



# ADVA Optical Networking Analyst Presentation

Q4 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 2016.

## 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

# Q4 2016 in Review



- Q4 revenues rose by 14.6% vs. the previous year to EUR 128.0 million; strongest Q4 in company's history; within guidance provided on Oct. 27, 2016 of between EUR 125 million and EUR 140 million
- Q4 pro forma operating income\* was EUR 9.0 million or 7.0% of revenues, at the top end of guidance between 4% and 7% of revenues
- Twelfth 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 84.9 million and EUR 25.5 million respectively
- Focus on open connectivity solutions for data center interconnect (DCI) applications continues to deliver results
- Record year with EUR 566.7 million revenue for full fiscal year; 28.2% YoY growth
- ICP revenue contribution at ~25% leading to amplified seasonal effect in Q4

\* 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 Q1 2017



- Q1 revenue forecast for 15% growth YoY; mid-point of guidance is at EUR 140 million vs. the previous year of EUR 122 million; we maintain strong growth rates
- Cloud continues to drive demand for open connectivity solutions leading to further growth opportunities in DCI and metro core 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
- FSP 3000 CloudConnect™ ramping, Ensemble software architecture gaining traction, Oscilloquartz portfolio resonating → solid basis for 2017
- Strong market, execution, more software products and tight control of operational expenses will result in increasing profitability in 2017

# Update on Growth Drivers: Fully Intact



## Cloud & Mobility



### Web-Scale Network Builds

... reshape optical networks around the data center paradigm



### UHD Video

... promises incremental revenue for communication service providers



### RAN Extension

Centralizing RAN architectures (4G+/5G) will drive more ON bandwidth, incl. fronthaul



