ADVA Optical Networking

PRESENTATION

Operator
Dear ladies and gentlemen, welcome to the Q1 2017 IFRS Financial Results Conference Call of ADVA Optical Networking.

(Operator Instructions)

I now hand over to Mr. Stephan Rettenberger, ADVA Optical Networking Senior Vice President Marketing and Investor Relations. Please go ahead, Sir.

Stephan Rettenberger - ADVA Optical Networking - SVP Marketing and IR
Thank you and a warm welcome from my side.

This earnings call builds on a presentation, which is available for download in pdf format from our homepage under "www.advaoptical.com" in the "about us / investor relations" section. Should you not have the presentation in front of you, you may want to access it on the "conference calls" page in the "financial results" section of our investor relations website.

Before we will lead you through the presentation, as always please be informed that 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 factors are discussed in greater detail in the risk report section of our annual report 2016.

Please also be reminded that we provide consolidated pro forma financial results in this presentation solely as supplemental financial information to help the financial community make meaningful comparisons of our operating results from one financial period to another. 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.

We will target to limit this con call to 60 minutes.

As usual, Brian will start and provide a business update and outlook. Then, Uli will take us through our Q1 2017 financials, and finally we will have sufficient time for your questions, which we'll be happy to answer.

Brian, please go ahead with the business update.

Brian Protiva, CEO: Thank you Stephan. Moving to page 4, Q1 2017 in review

Revenues rose by 16.3% vs. the previous year to 141.8m – this result is within our guidance corridor.

Our Q1 pro forma operating income was EUR 6.6 million or 4.7% of revenues, at the top end of guidance between 3% and 5% of revenues.

We have a long record of consistently meeting revenues and profitability guidance

We posted continued financial strength with cash and cash equivalents as well as net liquidity at EUR 69.7 million and EUR 15.0 million respectively

Our focus on open connectivity solutions for data center interconnect (DCI) applications continues to deliver results and makes us a trusted partner for this application space.

In addition, we have seen a strong demand for carrier infrastructure upgrades in Europe

Page 5 - So what do our prospects for Q2 2017 look like?

Our results are strong but our forecast demonstrates a slowing of our growth rates while we consolidate our margins and focus on introducing our new product architectures to market.

The Cloud will continue to drive demand for open connectivity solutions creating further expansion opportunities in DCI and metro core applications.

In addition we see stronger RFP activity in the cloud access space and very helpful cross selling opportunities between traditional ADVA and ex-Overture accounts, which will provide further opportunities for our expanded Ethernet access portfolio.

From a product perspective, we see our FSP 3000 CloudConnect™ ramping, Ensemble software architecture gaining traction and our Oscilloquartz portfolio resonating well with many Tier 1 accounts as a solid basis for 2017.

And finally, strong bandwidth growth, our execution on bringing our new products to market, more software products and tight control of operational expenses will result in increasing profitability in 2017 and 2018.

Page 6 - A recap of our macro growth drivers

Ovum sees strength in a number of applications and markets that will continue to add to the Optical Networking bandwidth demands driving an expanding market:

In the cloud services segment: Cloud bellwethers Amazon Web Services (AWS) and Microsoft Commercial Cloud are now exceeding an annualized $20bn run rate with projections for continued rapid growth as more sophisticated services are offered and it becomes that much easier for enterprises to move from a private cloud to a hybrid cloud model or a full public cloud infrastructure. Google is also investing heavily to compete effectively.

The RAN market is moving and 5G networks are now being planned for both fixed and wireless applications. Initial testbeds, infrastructure and completely new networking architectures are being developed in order to meet the stringent needs of lowest cost backhauling networks, nextgen latency requirements for autonomous driving, the IoT scale challenges as well as integrated timing capabilities within the transport layer to service the stringent technical requirements of the new networks. This all requires new investments. In addition, centralizing architectures with scaled baseband units will drive more optical networking bandwidth, including fronthaul.

Even more pressing, video signals for entertainment, gaming and business applications continue to require ever more bandwidth, as new standards evolve such as 4K and now even 8K standards. This creates a cycle which is actually ramping faster than existing networking technologies can keep up with. This promises incremental revenue for communication service providers and further investment in our types of technologies.

