



# Financial analyst presentation

Q4 and full year 2017

Q4 2017 earnings call

February 22<sup>nd</sup>, 2018

# 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 2017.

## 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 2017 in review

Q4 revenues: EUR 117.2m, up from 111.2m in Q3, down from 128.0m in Q4 2017

- Within guidance provided on October 26, 2017 of between EUR 115m - EUR 130m incl. MRV

Q4 pro forma operating income\* EUR 4.5m or 3.8% of revenues

- Above midpoint of guidance between 0% and 5% of revenue

Fast turnaround after Q3 drop

- Restructuring and cost optimization brought us back to profitability
- Carrier and enterprise business in Europe continues to be strong
- MRV integration progressing well, acquisition highly accretive

\* 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 2018

## Rebuilding our balance sheet

- First two quarters in 2017 had significant ICP revenue contribution; we will refill with new business from other areas while aggressively pursuing more and new ICP opportunities
- We will be profitable, generating cash and tightly manage our cost model
- MRV integration and restructuring provide annualized OPEX savings of EUR 20m
- Moderate single digit percentage revenue growth and mid single digit pro forma EBIT\*

## Longer term success with our strategic investments including:

- Developing a new architecture for programmable, open, optical networks;
- Extending our customer base for cloud access solutions and establishing differentiated solutions for virtualizing network functions;
- Advancing our technology leadership in network synchronization leading to an ever greater presence among large network operators

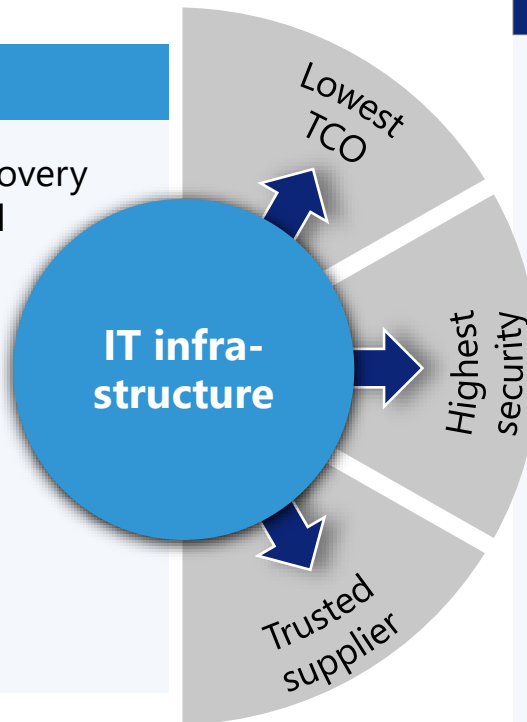
\*percentage of revenues

More customers, better revenue diversification and a broader solutions portfolio

# Private enterprise networks

## Network characteristics

- Business continuity and disaster recovery based on geographically distributed server clustering and synchronous data mirroring
- Technology-specific protocols, incl. Fibre Channel, InfiniBand, FICON
- Conformance & qualification
- Moderate distances 10-150km
- Very stringent latency requirements
- Security matters!



## Why ADVA?

### Cloud interconnect

Cost-, space- and power-efficient transport w. native protocol support



### Encryption

Inflight encryption with 100% throughput, lowest latency and multi-protocol support



### Proven partner landscape

Comprehensive suite of interoperability and security certifications



ADVA is the market leader with a broad and loyal customer base

# Internet content provider networks

## Network characteristics

- Resource pool based on virtualized processing and storage resources
- Dynamic resource allocation
- Public and private data center
- Standard interfaces, open protocols, open source software
- Local, national, global coverage

