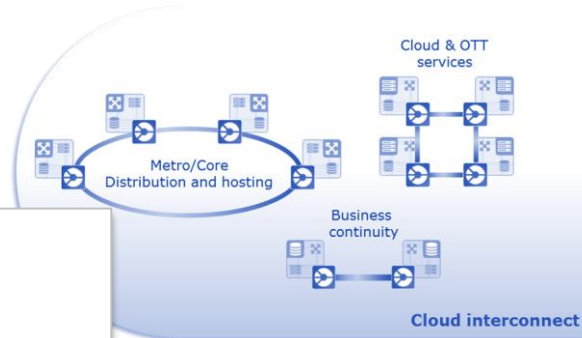
SASER ADVAntage-Net Consortium Succeeds in Improving DCI Bandwidth Efficiency

June 07, 2016

ADVA Optical Networking Joins Telecom Infra Project

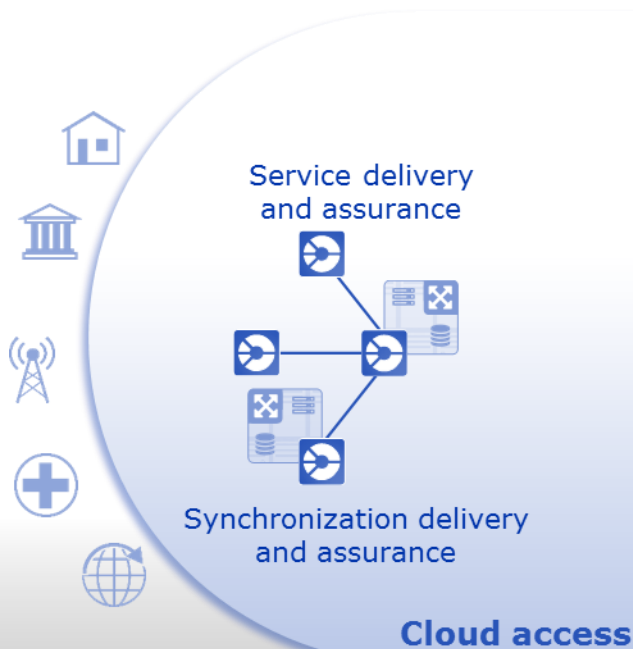
Key Initiative to Focus on Developing Open Packet DWDM Technology

May 24, 2016



Our focus and competence in the DCI space allow us to outperform the market

Cloud Access and Synchronization



Wholesale Service Innovation



Optical Wave Service – Optical Extension
Operator: Verizon Partner Solution
Vendor: ADVA Optical Networking

Layer 2 and 3 are converging, L1 is emerging → our TAM is expanding

ADVA Ensemble: Cloud Software



Ensemble
A Division of ADVA Optical Networking

Cloud Extension

Cloud Access

Cloud Software

"We believe NFV software will comprise over 80 percent of the \$11.6 billion total NFV revenue in 2019"

Michael Howard, senior research director for carrier networks at IHS

We leapfrogged the market, rapidly building mindshare and opening new doors

ADVA Ensemble Innovation Awards

NFVI* Innovation

Ensemble Connector NFVI* wins ...



for NFV Innovation
of the Year



Business Service Innovation

Ensemble Orchestrator NFVO* and
Ensemble Connector NFVI* win



NFV Brings Cloud to Micro Data Centre Customers
Operator: DartPoints
Vendor: ADVA Optical Networking

With ADVA Ensemble, you can use the cloud to deliver the cloud!