And finally the web-scale network builds: These builds are reshaping optical networks around the data center paradigm even pushing optical networks deep in to the heart of the datacenter - creating new markets and opportunities for our technology platforms. Both Apple and facebook are committing big dollars to building the infrastructure and networks for their rapidly expanding ecosystems.

Our total available market is healthy and growing whereby both cloud and mobility applications will continue to offer innovative companies opportunities for growth

Slide 7: embracing an open world

The market for optical transmission technology, cloud access technology and the surrounding software framework is evolving at a rapid pace. Customers are turning from vertically integrated monolithic solution providers to innovative specialists who are pushing new ideas and open ecosystems. Both ICPs and traditional carriers want to reduce their dependency on large network equipment providers and move towards so-called disaggregated open solutions. Our investments in this area are already delivering results.

The open optical system of our FSP 3000 CloudConnect™ has been showcased last month at OFC together with INPHI and Arista – delivering exceptional value for short reach DCI applications.

The launch of our new hybrid CPE with a modular slot for adding the latest Intel-based processing capabilities in the FSP 150 family brings more choice and flexibility to our One Network Edge solution

And the open software architecture of our Ensemble product suite gives customers more choice, scalability and flexibility than ever before. Our technology, our partner landscape and our open corporate culture make us one of the most interesting companies in the networking space

Slide 8: Q1 Highlights

This slide features some of the media coverage we received on our recent launch activities. Per my comments on the previous slide: customers want best-in-breed solutions. It is all about un-locking vendor dependency and creating an open ecosystem. We give customers more choice, scalability and flexibility as already mentioned. Most importantly, we are offering this openness in both optical as well as Carrier Ethernet applications whereby our open access story will also allow us to address the multi-billion dollar access routing market space.

Our announcements of technology during the Optical Fiber Conference where broad and covered many application spaces

Moving to page number 9: Summarizing our portfolio, giving us a solid basis for growth and profitability.

The complete holistic upgrade of our product portfolio brings us a huge opportunity to connect, extend and assure the cloud for new customers allowing us to grow with the market. This will support further strong performance and profitability.

Our FSP 3000 CloudConnect solutions are ramping as forecasted with high digit millions of revenues in Q1 and hopefully reaching double digit millions in Q2 while gaining mindshare not only for 16QAM applications but also for open line systems.

For our carrier customers, we are bringing new and innovative solutions like our MicroConnect, which is a 10Gig to 100Gig little mux optical plug to market, which will help them resolve the capacity bottleneck in their metro core infrastructure. The long anticipated upgrade cycle in the metro to 100G has started and we have seen strong demand especially in Europe. More flexibility, ease-of-use and cost efficiency in the optical layer will help carriers gain the much needed efficiency and agility in this mission-critical part of their network.

With our One Network Edge solutions, we have completely upgraded all of our Carrier Ethernet portfolio. Presently, we are seeing more RFP activity than at any time in the last

5 years and we have had good momentum in Q1. This market segment remains very competitive but having state of the art technology platforms with continued innovation – just like the newly introduced hybrid CPE - allows for us to win new footprint and drive further innovation.

Looking at the 4th bullet, Ensemble - the strategic reason for our Overture acquisition in early 2016 - it is now enabling us to win strategic customers. We will be announcing our first US Tier 1 account in US very soon and we have now won a handful of accounts with more than 20 POCs running. We have field trials and outstanding RFP decisions which can help us move from the initial stages of a multibillion dollar opportunity over the coming 24 months. 2017 is a year where we will continue to invest and win many new customers. Our investments in this portfolio will return investment capital to our shareholder in 2018. We are the global leader in this space and offer more choice, a better ecosystem and an architecture, which leads with ease-of-use and solves operational scalability issues. We continue to have little professional competition in the networking operating system or edge hosting OS space.

And finally, we have spent the better part of the last two years upgrading the entire Oscilloquartz architecture. We are winning new footprint each month and we plan on moving from an "investment mode" to a "driving returns for shareholder mode" in the second half of 2017. We just won another major Tier 1 in April.

With all this new technology we are more competitive than ever.

We are connecting, extending and assuring the cloud while video, mobility and new applications continue to keep our industry expanding and exciting.

With this, I will pass over to Uli who will cover our financial performance. Thank you very much.

Uli Dopfer, CFO: Thank you Brian and hello everybody.