## Hyperscale data centers

Scale

DC-centric operations

Wide area synchronization

## Why ADVA?

### Cloud interconnect

Cost-, space- and power-efficient highest-capacity transport



### Automation

Open interfaces aligned with DC-paradigm

### Timing excellence

High-performance timing references and synchronization distribution

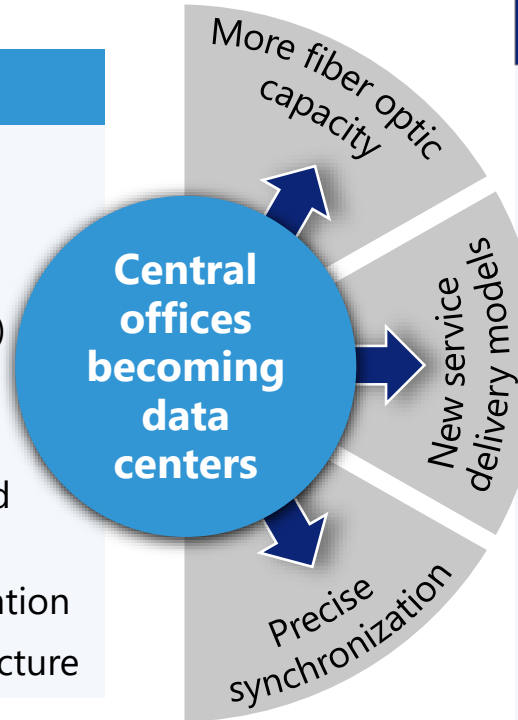


ADVA has footprint in 3 of top 5 ICPs – growth potential with limited visibility

# Communication service provider networks

## Network characteristics

- Mix of managed private enterprise networks (metro) and interconnect services via large-scale shared infrastructure (long-haul and metro)
- Preparing for autonomous driving, IoT and 5G requirements
- Software-based service creation and delivery
- Automation and operational integration
- MSOs embracing deep fiber architecture



## Why ADVA?

### Cloud interconnect

Software-defined capacity for the cloud



### Cloud access

Secure zero touch service delivery  
Proven NFV architecture



### Timing excellence

Accurate and scalable time and frequency synchronization



All of ADVA's technologies are strategically important for IoT and 5G infrastructure





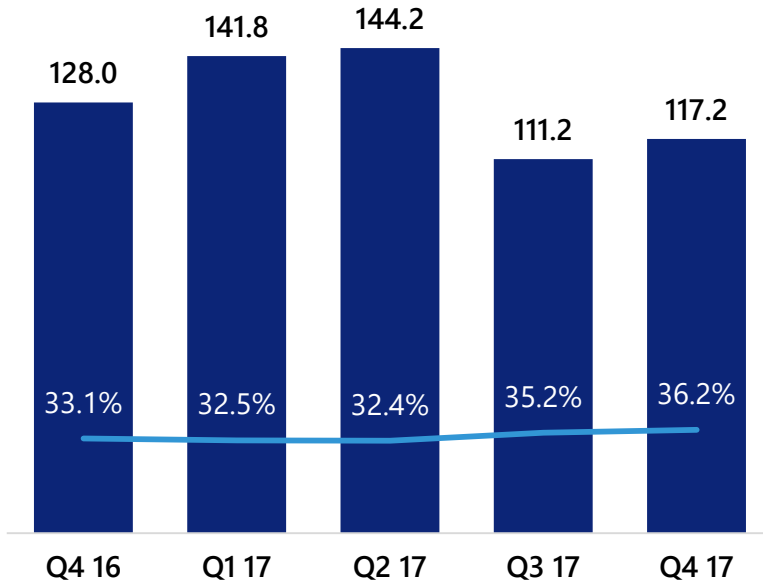
# Financial performance

Ulrich Dopfer, CFO

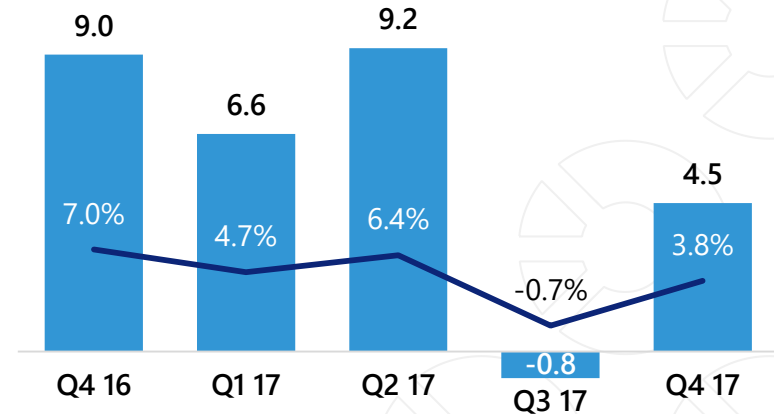
# Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

