



ADVA Optical Networking Analyst Presentation

Q1 2017

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

Q1 2017 in Review



- Q1 revenues rose by 16.3% vs. the previous year to EUR 141.8 million; strongest Q1 in company's history; upper half of guidance provided on Feb. 23, 2017 of between EUR 135 million and EUR 145 million
- 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
- 13th 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 69.7 million and EUR 15.0 million respectively
- Focus on open connectivity solutions for data center interconnect (DCI) applications continues to deliver results
- Carrier infrastructure business in Europe strong

* 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 Q2 2017



- North America slowing due to customer demand coupled with the introduction of new technologies while Europe is gaining strength
- Cloud access momentum building between providing further opportunities for our expanded Ethernet access portfolio
- Ensemble software architecture gaining traction, Oscilloquartz portfolio resonating → broadening our basis for 2017
- Strong market, more software products and tight control of operational expenses will result in increasing profitability in 2017

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



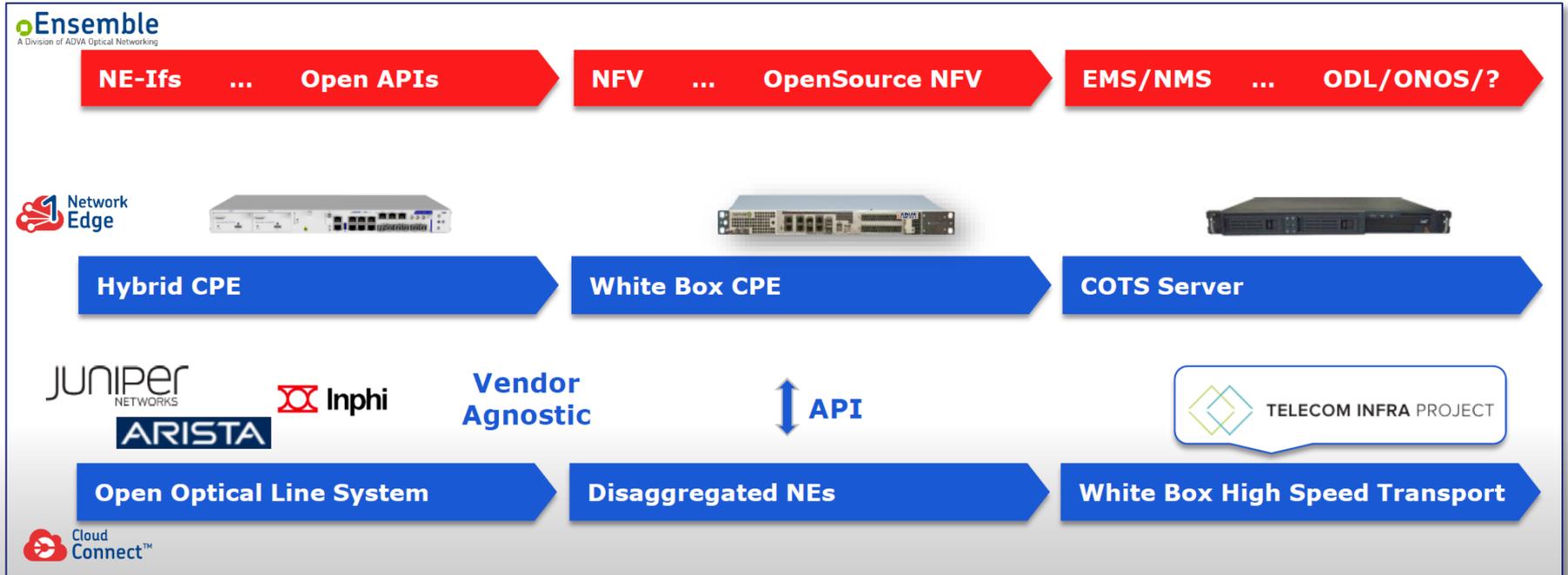
Cloud Services

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

Embracing an Open World



Q1 Highlights



TECHNOLOGY

ADVA shipping open line system for direct-detect DCI

16 March 2017



Last year when Microsoft said it was shunning purpose-built data centre interconnect (DCI) boxes in favour of 100G modules that could be plugged directly into data centre switches, there was concern that optical vendors could miss out on this market (see [Microsoft shakes up the data centre interconnect market](#)).

But ADVA Optical Networking seemed quietly confident that wouldn't happen.



