



ADVA Optical Networking Analyst Presentation

Q3 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

Q3 2017 in Review



- Q3 revenues: EUR 111.2m, down from 144.2m in Q2, down from 159.5m in Q3 2016;
 - Revenues within the adjusted guidance provided on August 28, 2017 of between EUR 110m - EUR 125m including MRV Communications, Inc.
- Q3 pro forma operating income* EUR -0.8m or -0.7% of revenues
 - Also within the revised guidance between -4% and 2% of revenues
- Post acquisition one-time restructuring costs of EUR 8.4m
- Q3 revenue drop and guidance adjustment
 - Very low demand from one of our major ICP customers
 - Ordering ramp-down from large carrier going through M&A
- Carrier and enterprise business in Europe continues to build momentum
- MRV acquisition completed

* Pro forma operating income/loss is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, from Q3 2017 onwards non-recurring expenses related to restructuring measures are not included.

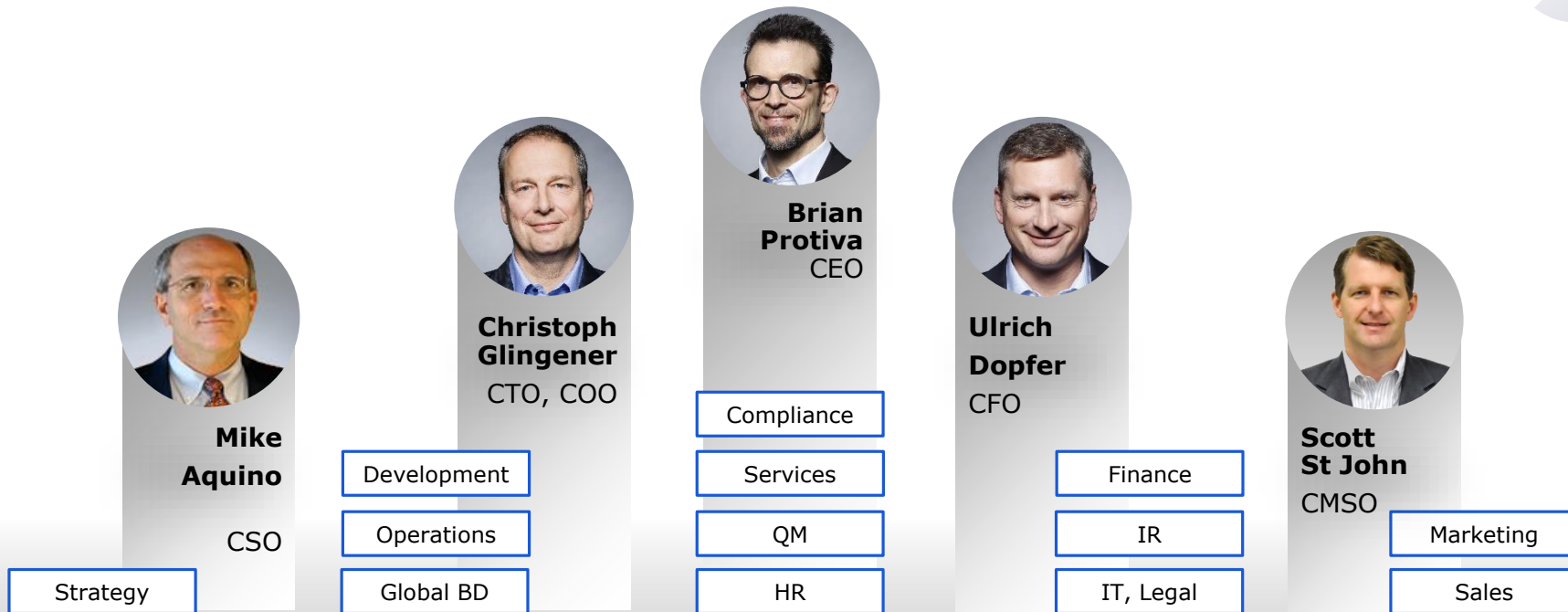
Prospects for Q4 2017



- North America stable at lower levels
 - Lower run-rate due to lack of orders from leading ICP
 - Uncertainty around return of large carrier customer (timing and volume)
- Carrier and enterprise business in Europe continues to be strong
 - ADVA profile sharpening as THE European innovator
- Markets stable but not showing much growth
 - Increase in bandwidth demand largely offset by speed of innovation and price erosion
 - Global competition remains steady and not enough consolidation happening yet
- MRV integration and consolidation progressing according to plan
 - Product portfolio expanded, roadmaps updated
 - Sales and engineering teams aligned and refocused
 - First cross selling success of ADVA products to MRV customers
 - Restructuring leads to operational cost savings of approx. EUR 20m p.a.
 - Solid basis for profitability and cash generation in 2018