## Revenue & gross margin



## Pro forma operating income & margin

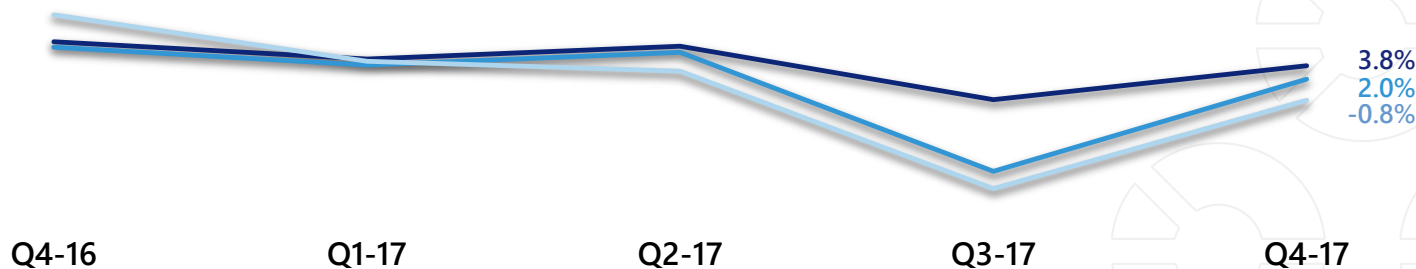


\* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

# Quarterly IFRS profitability

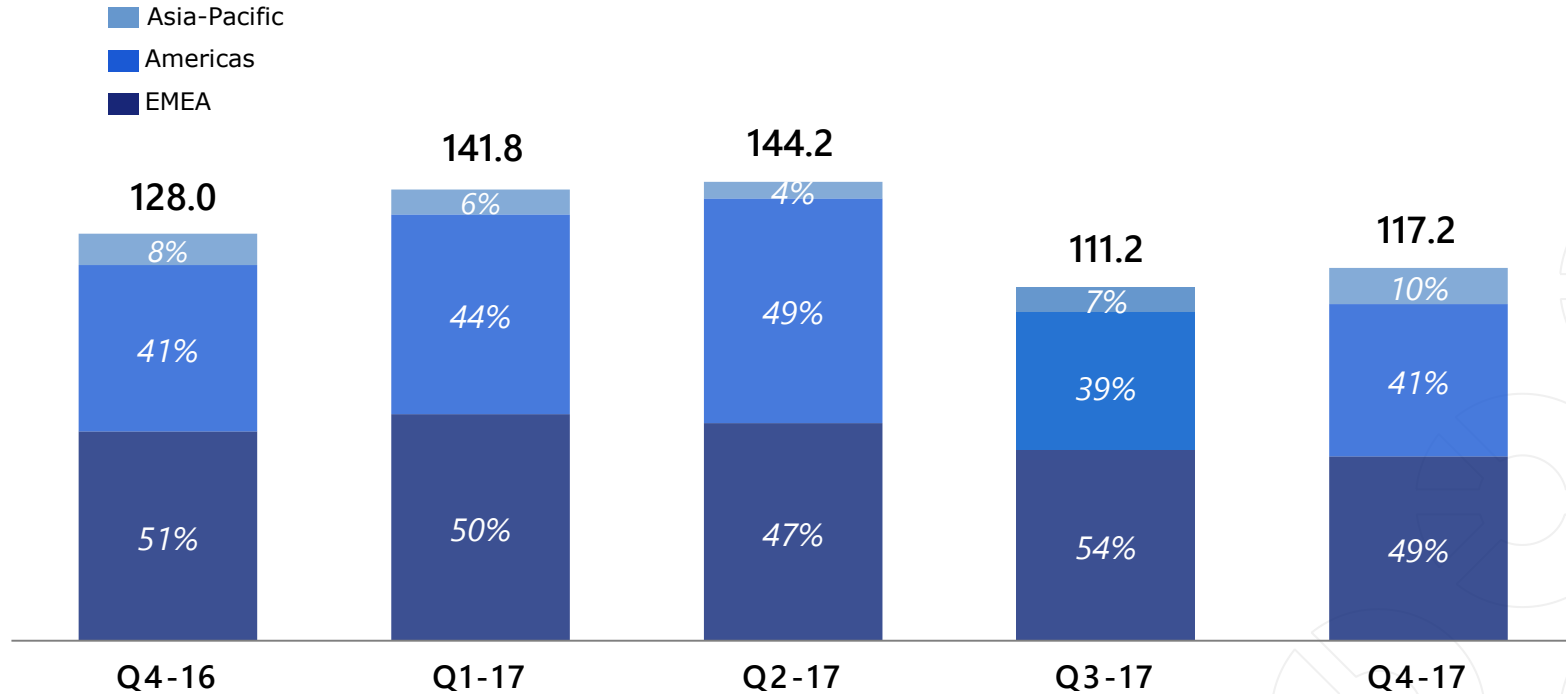
EUR Million	2016	2017			
	Q4	Q1	Q2	Q3	Q4
<b>Pro forma operating income</b>	9.0 (7.0%)	6.6 (4.7%)	9.2 (6.4%)	-0.8 (-0.7%)	4.5 (3.8%)
<b>Operating income</b>	8.1 (6.3%)	5.5 (3.9%)	8.1 (5.6%)	-11.5 (-10.3%)	2.3 (2.0%)
<b>Net income</b>	13.6 (10.6%)	6.2 (4.4%)	4.5 (3.1%)	-14.0 (-12.6%)	-0.9 (-0.8%)
<b>Diluted EPS in EUR</b>	0.27	0.12	0.09	-0.28	-0.02