► DATA CENTER / DATA CENTER INTERCONNECT

ADVA Commercializes DCI Direct Detect



NEWS ANALYSIS
CAROL WILSON,
Editor-at-large

A year ago at OFC, when Microsoft and optical components vendor Inphi Corp. announced a major new alternative approach to data center interconnect, little attention was paid to the fact the show demonstration of their solution was done over an ADVA open optical line system. Today, ADVA announced a commercial version of that optical line system that includes the kind of direct switch-to-switch optical link that Microsoft-Inphi discussed, and something extra. (See [Microsoft Drops a Data Center Interconnect Bombshell, Inphi Debuts Data Center Interconnect Gamechanger and ADVA Adds Direct Detect Open Optical Layer for DCI](#).)

ADVA Optical Networking Removes Risk of NFV Migration With New One Network Edge Device

ADVA FSP 150 ProVMe (P2.4) Uses Pluggable Server for Simple and Cost-Effective Virtualization

April 05, 2017

ADVA Optical Networking today launched its new FSP 150 ProVMe (P2.4). The device has been specifically engineered to remove the risk of introducing virtualization and helps CSPs to easily and cost-effectively roll out NFV. The FSP 150 ProVMe (P2.4) achieves this with the inclusion of a hot-swappable, pluggable server that enables NFV rollout as and when needed. In combination with its hardware-assisted NFV infrastructure support functions, the newest member of the ADVA One Network Edge product family provides a simple and cost-effective way for CSPs to deploy virtual

For so many customers, the latest addition to our One Network Edge family is the missing piece of the puzzle.

ADVA Optical Networking and Inphi Demonstrate 100G Direct Detect Solution for Open DCI Systems

OFC Demo Underscores the Flexibility and Cost Efficiency of Disaggregated Technology for Metro Applications