Let us start with the financial highlights for Q1 2017 according to IFRS.

The pro forma numbers presented here are calculated prior to non-cash charges related to stock-based compensation and amortization and impairment of goodwill and acquisition-related intangible assets.

Unless stated otherwise, all numbers are presented in EUROs

Let's move to slide 11 please.

As already stated, we ended Q1 2017 with revenues of 141.8 million Euros, representing ADVA's strongest Q1 ever. This result is at the upper half of our revenue guidance of between 135 and 145 million Euros and represents a 16.3% increase year over year.

The increase in revenues was driven by all regions and multiple market segments – ICPs, Carriers and Enterprises.

This healthy customer and product mix is reflected by the stronger Gross Margin of 32.5%.

Pro forma operating income in Q1 2017 was at 6.6 million EUR or 4.7% of revenues. This is also at the top end of our guidance of between 3% and 5% of revenues and compares to 1.6% in the year ago quarter.

Next slide please (Slide 12): IFRS profitability below the pro forma operating income line

In Q1 2017 IFRS operating income was at 5.5 million or 3.9% of revenues, up from 1.0 million or 0.8% as seen in Q1 2016, in line with the growth in pro-forma operating income.

Our Q1 2017 net income was at 6.2 million Euros or 4.4%. This result was slightly impacted by negative FX effects caused by the weakening US dollar at the end of March. However, this was more than offset by tax benefits resulting from the recognition of tax loss carryforwards.

As the number of weighted average shares outstanding has not changed significantly, diluted EPS developed in proportion with IFRS net income to 12 cents per share.

Next slide please (Slide 13): Quarterly revenues per region

The 16% revenue increase compared to Q1 2016 was driven by all regions.

EMEA recorded revenues of 71.2 million Euros, an 11% increase year-over-year, representing 50% of total revenues.

In the Americas, Q1 2017 revenues were at 62.8m Euros, representing 44% of total revenues. This equals a 22% increase year over year.

Asia-Pacific revenues were at 7.8 million or 6% of total sales, and this represents a 20% increase year over year.

Next slide please (Slide 14): IFRS Balance Sheet

Q1 cash balance was at 69.7 million Euros our net liquidity at 15.0 million.

ADVA's Q1 net liquidity is traditionally lower than other quarters, mainly due to the payout of variable salaries to our employees. Year-over-year net liquidity increased from 9.4 million in Q1 2016.

The change in gross cash also includes a 4.7m debt-settlement. We will continue to pay off our debt positions to ensure our financial flexibility.

Overall net working capital of 112 million increased compared to the 98 million reported at the end of Q4, mainly driven by higher revenues and the resulting increase in accounts receivables. This number is on the same level as the 111 million EUR at the end of Q1 2016.

Trade accounts receivables increased to 94.1 million, which compares to 78.5 million at the end of Q4. As stated above, this increase is due to the higher revenues. DSOs improved to 54.8 days.

Inventories decreased to 81.7 million Euros, resulting in an inventory turn rate of 4.5.

Trade accounts payables of 64.0 million decreased from 73.3 million in the previous quarter. Correspondingly, DPOs decreased to 64.2 days.

Stockholders' equity of 244.5 million is up from 238.9 million vs. the end of last quarter. We continue to maintain a strong equity ratio of above 50%.

Next slide please - Slide 15 - Consolidated Cash Flow

Cash flow from operating activities amounted to 5.6 million Euros, up from the 2.0 million Euros reported in the year ago quarter, but down from the 21.2 million Euros reported in Q4 2016. The decrease from Q4 2016 to Q1 2017 was both due to lower net income and the payout of accrued variable salaries, as mentioned earlier.

Cash flow used for investing activities is on levels as seen in Q3 and Q4 2016, reflecting our ongoing investments in future technologies.

Cash flow from financing activities in Q1 2017 was at negative 5.0 million, mainly consisting of servicing existing loans.

Accordingly, free cash flow came in at 0.4 million, vs. the negative 0.6 million reported in the year ago quarter.

Now, I would like to share our guidance for Q2 2017. Next slide please.

(Slide 16)

We are committed to improving visibility and predictability of our business. As in the past, we will continue to provide projections for the current quarter only.

Market growth drivers continue to be intact. Cloud and mobility continue to drive data center builds and expansions, thus driving demand for more interconnect capacity.