*NFVI/O: Network Function Virtualization Infrastructure / Orchestration

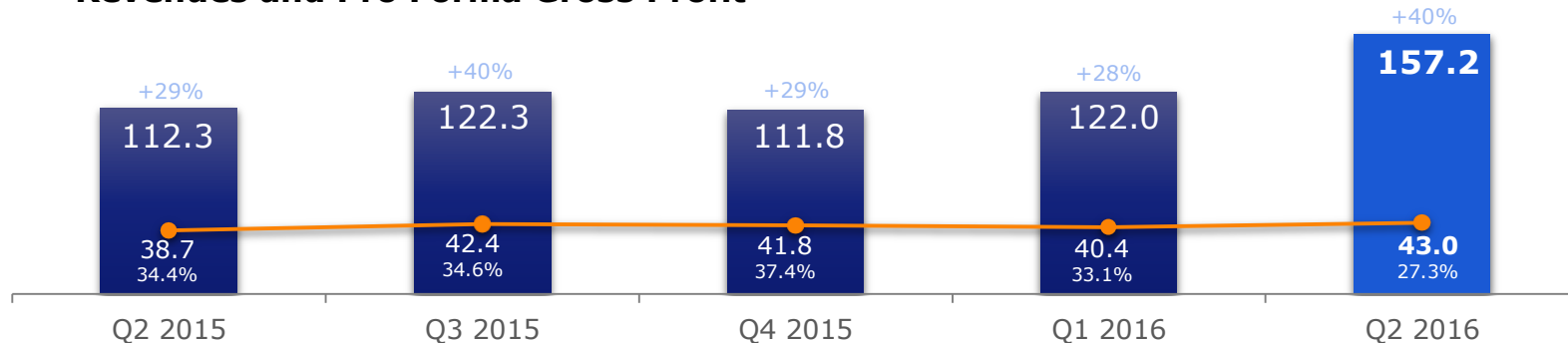
Financial Performance



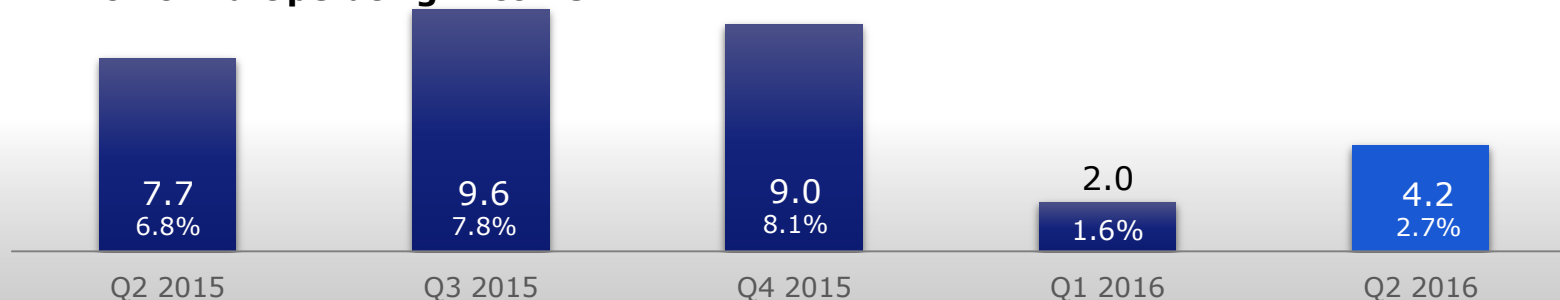
Quarterly IFRS Revenues and Pro Forma Profitability



Revenues and Pro Forma Gross Profit



Pro Forma Operating Income*



(in millions of EUR, in % of revenues)

■ Growth Y-o-Y

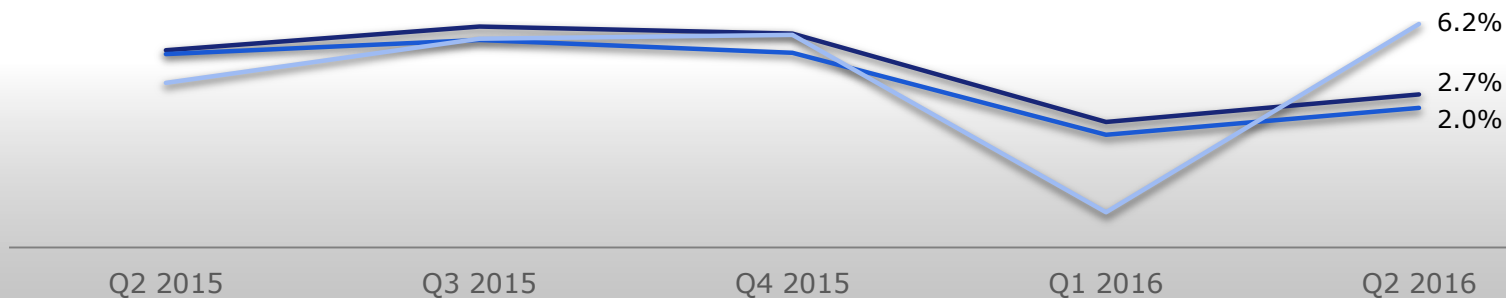
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IFRS Profitability

