



# Financial analyst presentation

Q1 2019

Q1 2019 earnings call

April 18<sup>th</sup>, 2019



# Disclaimer

## FORWARD-LOOKING STATEMENTS

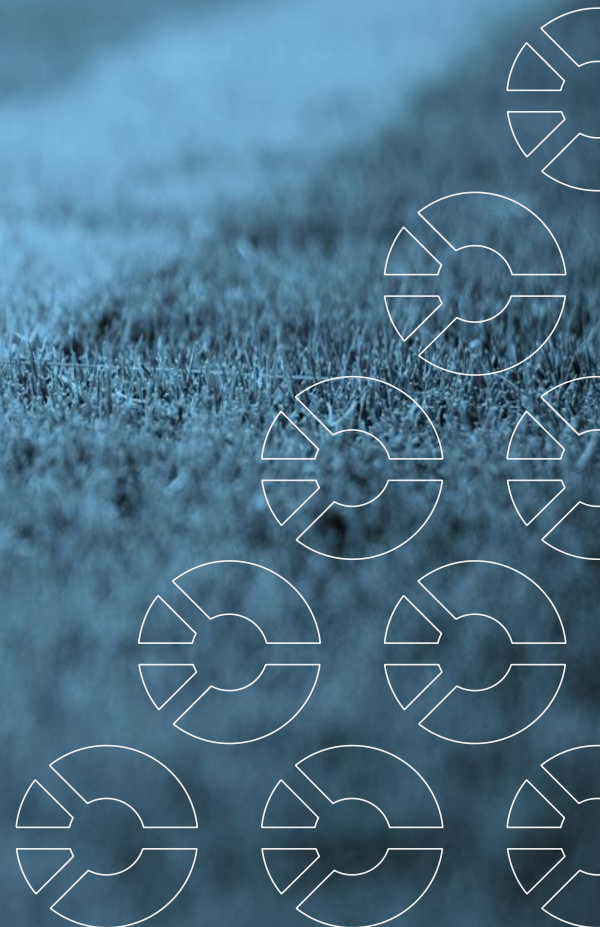
This presentation contains forward-looking statements with words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements involve a number of unknown 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 2018.

## CONSOLIDATED PRO FORMA FINANCIAL RESULTS

ADVA 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’s operating results from one financial period to another. ADVA 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 2019 in review

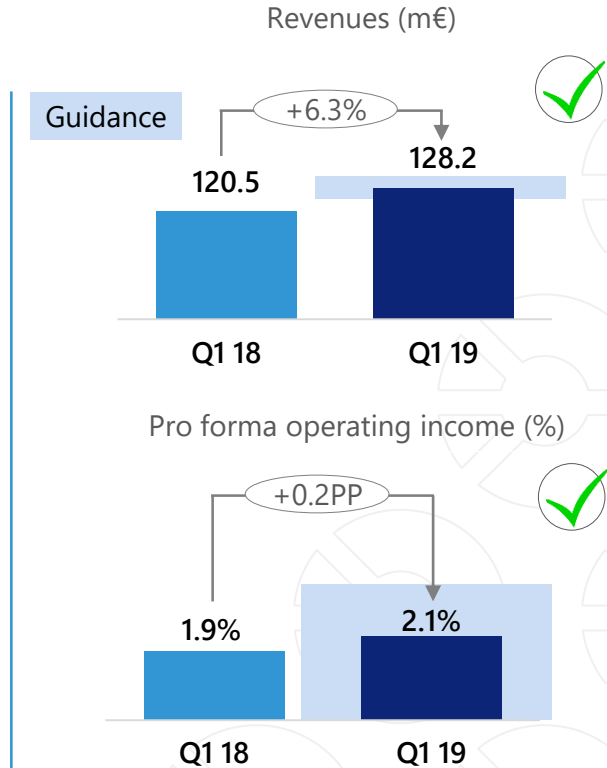
## Good start to the new fiscal year

- Revenues and pro forma EBIT within guidance
- Continue to invest aggressively in innovation
- FSP 3000 CloudConnect™ growing in all major customer segments and geographies
- We are winning tenders and new customers in our key areas of strength and presence

## Positive share price development

- From March 18, 2019, member of the SDAX index

\* 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.