Our long-term growth prospects continue to be strong.

As previously communicated, there are both risks and opportunities in realizing revenue, particularly in infrastructure business.

We remain committed to a flexible cost and operating model that allows us to quickly adapt to changing market conditions. We will continue to drive operational efficiencies within all facets of the organization.

We consequently project Q2 2017 revenues of between 143 and 153 million Euros, with pro forma operating income to range between 5% and 8% of revenues.

We will continue to perform detailed reviews of the expected business development in respect to all intangible assets, including capitalized development projects. In case of highly adverse business prospects, such a review may result in non-cash impairment charges in Q2 2017 and beyond. The pro forma operating income guidance we have provided today excludes any such potential impairment charges.

With that, I'd like to summarize today's call.

Our results are strong. We forecast a slowing of our growth rates while we consolidate our margins and focus on introducing our new product architectures to the market.

Both Q4 and Q1 have shown that we are returning to strong profitability levels. The customer and product mix is healthy, with the FSP 3000 CloudConnect ramping and our higher margin products contributing well to the overall mix.

NFV continues to be the hot topic in our industry and disrupts the service delivery model for communication service provider. Innovation is more important than ever. We have built thought leadership in this space through Ensemble, our strategic division focused on NFV.

Overall, our broader solution offering and ability to innovate brings traction in new accounts.

And our commitment to open architectures and an open ecosystem makes us a trusted partner for an increasing number of high-profile accounts.

Thank you for your participation in today's call.

With that, I'd like to turn the call over to the operator to begin the Q&A session of the call.

Operator: thank you very much. Ladies and gentlemen, we are now starting the question and answer session. If you like to ask a question, please press zero one on your telephone keypad. Your questions will be answered in the order they are received. If you use speaker equipment today, please lift the handset before making your selections. One moment please, as we wait for the first question.

QUESTIONS AND ANSWERS

Operator: The first question is from Robin Brass, Hauck & Aufhäuser

Robin: Thank you and hello everybody. My first question would be you mentioned that CloudConnect was already a single digit number and will be a two digit number in the second quarter. Does that also mean that you have first wins here maybe with the major ICPs or is this too early in the year and when would that be expected ? And the second question would be the Q2 sales guidance is I guess lower even on the higher end than last year's, what are the major drivers? Is here again a cooling off in the US and also the margin is higher I guess than also last year and where does this higher margin come from in your opinion? Thank you.

Brian: So, CloudConnect we have won a major ICP account with the CloudConnect we are working on another major second one and we are working on many other accounts in parallel. And yes we are driving revenues off the ICP segment with our CloudConnect already again we helped it - double digit millions and it's a fairly nice ramp. The Q2 sales guidance is lighter, yes, US business is going to be slightly lighter the ICP business is forecasted to be down off of last year Q2 2016 and in general pretty much all of our other businesses are growing. So the margins comes from strength in the market as a whole.

Robin: Okay but do you see this is a temporary effect with the ICPs cooling off here?

Brian: For sure I think it's up to us to go build, you know. I think the ICPs are more volatile than other market segments. I think that they are for a huge opportunity, low margin business and I think ADVA is well positioned to continue to drive strong revenues and contribution from that market segment. No change, we think the CloudConnect is a very good product, it's the platform of choice for us for the next 10 years and we are going to bring all sorts of new features and capabilities into the architecture. We believe we can win multiple accounts over the next months, quarters, years. So we do not believe that our competitive edge, you know, has changed. In fact we hope to have increased our midterm competitive edge with the architecture.

Robin: Okay. Thank you very much.

Operator: Thank you. The next question is from Oliver Pucker, Oddo Seydler.

Oliver Pucker, Oddo Seydler: Good afternoon ladies and gentlemen. Thanks a lot for taking my questions:

Maybe my first question for Brian, a follow up question on the Q2 topline guidance. So, Q1 topline growth was strong with plus 16% and now the midpoint of the Q2 revenue guidance implies a decline of round 6% vs Q2 of last year. If I look at the Q1 report you state that you expect 8% growth for ADVA's addressable core market and that you aim to achieve above average market growth. So this would mean that we should see an acceleration in H2 because the midpoint of the guidance from Q2 would imply 4% YoY growth in H1. So would this be correct?