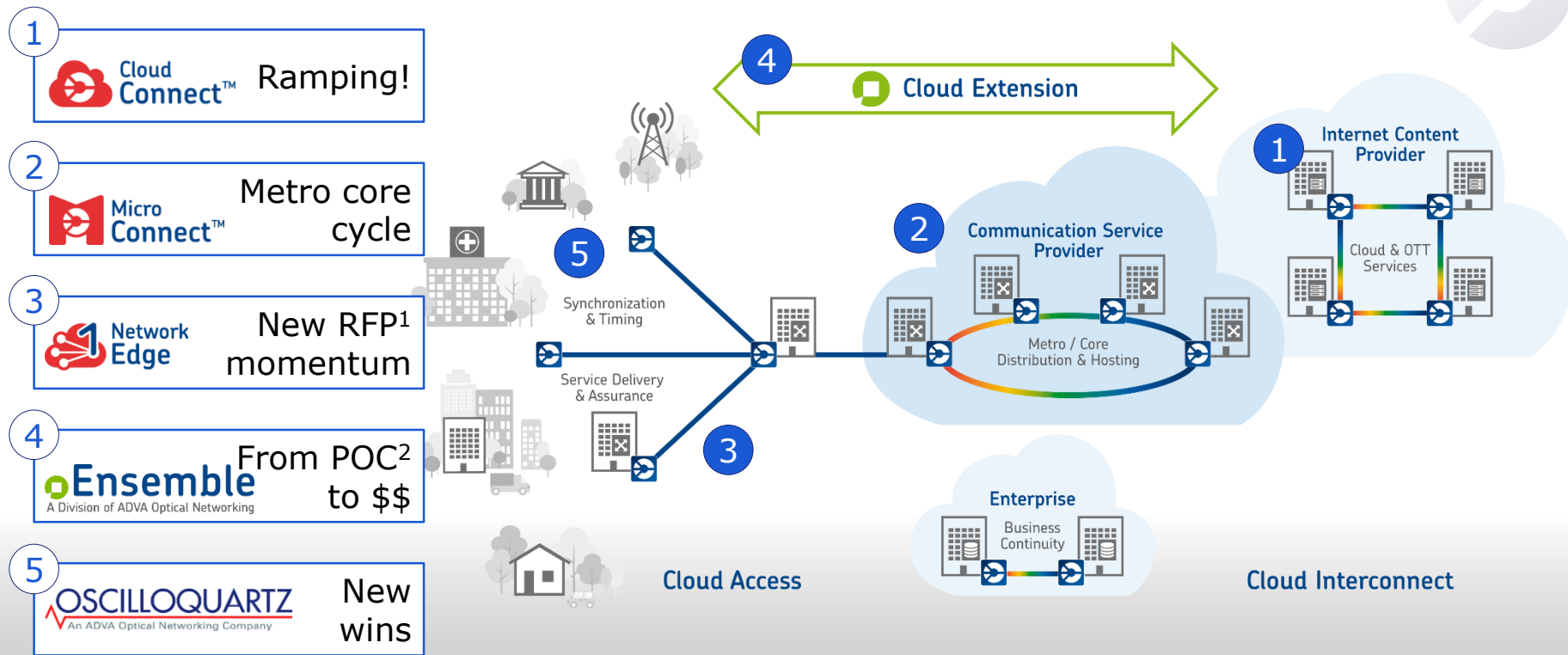
### Cloud Services

AWS and Microsoft Commercial Cloud are now exceeding an annualized \$20bn run rate