Tight cost control measures in order to adjust for lower revenue levels

Strengthened Executive Team



Highly aligned leadership team with a common focus

Serving the Cloud

1 Access & Extension

Ensemble
A Division of ADVA Optical Networking

Industry-leading
portfolio

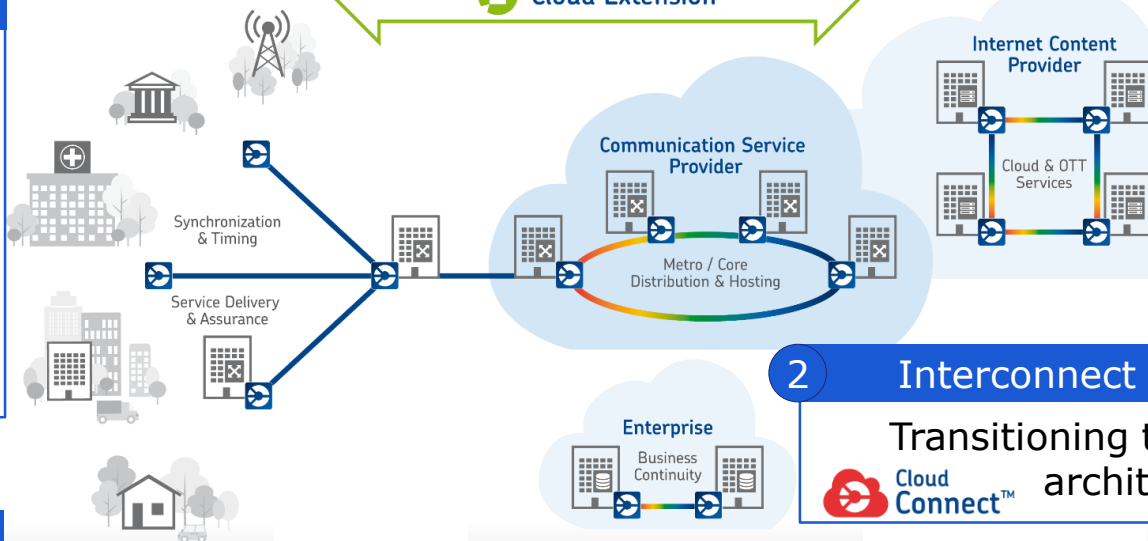
Rapid customer
footprint expansion



3 Synchronization

Strategically relevant in ever more applications
Winning new tier 1 footprint

OSCILLOQUARTZ
An ADVA Optical Networking Company



2 Interconnect

Transitioning to new
architecture



Connecting, extending and assuring the cloud

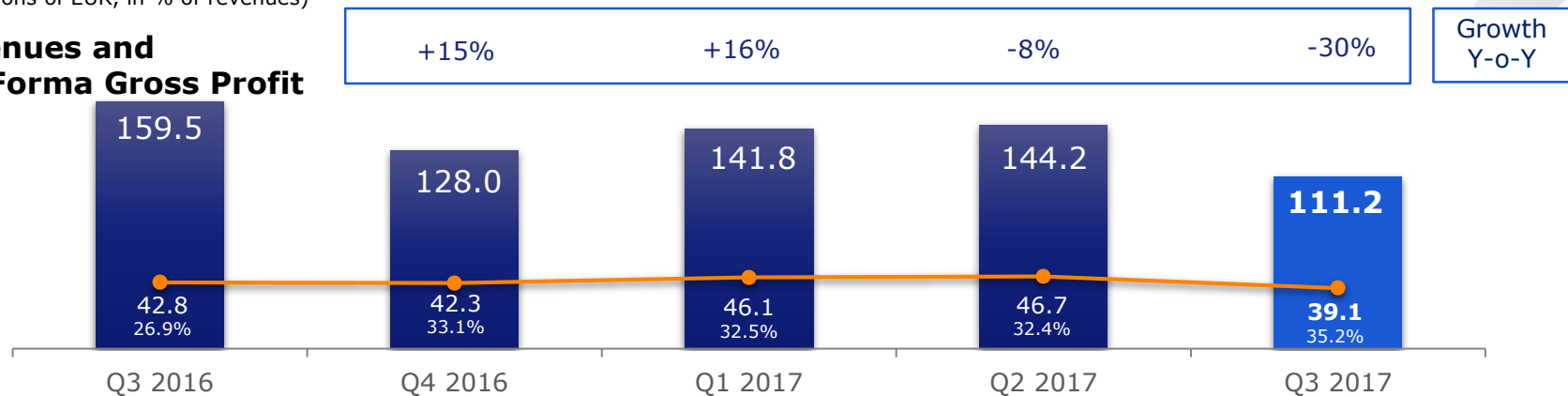
Financial Performance



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/loss is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, from Q3 2017 onwards non-recurring expenses related to restructuring measures are not included.