Brian: So – yes. Clearly. We want to outgrow the market growth each and every year and I think if you look at the segment right now we have indicated ICP business will be down off last year in Q2. Can that turn around in the second half? Absolutely. I think our other business outside the ICP business is growing faster than the 8% so I think there is some push. You know there are ebbs and tides in our business. You know Europe has been a challenge for a couple years and now it is getting stronger, carrier business is getting stronger metro build stronger and I think we can push revenues into our new product architecture the Ensemble software, slash the Oscilloquartz sync and timing portfolio as well as some of our new fiber assurance architecture. So it really depends on, you know, market segments and clearly our goal is to grow ahead of market growth.

Oliver: OK. But to summit up: Half 2 should be on the topline in terms of growth stronger than H1?

Brian: We need to make that happen right. We are higher in Q1 we are lower in Q2 clearly we have to focus as a company to drive greater growth back in the H2. That's got be our focus and we have plans and strategies and we are pushing forward.

Oliver: Got it. And maybe on the ICP business: So what was the ICP revenue share in Q1 and what do you expect for 2017 overall?

Uli: The Q1 share was between 15% and 17% I would say and we expect slightly higher in Q2.

Oliver: OK, got it. And maybe a question again on the margin side: In in your outlook again in the Q1 report you say that the profitability in 2017 is expected to return to the 2015 level, so which would be 6.8%. So now the Q2 guidance indicates that you are on a good way. So what are the major drivers in your view? Is it the higher margin of CloudConnect? Is it the elimination of the integration costs for Overture? Or is it the scalability? What are the major drivers?

Uli: I guess you named them all already. So it's of course we do not have integrations cost from Overture. We have probably a stronger customer mix: We mentioned it earlier; Europe is coming back strong, we have started selling CloudConnect; so all these bits and pieces are coming together and drive profitability. And don't forget: we still have the burden from the weaker British pound otherwise we would probably guide even higher.

Oliver: OK, got it

Brian: And maybe to complement that: clearly software, services and sync and timing add to the points that Uli mentioned - all much higher margin business.

Robin: And maybe on the margin side of the CloudConnect: did you already see a positive impact in terms of margins from the CloudConnect with the first deliveries or do you need a certain scale to see a positive margin development?

Brian: No, we feel very good about margins on already existing CloudConnect business as we ramp. And remember, at the beginning of a ramp, it takes time usually; actually we are quite positive there. But clearly, we live in a competitive environment. So really, and I have always said this: depending on what our competitors do and how aggressive they get on their next gen technologies to address 100 Gig connectivity - that has a major impact on margin profiles. But right now we are starting strong, looking good and we are working feverishly to continue to drive our costs down. The CloudConnect gives us a huge advantage on, you know, bit costs for high bandwidth applications.

Oliver: OK, got it. Then maybe one or two questions for Uli. So on capitalized R&D: I noticed that capitalized R&D in Q1 has been up and was above the level of amortization. So and I believe that you stated in the past to bring those two items to a similar level. So, what can we expect going forward and why was capitalized R&D up in Q1?

Uli: It's pretty simple. As said during my part of the call already: we continue to invest in innovation. We invest heavily in Ensemble, and so we are naturally, we are capitalizing more R&D expenses.

Brian: But isn't part of it, Uli, also - when we bring products to market, when we release the products; there are different models there. So it's not a clear science you guys, it's not pure math and forecasts were for lower, and that was a little bit higher, correct?

Uli: correct

Oliver: OK, got it. And then maybe a question - you already mentioned it on the investment in R&D, so, which significant increased year over year. Free cash flow now was negative in Q1. What can we expect in the full year in terms of free cash flow?

Uli: I would see clearly the trend we saw last year. I mean it should be much stronger, Q1 is always not as strong, we are definitely stronger than Q1 of last year and I would probably see the same trend that we saw last year maybe even stronger due to the higher margins.

Oliver: OK, got it. And maybe the last question from my side: Again, there was a tax benefit in Q1. So what can we expect as a cash effective tax rate for the whole year?

Uli: So, that's a little bit a tough one, but maybe let me explain a little bit: We are coming especially in the SE from a history of losses to a reality of profits which obliges us to revisit our annuals and tax loss carry forwards and this could definitely lead to more tax credits going forward.