The optical networking (ON) market is on track to reach \$18bn by 2020\*

\* Ovum Market Share Report 3Q16, published Jan 2017

# Solid Basis for More Growth and Profitability



Connecting, extending and assuring the cloud

1) Request for Proposal; 2) Proof of Concept

# Financial Performance

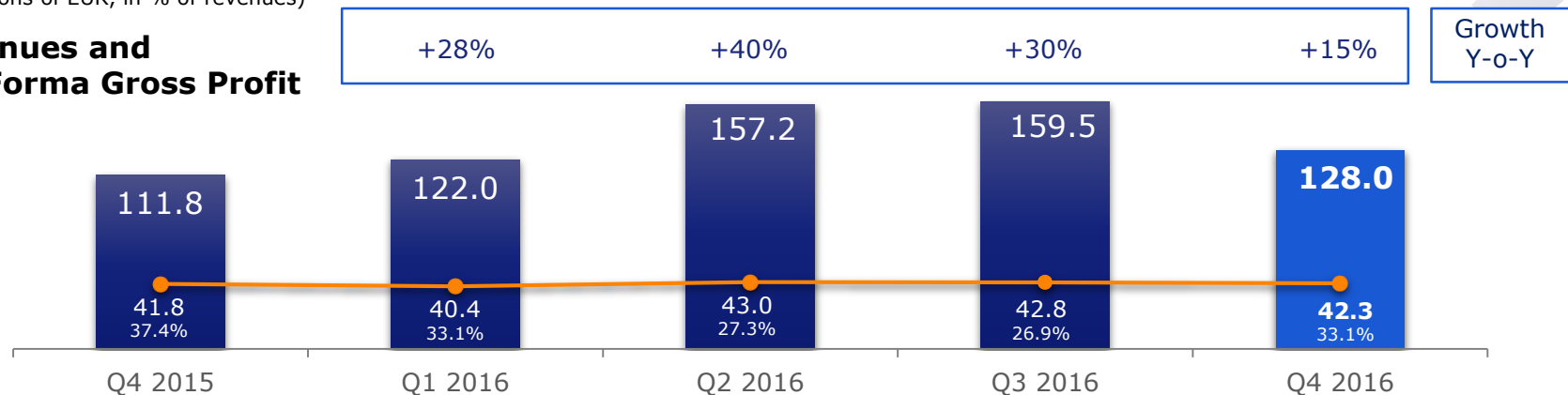




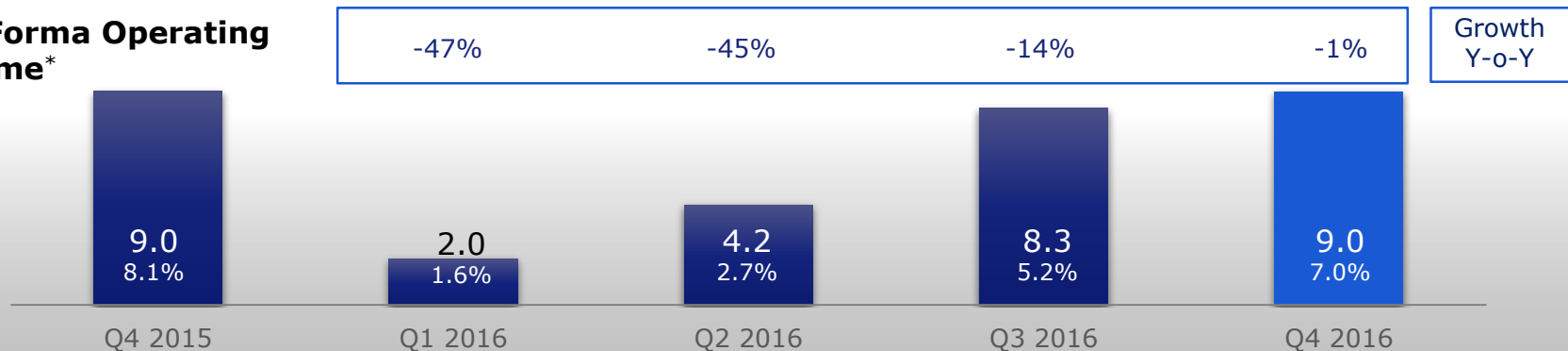
# Quarterly IFRS Revenues and Pro Forma Profitability

(in millions of EUR, in % of revenues)

## Revenues and Pro Forma Gross Profit



## Pro Forma Operating Income\*

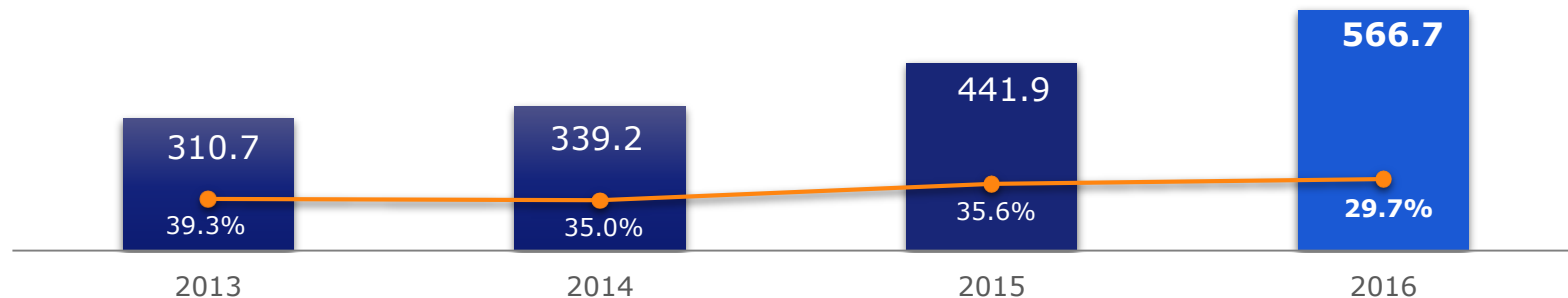


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# Annual IFRS Revenues and Pro Forma Profitability

(in millions of EUR, in % of revenues)

## Revenues and Pro Forma Gross Profit



## Pro Forma Operating Income\*



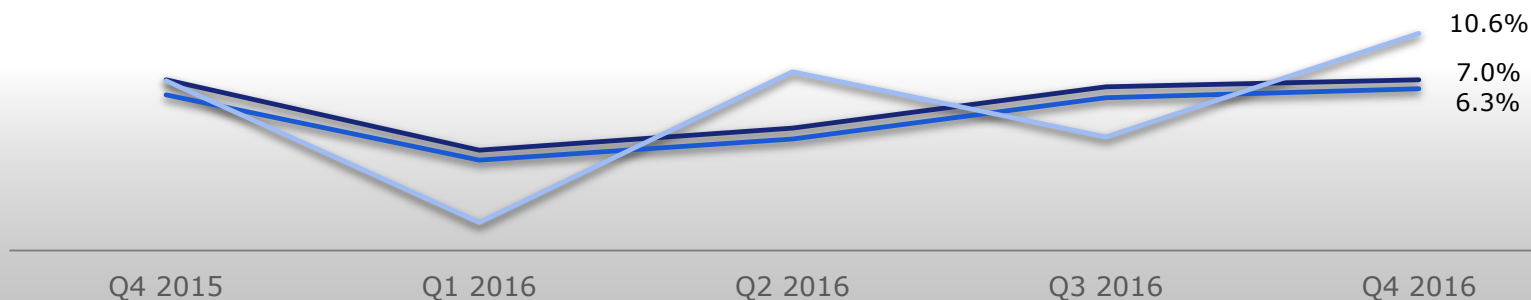
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# IFRS Profitability