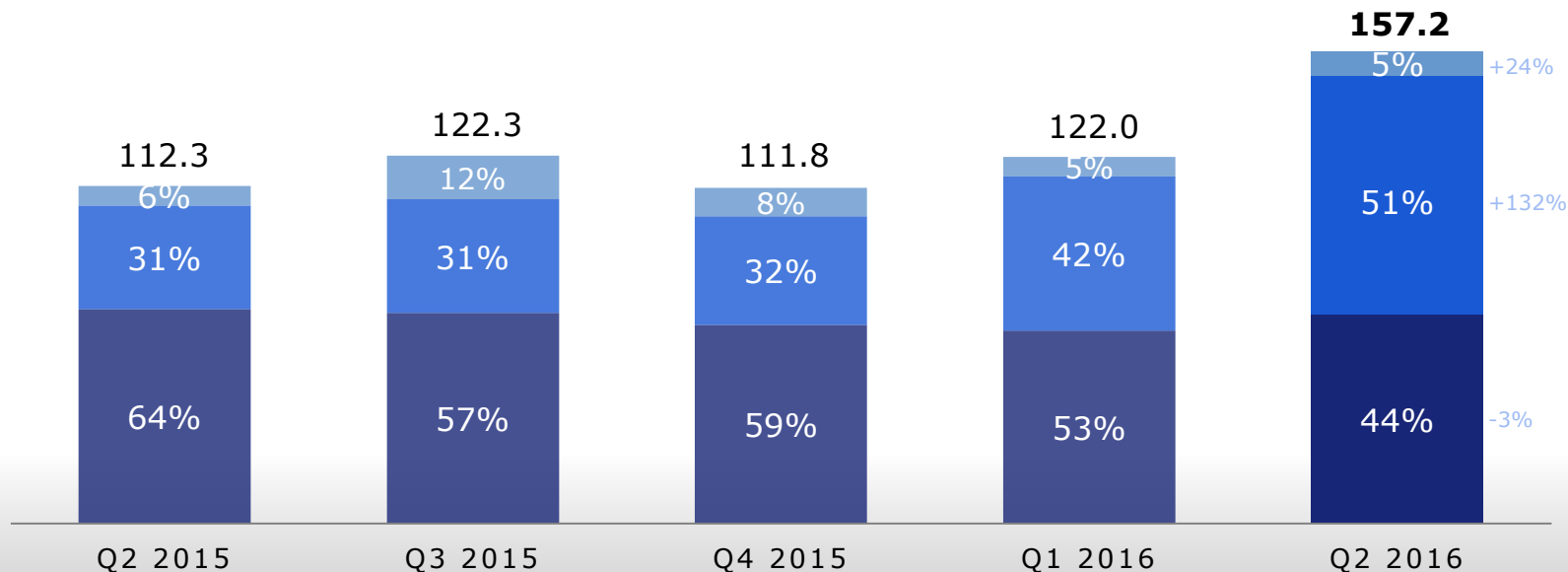


EUR Million	2015			2016	
	Q2	Q3	Q4	Q1	Q2
<u>Pro Forma Operating Income</u>	7.7 (6.8%)	9.6 (7.8%)	9.0 (8.1%)	2.0 (1.6%)	4.2 (2.7%)
<u>Operating Income</u>	7.4 (6.6%)	8.5 (6.9%)	7.5 (6.7%)	1.0 (0.8%)	3.1 (2.0%)
<u>Net Income</u>	5.1 (4.6%)	8.6 (7.0%)	8.9 (7.9%)	-5.2 (-4.2%)	9.8 (6.2%)
Diluted EPS in EUR	0.11	0.17	0.18	-0.10	0.20