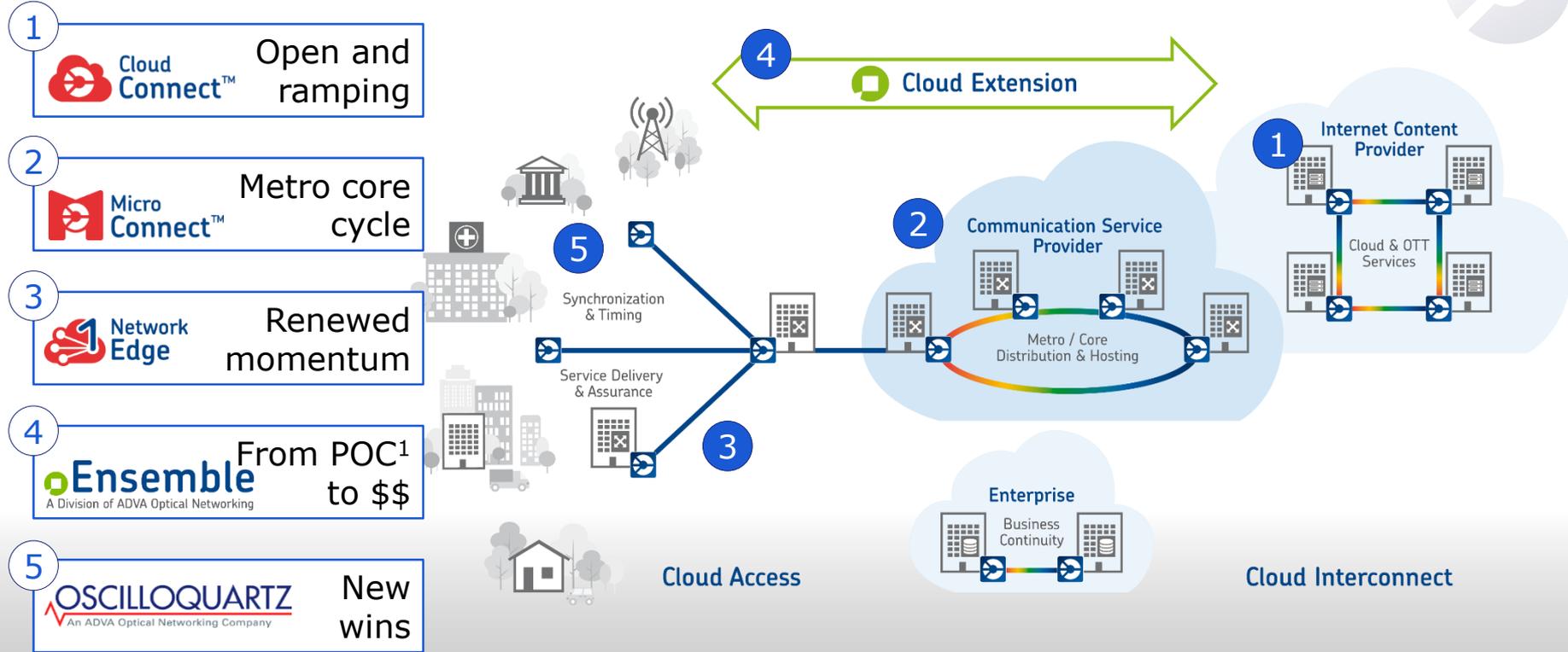
March 20, 2017

ADVA Optical Networking announced today a joint OFC demonstration with Inphi Corporation that reveals how ICPs and CNPs can use disaggregated direct detect technology to develop flexible and cost-efficient 100Gbit/s transport systems. Built on ADVA Optical Networking's newly expanded FSP 3000 CloudConnect™ and Inphi's ColorZ™ 100Gbit/s PAM4

The combination of our OLS with SmartAmp™ functionality and Inphi's ColorZ platform solution presents a compelling opportunity for ICPs and

We give customers more choice, scalability and flexibility than ever before

Solid Basis for Growth and Profitability



Connecting, extending and assuring the cloud

1) Proof of Concept

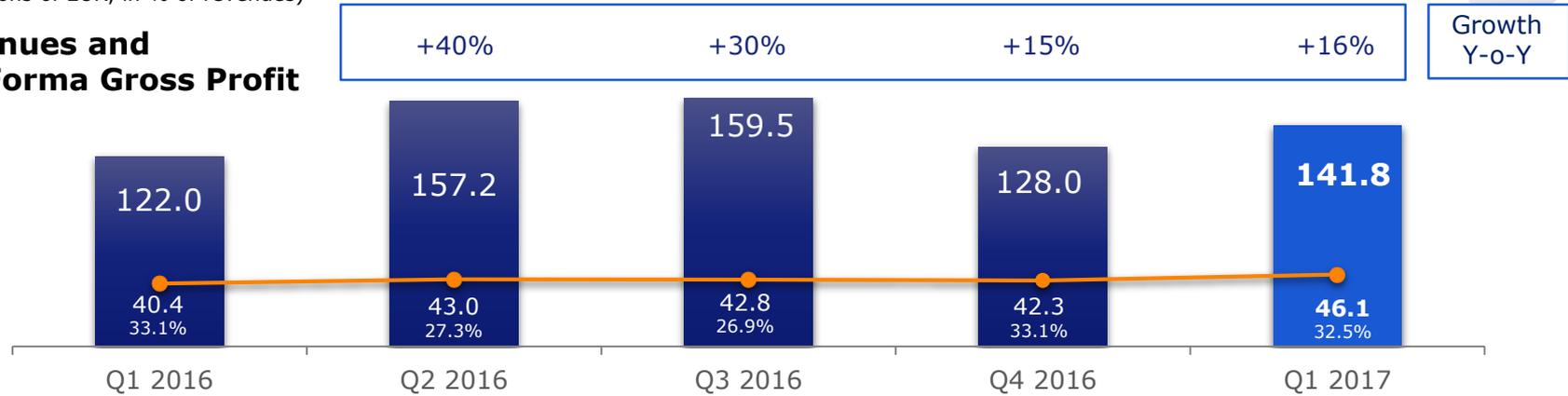
Financial Performance



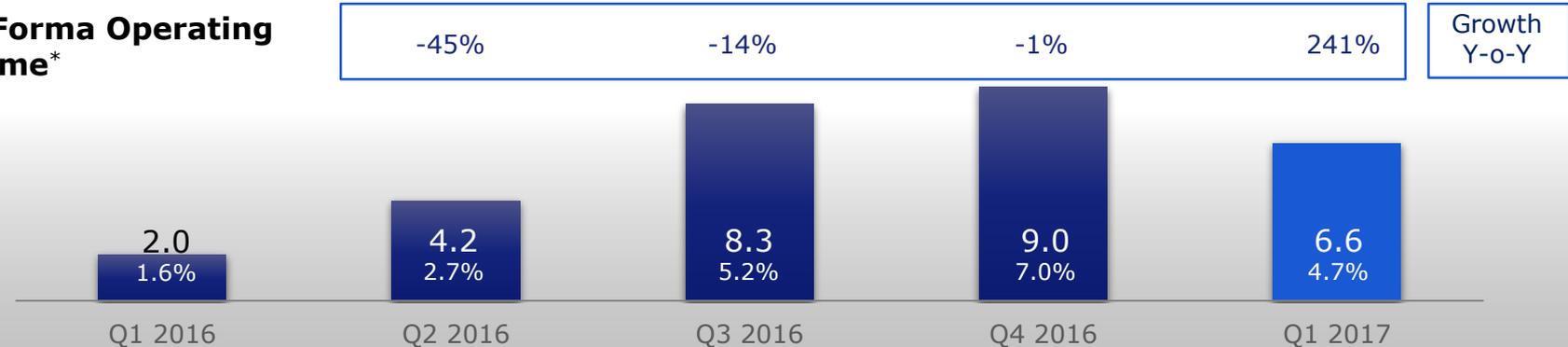
Quarterly IFRS Revenues and Pro Forma Profitability