IFRS Profitability



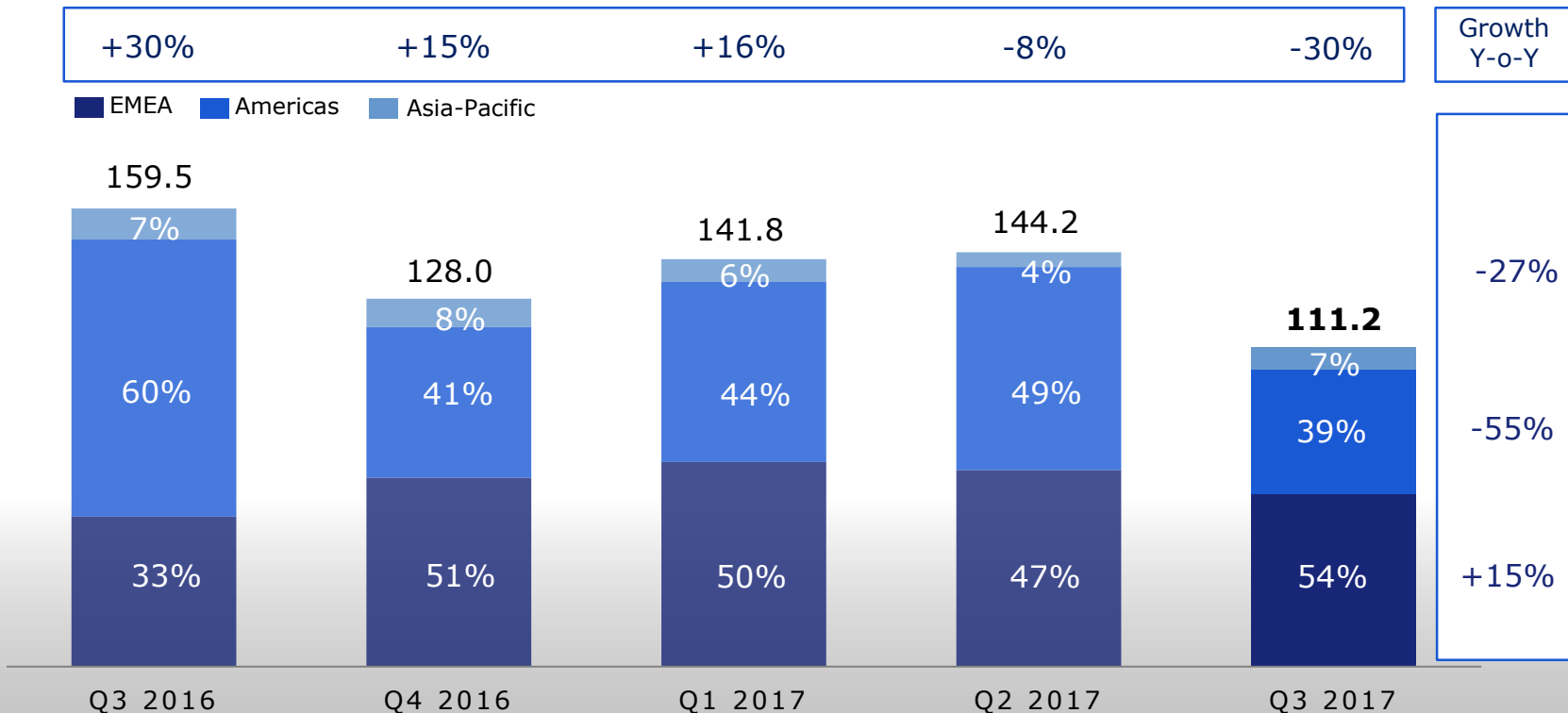
EUR Million	2016		2017		
	Q3	Q4	Q1	Q2	Q3
<u>Pro Forma Operating Income</u>	8.3 (5.2%)	9.0 (7.0%)	6.6 (4.7%)	9.2 (6.4%)	-0.8 (-0.7%)
<u>Operating Income</u>	7.2 (4.5%)	8.1 (6.3%)	5.5 (3.9%)	8.1 (5.6%)	-11.5 (-10.3%)
<u>Net Income</u>	3.3 (2.0%)	13.6 (10.6%)	6.2 (4.4%)	4.5 (3.1%)	-14.0 (-12.6%)
Diluted EPS in EUR	0.07	0.27	0.12	0.09	-0.28