Margins, in % of Revenues



Quarterly Revenues Per Region



■ EMEA ■ Americas ■ Asia-Pacific

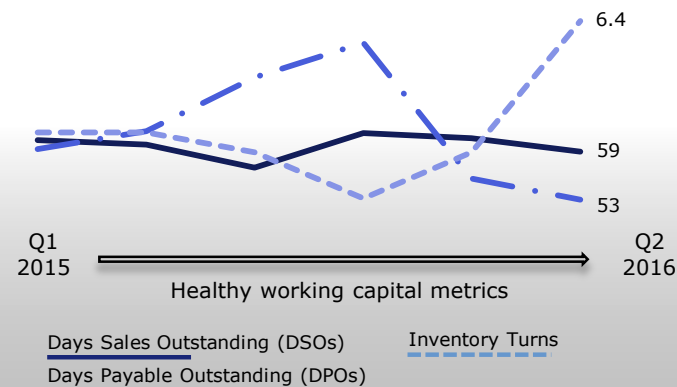
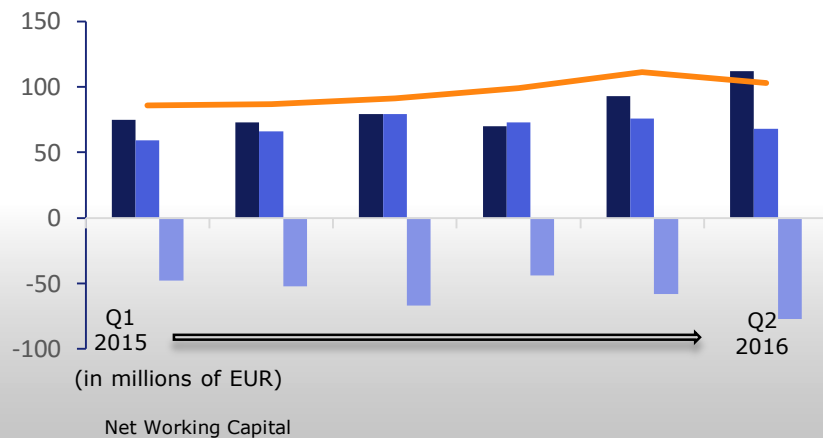
(in millions of EUR, in % of revenues)

■ Growth Y-o-Y

Note: Potential differences due to rounding

IFRS Balance Sheet

Assets	Mar. 31 2016	Jun. 30 2016	Equity & liabilities	Mar. 31 2016	Jun. 30 2016
Cash & cash equivalents	73.4	82.5	Accounts payable	57.8	77.1
Accounts receivable	92.8	112.0	Financial liabilities	64.0	62.5
Inventories	75.9	67.7	Other liabilities	96.9	97.1
Other assets	184.1	192.6	Equity	207.5	218.1
Total	426.2	454.8	Total	426.2	454.8
Net Liquidity	9.4	20.0			



IFRS Consolidated Cash Flow Statement



EUR million	2015			2016	
	Q2	Q3	Q4	Q1	Q2
Net cash provided by operating activities	18.1	12.0	10.7	2.0	22.4
Net cash used for investing activities	-11.5	-10.1	-10.8	-42.9	-11.4
Net cash provided by (used for) financing activities	-1.0	-1.3	14.5	21.0	-1.9
Net effect of foreign currency translation	-0.1	-0.2	0.2	-0.6	0
Net change in cash and cash equivalents	5.4	0.5	14.6	-20.5	9.1
Cash and cash equivalents					
at beginning of period	73.4	78.8	79.3	93.9	73.4
at end of period	78.8	79.3	93.9	73.4	82.5
Free cash flow*	15.1	10.4	8.1	-0.6	19.0

* 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 Q3 2016



- Revenues between EUR 150 million and EUR 160 million
- Pro forma operating margin between 3% and 6% 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
 - Focus and competence in the DCI space allow us to outperform the market
- Integration of Overture progressing well, nearing completion
 - Fully integrated their run rate business into our cloud access portfolio
- Further investment in innovation
 - We leapfrogged the market with the launch of Ensemble, a new strategic division focused on network functions virtualization
 - Now is the time to build strength and differentiation
 - Several innovation awards in Q2

Connecting, extending and assuring the cloud



Thank You



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