Brian: And lower tax rates?

Uli: Yes

Brian: On average.

Uli: Absolutely

Oliver: So, about, let's say, tax rates, cash effective, around say 12% for the whole year? Does this sound reasonable?

Uli: Lower

Oliver: Lower?

Uli: Lower

Oliver: in the single digits?

Uli: I would assume single digits, yes.

Oliver: Ok. Thanks a lot

Operator: The next question is from Mirko Maier LBBW.

Mirko: Thanks. Most of my questions are already answered. Just two are left for Brian:

I want to follow up on the outlook on Q2. You have mentioned slowing demand on the customer side, is this just a slowing down to more normal growth rates coming down from those really high, extraordinary grow rates we have seen in 2016 or is there something else behind like changes in the competition or pricing pressure, or something else?

And another questions: you have mentioned a stronger demand in Europe in the carrier segment. How sustainable is this trend? Some comments would be great. Thanks.

Brian: So, we haven't lost customers we still have to get our new product architecture to some existing customers. Depending on the applications we address with our architecture this means more or less revenues. And that's the standard game. Where we grew faster last year than expected because we took a few more applications than we had expected and now each and every year we are going to address that and go win those pieces. And we win a lion share of this competitions but also can lose some of that. And therefore then we don't have as much exposure to the spend that's done. So, if you look from an ICP perspective I think again, we have not lost any customers, we're working feverishly, we already got our new architectures in to one of the major – of our major accounts and we are working to bring it in the second major account and that's a step by step process that clearly will impact, you know, revenues. The faster we do the more applications we address the better we are off. Essentially in the other segments we haven't lost any accounts and we have expanded, we believe, the revenues as already indicated. I think I indicated that in the first point. So, you know, there is a lot of execution that we need to focus with our new product architecture. I said clearly in my presentation growth rates are declining but, you know we are working feverishly to drive our new architectures, and we have a few different architectures in the Carrier Ethernet space in the optical space in the sync and timing space and in the software the network OS space. So, I think we're all good - move forward - hopefully grow very nicely in half 2 after not having year-on-year growth from Q2 to Q2 but in general I think our model looks quite nice. Margin contribution better and part of that is the European business and as you said, you know: can it stay? Well, bandwidth is growing. You can underinvest for a certain period of time, you can cycle it at times. The cycle isn't usually for three or six months it usually last longer. But I can't answer that question. I can't answer the question how long it lasts in Europe. I can't answer the question you know, what ICPs forecasted. We haven't done that – well - over the last two to three years. It's very complex with the ICPs, that move, you know, really, really sat. Very small teams, rapid decisions and then move on. In the carrier space it's a little bit different: it's macroeconomic and regulatory and consolidation trends that influence how people are investing. But: bandwidth is growing. That's what we keep saying in our presentations. There is no indication that bandwidth isn't growing. So for us it's really about relative strength to the market. We well outperformed the market two years running. And now we have got a bunch of new stuff we are going to transition, transformation within ADVA and we hope to continue that for the next three years. Can it be less and will it be less than the last two years? Sure – and what we want to do is stay ahead of the market curve. That's our goal.

Mirko: OK. Is it possible that we keep seeing in Europe a market growth like we have seen it in 2015? North of 20%? Or is this too aggressive?

Brian: I mean, that's an aggressive number. But I guess you'd have to look over the last two to three years. And there are some big carriers that are investing heavily. The UK though, because of the low exchange rates, it's really, it has been an anchor – a he anchor – on us for the last 18 months. Now we feel some stability there and the pound actually got a little bit stronger. But, maybe now that's no longer an anchor. Could you grow like that? You could. But I can't make that assessment. All I know, it's good business right now and it should be a good year.

Mirko: great – thanks.

Operator: Thank you. The next question is from Tim Savageaux, Northland Capital Markets

Tim: Hi, good morning. A couple of questions here. Sort of focusing back on kind of a high level issue with regard to overall market growth. I mean clearly, given the lower – the year over year decline in Q2 – mid teens growth rates are going to be hard to achieve this year. But, into this previous discussion: do you feel like you can still grow double digits for the year? And kind of as a follow up to that: you have given a pretty wide range on the last call of potential outcomes on the cloud DCI side, so relative to what is was 25% of revenue, last year. Now a quarter into the year with greater visibility I wonder whether you might have an update on that range?