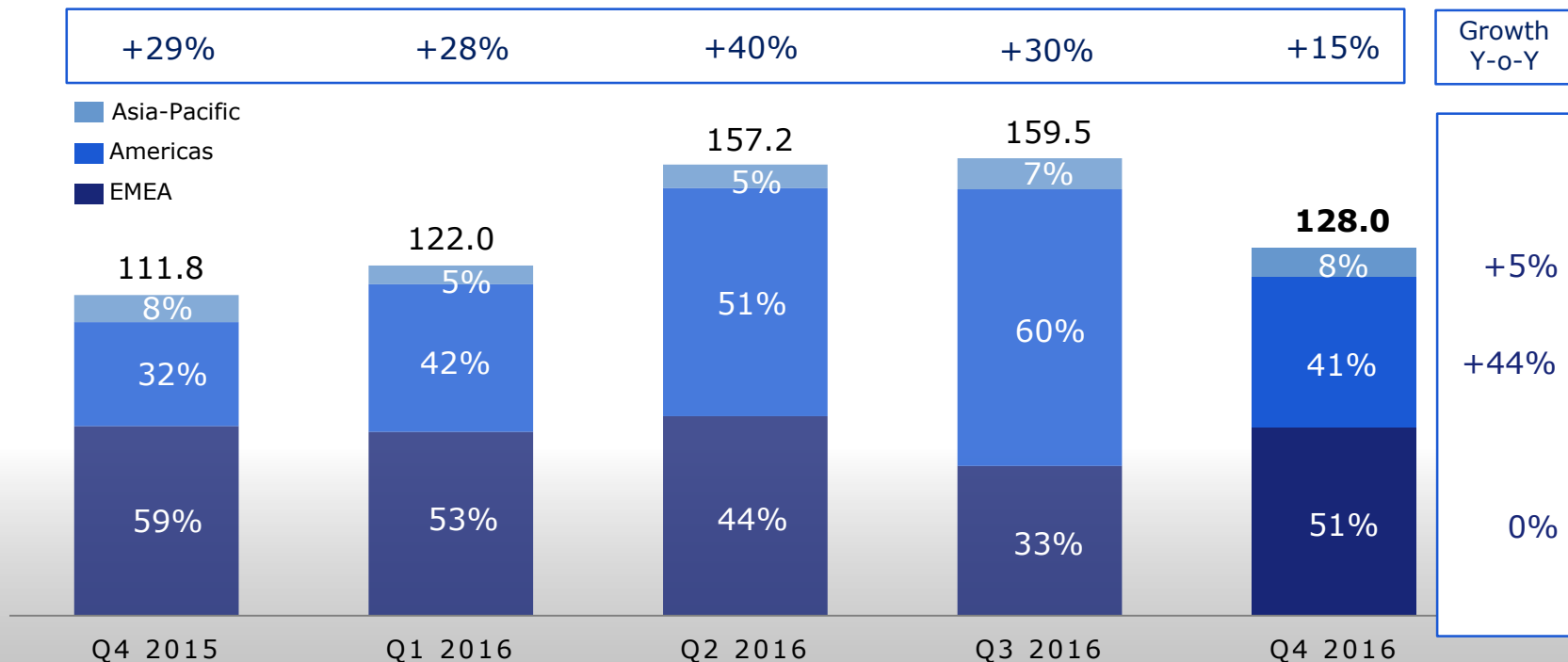
EUR Million	2015	2016			
	Q4	Q1	Q2	Q3	Q4
<u>Pro Forma Operating Income</u>	9.0 (8.1%)	2.0 (1.6%)	4.2 (2.7%)	8.3 (5.2%)	9.0 (7.0%)
<u>Operating Income</u>	7.5 (6.7%)	1.0 (0.8%)	3.1 (2.0%)	7.2 (4.5%)	8.1 (6.3%)
<u>Net Income</u>	8.9 (7.9%)	-5.2 (-4.2%)	9.8 (6.2%)	3.3 (2.0%)	13.6 (10.6%)
Diluted EPS in EUR	0.18	-0.10	0.20	0.07	0.27