(in millions of EUR, in % of revenues)

Revenues and Pro Forma Gross Profit



Pro Forma Operating Income*



* 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



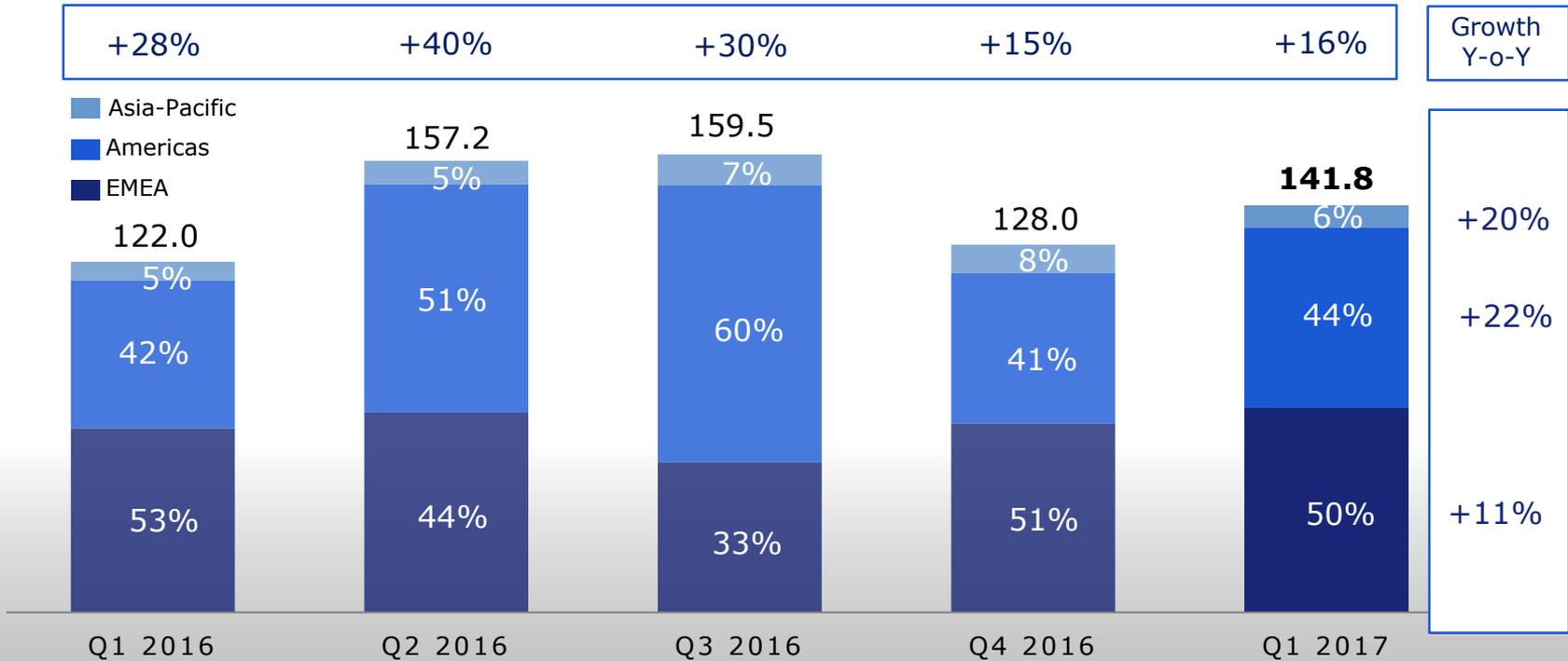
EUR Million	2016				2017
	Q1	Q2	Q3	Q4	Q1
<u>Pro Forma Operating Income</u>	2.0 (1.6%)	4.2 (2.7%)	8.3 (5.2%)	9.0 (7.0%)	6.6 (4.7%)
<u>Operating Income</u>	1.0 (0.8%)	3.1 (2.0%)	7.2 (4.5%)	8.1 (6.3%)	5.5 (3.9%)
<u>Net Income</u>	-5.2 (-4.2%)	9.8 (6.2%)	3.3 (2.0%)	13.6 (10.6%)	6.2 (4.4%)
Diluted EPS in EUR	-0.10	0.20	0.07	0.27	0.12