Margins, in % of Revenues



Quarterly Revenues Per Region

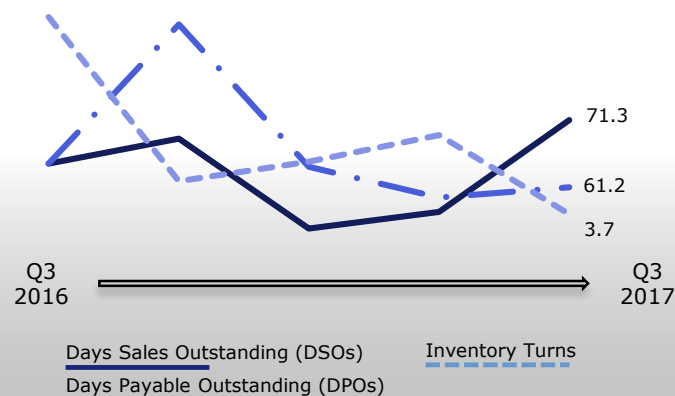
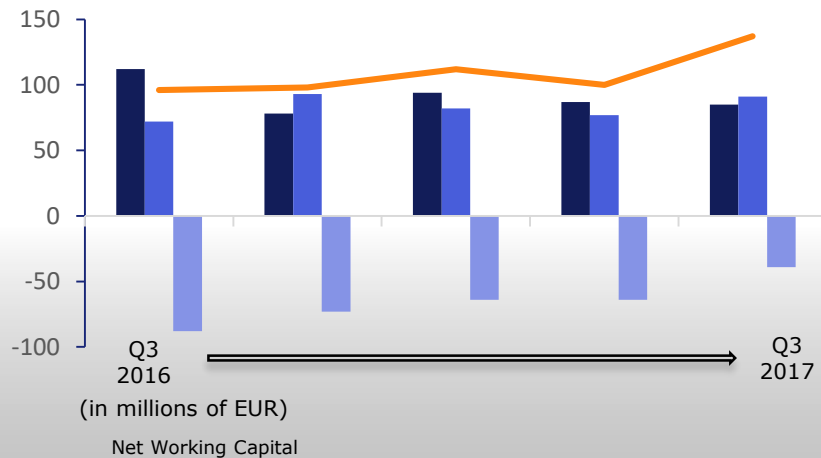
(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

IFRS Balance Sheet

Assets	Jun. 30 2017	Sep. 30 2017	Equity & liabilities	Jun. 30 2017	Sep. 30 2017
Cash & cash equivalents	80.8	57.2	Accounts payable	64.4	39.3
Accounts receivable	87.4	84.9	Financial liabilities	50.0	101.2
Inventories	77.3	90.7	Other liabilities	103.5	124.6
Other assets	217.4	260.9	Equity	245.0	228.6
Total	462.9	493.7	Total	462.9	493.7
Net Liquidity	30.8	-44.1			



IFRS Consolidated Cash Flow Statement



EUR million	2016		2017		
	Q3	Q4	Q1	Q2	Q3
Net cash provided by operating activities	15.7	21.2	5.6	29.6	-25.9
Net cash used for investing activities	-15.5	-16.6	-15.8	-14.0	-48.9
Net cash provided by (used for) financing activities	-1.7	-1.7	-5.0	-4.2	51.0
Net effect of foreign currency translation	0.2	0.7	0.0	-0.3	0.1
Net change in cash and cash equivalents	-1.3	3.6	-15.2	11.1	-23.6
Cash and cash equivalents					
at beginning of period	82.5	81.2	84.9	69.7	80.8
at end of period	81.2	84.9	69.7	80.8	57.2
Free cash flow*	11.8	16.4	0.4	27.0	-29.0

* 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 Q4 2017



- Revenues between EUR 115 million and EUR 130 million
- Pro forma operating margin between 0% 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



- Europe is maintaining strength
 - Metro core cycle and enterprise healthy
- Acquisition of MRV Communications, Inc. completed
 - Expanded customer footprint, first cross selling success
 - Leadership position in the EAD* market
 - Significant synergy opportunities
- Markets stable but not showing much growth presently
 - Bandwidth increase versus speed of innovation and price erosion
 - Q3 restructuring to align our Opex with lower revenue levels
 - New market opportunities will enable growth – Cloud Access and Sync

Focused on a quick return to growth and profitability

*Ethernet access devices



Thank You

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