Margins, in % of Revenues



# Quarterly Revenues Per Region

(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

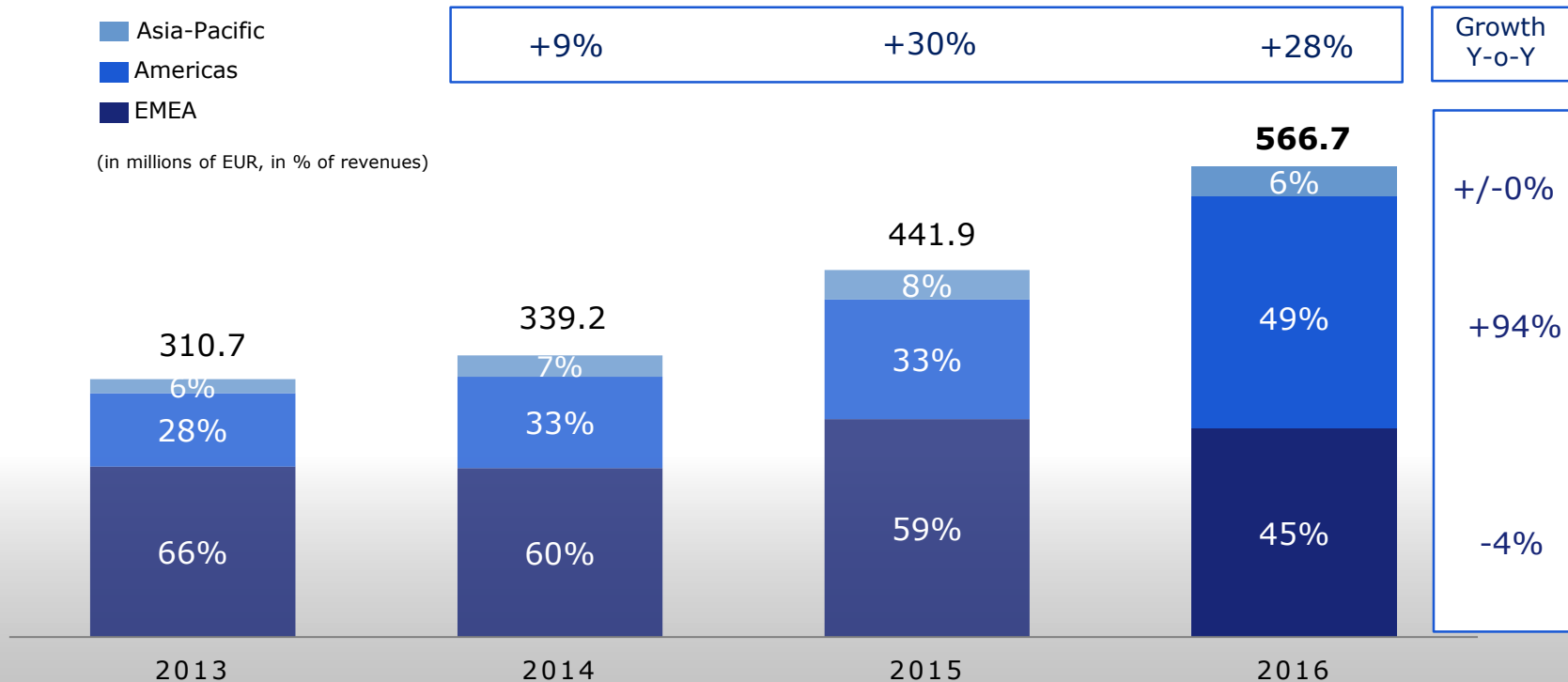
# Annual Revenues Per Region

(in millions of EUR, in % of revenues)



- Asia-Pacific
- Americas
- EMEA

(in millions of EUR, in % of revenues)