Confidence and positive momentum

# Industry macro environment positive

## Digitization of all ecosystems

IoT  
Smart workspace  
Connected home  
Smart robots  
Autonomous driving  
Augmented reality  
Artificial intelligence

## Network transformation

5G  
Cloud & Network 3.0  
Disaggregation  
Machine learning  
White box solutions  
Open platform  
Automation  
Edge computing  
Virtualization

## ADVA open edge networking

Scalable bandwidth  
Instant service creation  
Precise synchronization

Digitization drives investment focus to the edge, where ADVA performs best

# Portfolio: Technology tripod delivering returns

## Cloud access



Accelerate revenue contribution from edge cloud solutions and win new designs for NFV\*-based service delivery

- Holistic end-to-end wholesale solution with new 100G generation gaining momentum
- Global lead for uCPE\*; signed OEM with two of top three IT solution providers
- Introduced innovative disaggregated cell site gateway (DCSG) as part of the Facebook-initiated Telecom Infra Project TIP

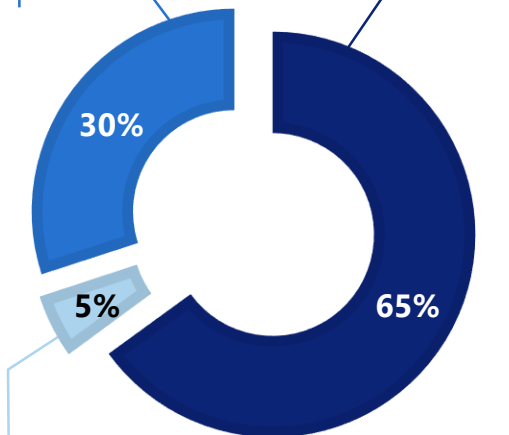
## Network synchronization



Use technology leadership to expand into other verticals

- Portfolio is technologically industry leading and now formally part of British Telecom's 5G strategy
- New OSA 5400 generation has also been successfully tested by China Unicom
- Won two new telcos and a major OEM for sync delivery and assurance

Approximate revenue contribution rolling four quarters



## Cloud interconnect



Aggressively pursue DCI opportunities with new TeraFlex™ terminal and open line system

- Many successful TeraFlex™ trials, market introduction progressing well
- ALM\* and MicroMux™ products expand application space, delivering several millions of revenue

## Cross portfolio

Win new footprint for flexible, programmable 5G infrastructure leveraging optical, packet edge and synchronization

Portfolio is very well aligned to current and emerging market trends

\* NFV: network function virtualization; uCPE: universal customer premise equipment; ALM: advanced line monitoring

# Financial performance

Ulrich Dopfer, CFO





# Impact on 2019 financials according to IFRS 16

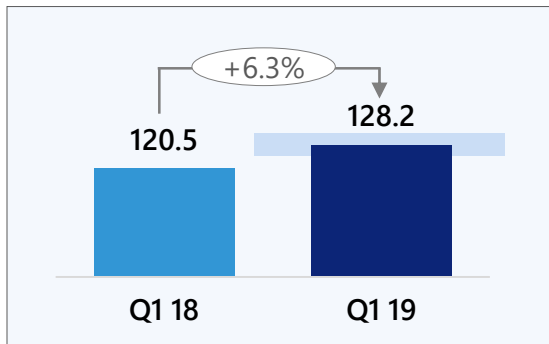
	Financial items	IFRS 16 impact
Balance Sheet	Assets	↑ • Increase in total assets due to the capitalization of lease assets (right-of-use assets)
	Financial liabilities	↑ • Increase in financial liabilities due to recognition of lease liabilities
	(Net) debt	↑ • Classification of lease liabilities as financial debt
	Equity (ratio)	→ • Equity remains largely unaffected. However, equity ratio declines due to the increase in total assets and financial liabilities
P&L	Pro forma operating income	↗ • Replacement of IAS 17 operating lease expense by depreciation and interest expense • Pro-forma operating income will slightly increase by the interest rate portion
	Interest expense	↑ • Recognition of interest expense on the lease liability that was implicitly included in IAS 17 operating lease expense will lead to a significant increase of interest expense
	Net income	↘ • Significant increase of interest expense will lead to a slight decrease in net income
Cash Flow	Operating cash flow	↗ • Operating cash flow will increase by depreciation portion according to IFRS 16 • Lease repayments are classified as financing cash flow
	Financing cash flow	↗ • Portion of lease repayments instead of operating lease payments will result in an increasing financing cash flow

We will communicate our financial results according to the IFRS 16 results

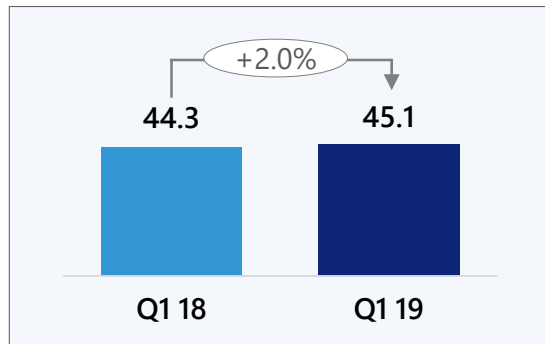


# Q1 2019 key financials

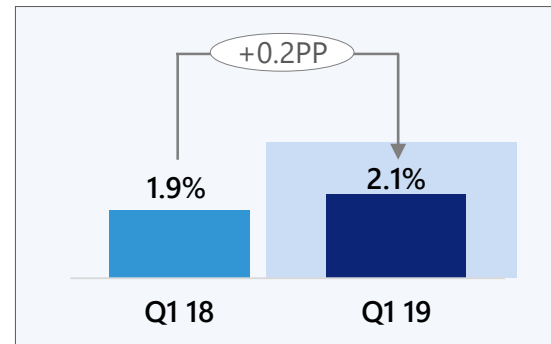
Revenues (m€)