Margins, in % of revenues



# Quarterly revenues per region

(in millions of EUR, in % of revenues)

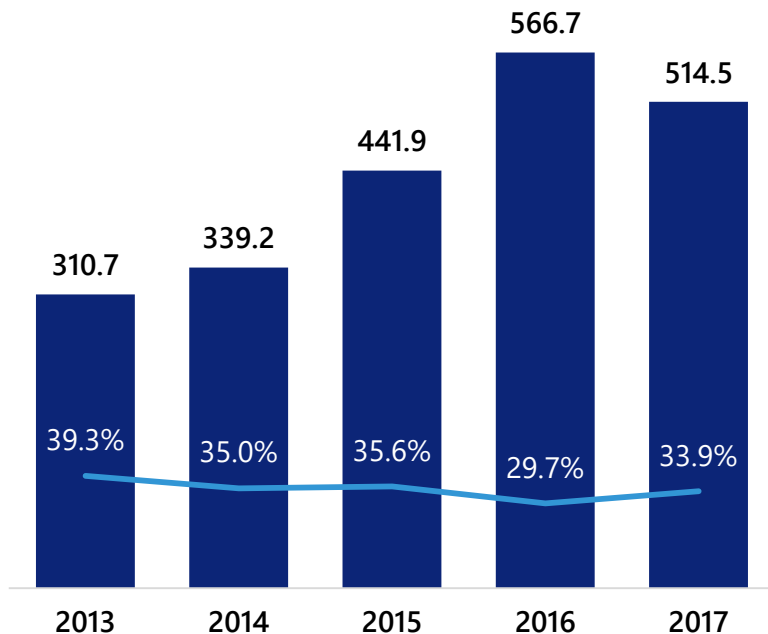


Note: Potential differences due to rounding

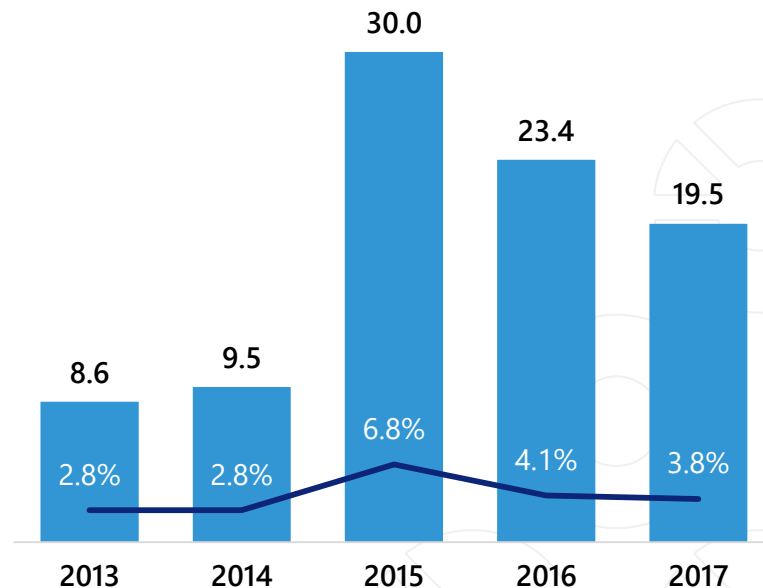
# Annual IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