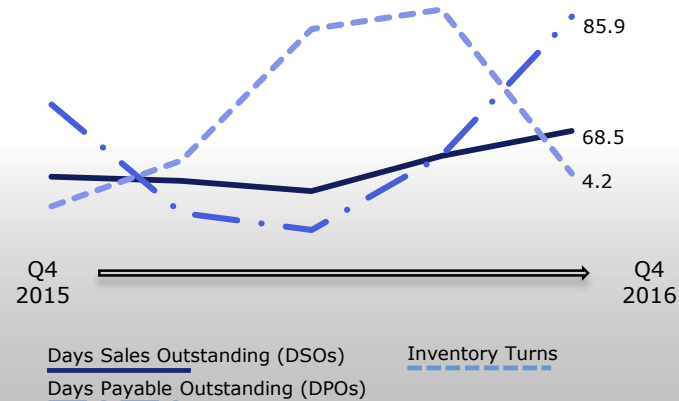
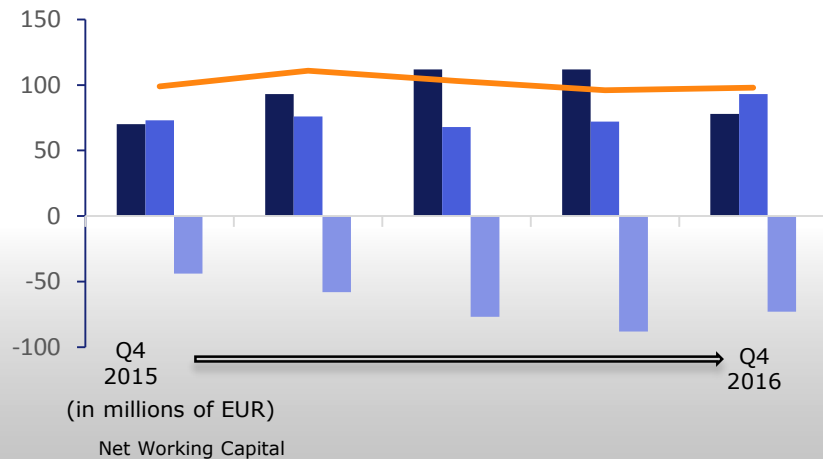


Note: Potential differences due to rounding

# IFRS Balance Sheet



Assets	Sep. 30 2016	Dec. 31 2016	Equity & liabilities	Sep. 30 2016	Dec. 31 2016
Cash & cash equivalents	81.2	84.9	Accounts payable	87.7	73.3
Accounts receivable	112.1	78.5	Financial liabilities	60.9	59.4
Inventories	72.2	92.8	Other liabilities	96.6	96.3
Other assets	200.3	211.7	Equity	220.6	238.9
<b>Total</b>	<b>465.8</b>	<b>467.9</b>	<b>Total</b>	<b>465.8</b>	<b>467.9</b>
Net Liquidity	20.3	25.5			



# IFRS Consolidated Cash Flow Statement



EUR million	2015	2016			
	Q4	Q1	Q2	Q3	Q4
Net cash provided by operating activities	10.7	2.0	22.4	15.7	21.2
Net cash used for investing activities	-10.8	-42.9	-11.4	-15.5	-16.6
Net cash provided by (used for) financing activities	14.5	21.0	-1.9	-1.7	-1.7
Net effect of foreign currency translation	0.2	-0.6	0	0.2	0.7
Net change in cash and cash equivalents	14.6	-20.5	9.1	-1.3	3.6
<b>Cash and cash equivalents</b>					
at beginning of period	79.3	93.9	73.4	82.5	81.2
at end of period	<b>93.9</b>	<b>73.4</b>	<b>82.5</b>	<b>81.2</b>	<b>84.9</b>
<b>Free cash flow*</b>	<b>8.1</b>	<b>-0.6</b>	<b>19.0</b>	<b>11.8</b>	<b>16.4</b>

\* 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 Q1 2017



- Revenues between EUR 135 million and EUR 145 million
- Pro forma operating margin between 3% and 5% 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
  - Metro core cycle picking up
- Profitability returns – improved customer & product mix
  - FSP 3000 CloudConnect™ ramping
  - Oscilloquartz and FSP 150 contribution rising
- Turning thought leadership into revenue
  - More than 20 active customer engagements with Ensemble, our new strategic division focused on network functions virtualization (NFV)
  - Traction in new accounts

Connecting, extending and assuring the cloud



# Thank You

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