Margins, in % of Revenues



Quarterly Revenues Per Region

(in millions of EUR, in % of revenues)

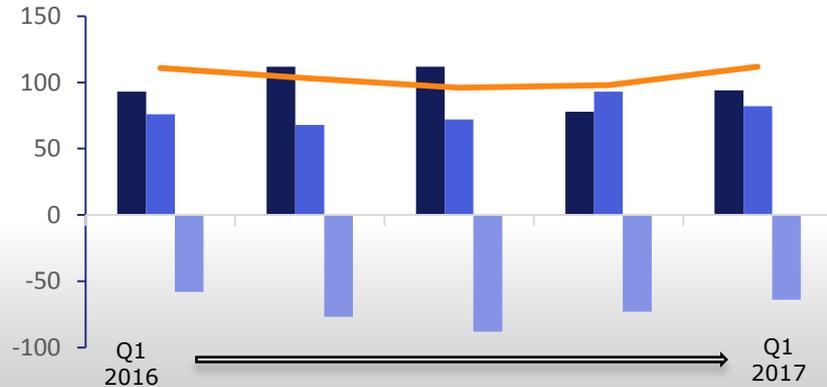


Note: Potential differences due to rounding

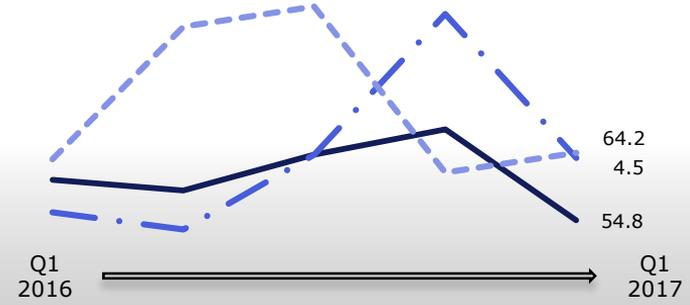
IFRS Balance Sheet



Assets	Dec. 31 2016	Mar. 31 2017	Equity & liabilities	Dec. 31 2016	Mar. 31 2017
Cash & cash equivalents	84.9	69.7	Accounts payable	73.3	64.0
Accounts receivable	78.5	94.1	Financial liabilities	59.4	54.7
Inventories	92.8	81.7	Other liabilities	96.3	100.6
Other assets	211.7	218.3	Equity	238.9	244.5
Total	467.9	463.8	Total	467.9	463.8
Net Liquidity	25.5	15.0			



(in millions of EUR)
Net Working Capital



Days Sales Outstanding (DSOs)
Days Payable Outstanding (DPOs)
Inventory Turns

IFRS Consolidated Cash Flow Statement



EUR million	2016				2017
	Q1	Q2	Q3	Q4	Q1
Net cash provided by operating activities	2.0	22.4	15.7	21.2	5.6
Net cash used for investing activities	-42.9	-11.4	-15.5	-16.6	-15.8
Net cash provided by (used for) financing activities	21.0	-1.9	-1.7	-1.7	-5.0
Net effect of foreign currency translation	-0.6	0	0.2	0.7	0.0
Net change in cash and cash equivalents	-20.5	9.1	-1.3	3.6	-15.2
Cash and cash equivalents					
at beginning of period	93.9	73.4	82.5	81.2	84.9
at end of period	73.4	82.5	81.2	84.9	69.7
Free cash flow*	-0.6	19.0	11.8	16.4	0.4

* 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 Q2 2017



- Revenues between EUR 143 million and EUR 153 million
- Pro forma operating margin between 5% and 8% 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



- North America slowing while Europe is gaining strength
 - Metro core cycle picking up
- Profitability returns – improved customer & product mix
 - FSP 3000 CloudConnect™ ramping
 - 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
- Open architectures win

Connecting, extending and assuring the cloud



Thank You

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