## Revenue & pro forma gross margin



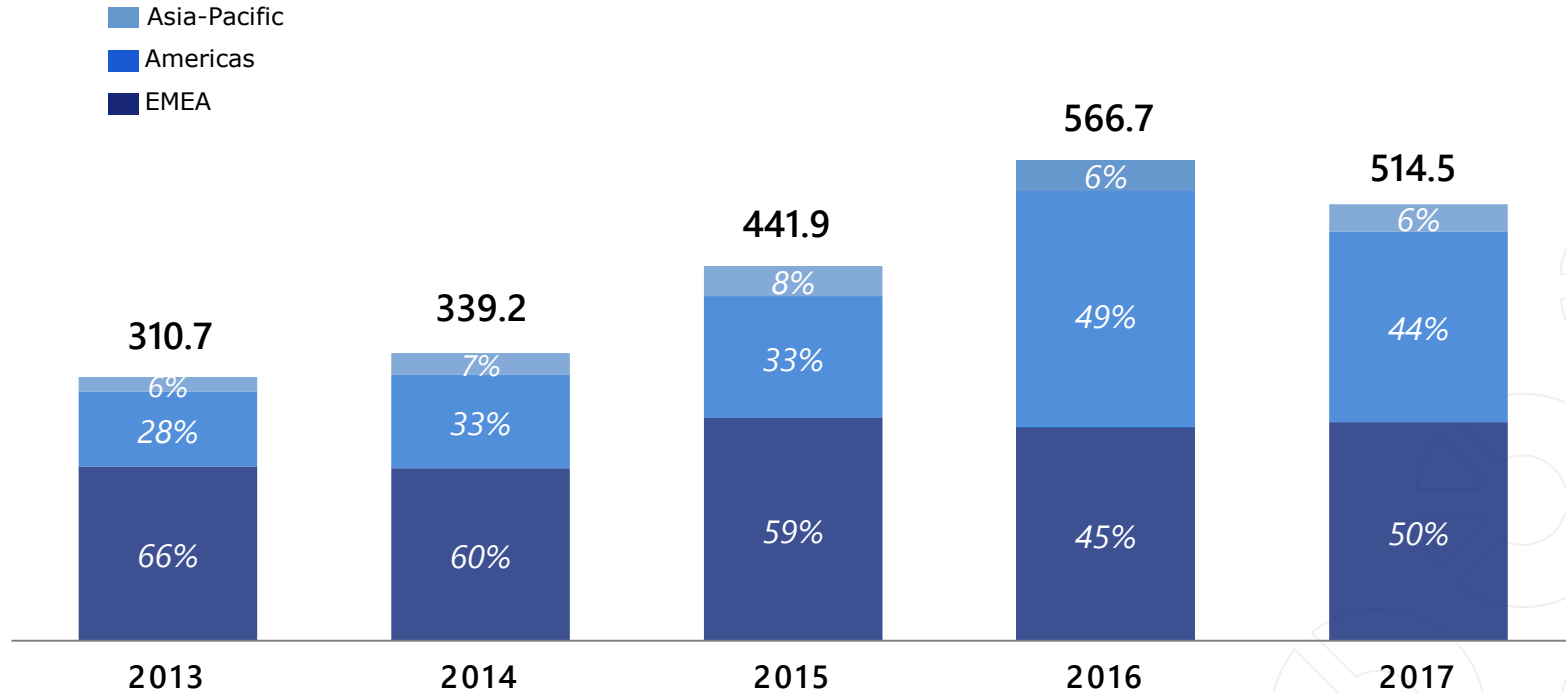
## Pro forma operating income & margin



\* Pro forma operating income 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, non-recurring expenses related to restructuring measures are not included.

# Annual revenues per region

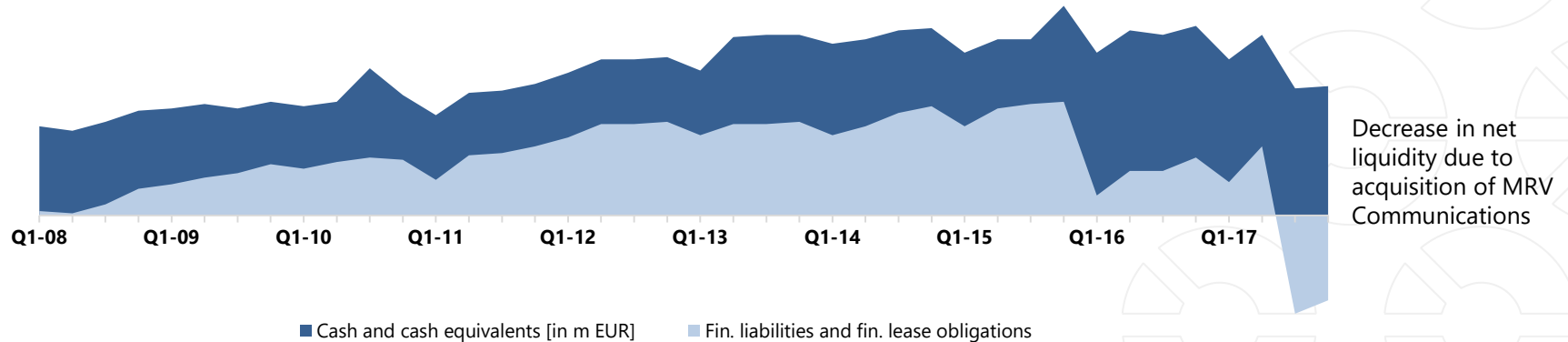
(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

# IFRS balance sheet

Assets	Sep. 30 2017	Dec. 31 2017	Equity & liabilities	Sep. 30 2017	Dec. 31 2017
Cash & cash equivalents	57.2	58.4	Accounts payable	39.3	39.2
Accounts receivable	84.9	81.3	Financial liabilities	101.2	96.6
Inventories	90.7	81.7	Other liabilities	124.6	101,2
Other assets	260.9	242,6	Equity	228.6	227.0
<b>Total</b>	<b>493.7</b>	<b>464.0</b>	<b>Total</b>	<b>493.7</b>	<b>464.0</b>



# Guidance Q1 2018

Revenues between EUR 115 million and EUR 130 million

Pro forma operating margin between -1% and 4% 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

- In our 24-year history, we have had a few setbacks; they were mostly short-lived
- We reacted promptly to the Q3 events by adjusting our cost structure and returning to profitability in Q4
- Today we have more customers, better revenue diversification and a broader solutions portfolio than ever before
- The synergy effects with MRV are significant, with the acquisition being immediately accretive in 2018
- With our realigned model we have a solid foundation for growth and increased profitability in 2018

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.



# Thank you

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