Brian: So I guess again – it's really dependent on our execution on our new product architecture. I think the market is fine. The bandwidth is growing. People are investing. We haven't lost any customers. I gave you a wide range of 12% to 30% for a reason: You know, depending on when we get what application, what we can address, what percentage of their spend we take – so from an ICP perspective we are at 15% to 17%. So yes, we are down off last year where we had the 25% numbers that we indicated except for Q4 I think. And we are still in our range, we got to go, we got to go and continue to execute. And like I said, with CloudConnect is already in one of our two major ICP accounts. We got to get it in the other. We are going after all sorts of smaller opportunities and accounts and we are going after even bigger footprint and that always takes longer, when it's new footprint at some of the other big players.

Tim: So you're sticking with the 12% to 30% I guess?

Brian: I said we are in our range we are 15% to 17%. If you asked me the question now, it would be a different range. But 12% to 30% is the range we gave, and were in the 15% to 17% range now. In the first half.

Tim: Got it. Over on the Ethernet access side. Last quarter you referenced a very significant uptick in RFP activity. I wonder if you could give an update on the growth expectations of that business for '17 and where do you see RFP activity translate into revenue opportunity during this year?

Brian: So, you know, non-optical business – we pull in there Carrier Ethernet, the Ensemble piece, NFV, so it's enterprise, next-gen access technology, that's what our carrier Ethernet access solutions are, and even the sync and timing pieces. That business is growing nicely, even from Q1 to Q2, it's growing nicely. So I guess the question is, you know, growth rates, year-on-year. That's double digit, definitely. Does it get up higher than that? Let's see how it works. I can't say right now. But we have coming on board a couple of the new wins we have had. We are working a couple of others, still, pulling together, you know, contractual work there. We are fighting hard for a number of opportunities. So I feel good about that space. I feel good about that space but I don't want to say it is going to go more than double digit for 2017, just yet.

Tim: Okay, so you got sort of a tailwind there. Back to your comments around Q2. And while maybe down year-over-year, you are still looking to grow – potentially pretty decently – sequentially. Although, you know, citing some slowness is customer demand in North America. Just wondering how we should interpret that? More as ADVA deciding not participate in some business deemed as low margin? Or actual slowing in overall demand? I guess I'm trying to contrast that with your comments on increased RFP activity in cloud access, and whether by cloud access you mean something other than traditional data center interconnect type stuff.

Brian: Cloud access is more the on-ramp stuff. That's including the non-optical mostly, even some optical piece. But again – I think we are very clear: North America is slowing - the ICP space percentage of our business is declining in the first half and the other business is all nice and growing. It is as simple as that.

Tim: I guess what I'm trying to get to is whether it is slowing as a result of conscious decision on your part to what I take you mean by consolidating margins which is maybe not pursuing so aggressively lower margin cloud business as you did last year, sort of making a strategic decision not to do that versus any actual native slowing of customer demand?

Brian: No I just think, you know, life is – in the world, the ICP world it is about being a leader at the right time for the right application. And we are pushing that forward; and I think we have some really cool stuff and we think we can expand our number of customers nicely; and then the question is: what percentage of the spend we get. That is something, and are we consciously walking away? Clearly, we are not doing loss-making business, but, you know, when, the bigger we have been exposed to that space the more impact is going to be on our margins the less exposed we are to that space, clearly the better it is for our margins. And I have said this on the call multiple times: It's nice to have more revenue, you get leverage and whatever else. But this doesn't impact our model so much and ADVA has got multiple legs to stand on, we are doing well in a number spaces, so the fundamental picture hasn't changed much.

Are we going to walk away from that kind of business? Absolutely not. We are committed. We are moving forward. We might take certain application spaces more aggressively because we feel there is better margin contribution than in other application spaces within those accounts. And there might be sometimes where we are better attuned through technology or address certain application spaces than in other times. I think, that's reality. And our customers all have two or three suppliers and then it's within that group who is getting the business allocated to them and I don't think that it's a down, and I don't think they are spending less, in general. So it's not general market related, it's not us saying "no, we're not going to go and do that business, so no – it's us strategically, where we want to focus our efforts and how we are going to grow and what is our positioning and all those other things. In general the market is good, our revenue lightness is coming off a market segment, but in general other things are doing well for us and I think we can march forward and continue to do well in the data center and ICP business space.

Tim: And maybe just a final one for me: In keeping with the view towards sequential growth in Q2 at least to some degree, I think you did say earlier in the call you expected some uptick on the cloud side – I just want to confirm that. I guess you are ramping on CloudConnect although other stuff might be coming down, and, if we could just focus on metro in Europe, which I gather to be the primary driver for a pretty positive carrier outlook. How broad-based do you see that? Is that a couple of major customers? Could you describe the overall carrier outlook for Q2 in the year briefly? I imagine you expect a tailwind there as well.

Brian: I think 100 Gig. 100 Gig and people are investing; and it's broad-based; it's not one customer.

Tim: OK, thanks

Operator: Thank you. The next question is from Rob Sanders, Deutsche Bank

Rob: Yes, hi. Maybe if you could start by just giving us sort of a summary about your thoughts of OFC and the dynamics in the market right now. I was thinking about things like 400 Gig 600 Gig commentary by Acacia for example and I got some follow-ups. Thanks.

Brian: So - lots of innovation; it's a good market for a company who understands how to manage innovation and bring the right architectures to market; I think the commentary in and around feedback, you know people are introducing new platforms. We believe – you know we have introduced a number of new platforms, both broad and deep and we think those platforms are absolutely best in breed. Some of those platforms leverage our strong relationship with Acacia; some other platforms we introduced are orthogonal to that, you know low lowest cost 100Gig and some other stuff we introduced in other market application spaces.

In general: very active market; in general, things like - we saw people being defensive as well. Making moves, strategic moves, that were maybe trying to address some other strengths that Acacia has had over the last two years, which was very interesting to see as the market dynamics change.

And I saw a lot of new stuff but I feel that, you know, ADVA's roadmap, what we have done over the last three, six, nine months and what we are going to do over the next twelve months looks very, very nice relative to the industry.

Rob: Go it, that's helpful. And do you have a play – apparently at OFC you were talking about a ROADM play in Europe? I just wanted to check that, if that was something that you see. And sort of semi related to that, are you seeing, what is price regression you're seeing at the moment in Europe? There was talk about Coriant for example, being more aggressive. Thanks

Brian: Yeah, honestly, on the price stuff you've always got one or two very aggressive players. They come and go and it changes. Then comes the next one trying to position whatever else, trying to use prices as a weapon. I guess people are always realizing in the end: what do they get? They get a new customer and no margin so they are spending a lot of time and energy. You know, that strategy vanes after time. Yes, I mean we hear of folks who addressing that aggressively from a price perspective. But this is one of these challenges that we face when we are winning new footprints. It is always very aggressive to win new footprints and margins are lower.

So there is that piece. The second piece on the RODAM piece: ROADM is a nice part of our portfolio but we continue to develop and introduce new pieces. So you'll see us from lower cost, you know, replacing FOADM type of fixed OADM types of applications, you know to high end multi degree CDC types of RODAM capabilities and we have got a range and continue to invest money and time into ROADM and we do good business in the ROADM space.

Rob: Got it. Last question: there has been a lot of chat around China slowdown. I know that's not a big exposure, if anything for you guys. Do you feel it has had any effects on the pricing environment globally? Have you seen anything shift over the last couple of months related to China's slowdown in terms of secondary impact?

Brian: Well, I think the supply chain has released some, which is good. If you look at, you know, the challenges we were having managing that supply chain. It was nightmare for three to six months and now it's a better environment for everybody I think. And through that it's easier to manage and we became also much more efficient as a company. All that's good. I think like everything, you know, things go in cycles. Upgrade to 100Gig, building infrastructure in China was very, very strong and seems to have slowed down some. Again, it doesn't us much but impacts the industry as a whole. In this case favorably, in my view. So, all good.

Rob: OK, thanks a lot.

Operator: Thank you. We have no further questions for the moment. As a reminder, please press zero one on your telephone keypad if you would like to ask a question. There are no further questions – I hand back to the speakers.

Brian: Thank you very much for your attendance. We will be in touch. Please contact IR at ADVA for any further questions or follow up. Stephan or Uli, etc. And thanks again for attending. Bye bye.