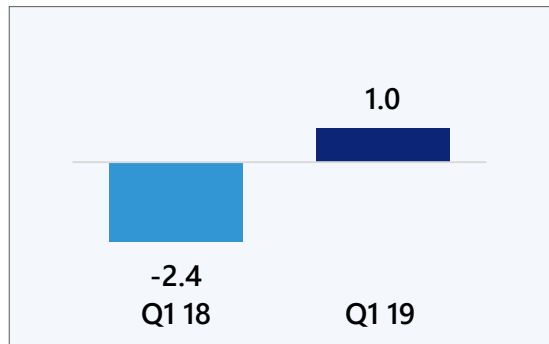
Gross profit (m€)



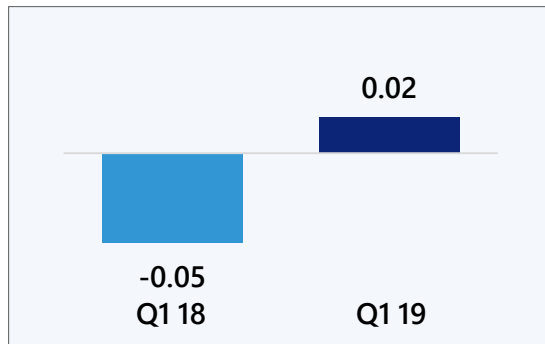
Pro forma operating income (%)



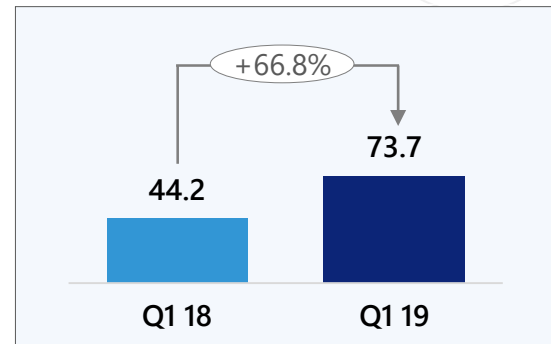
Net income (m€)



Diluted EPS (€)



Net debt (+) / Net liquidity (-) (m€)\*

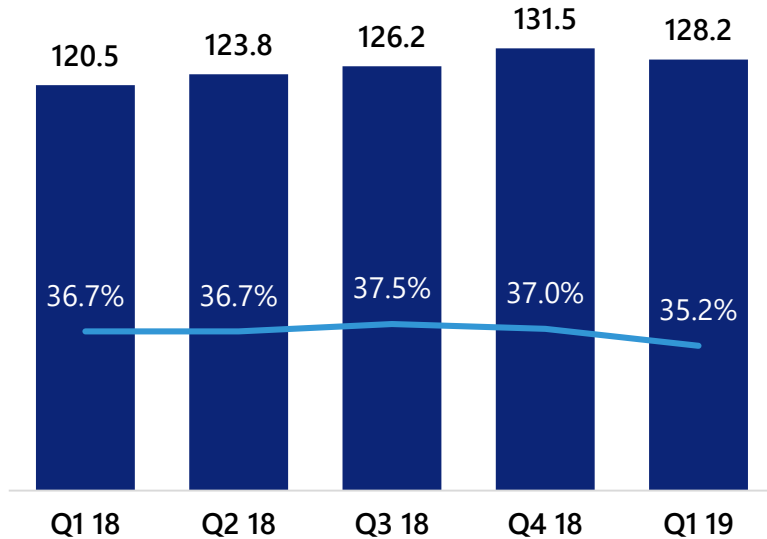


## Guidance

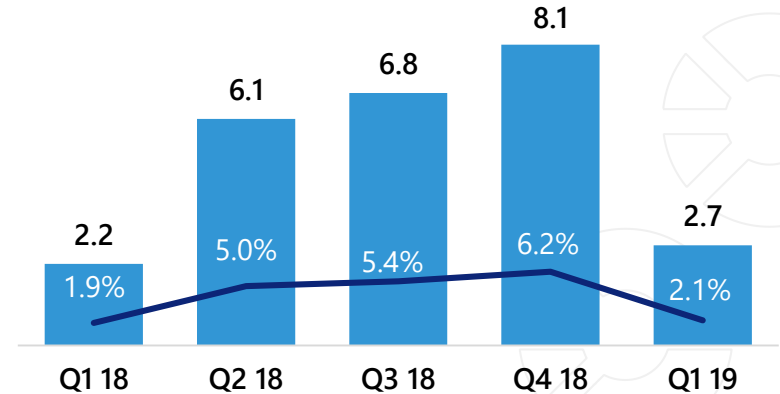
# Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

## Revenue & gross margin



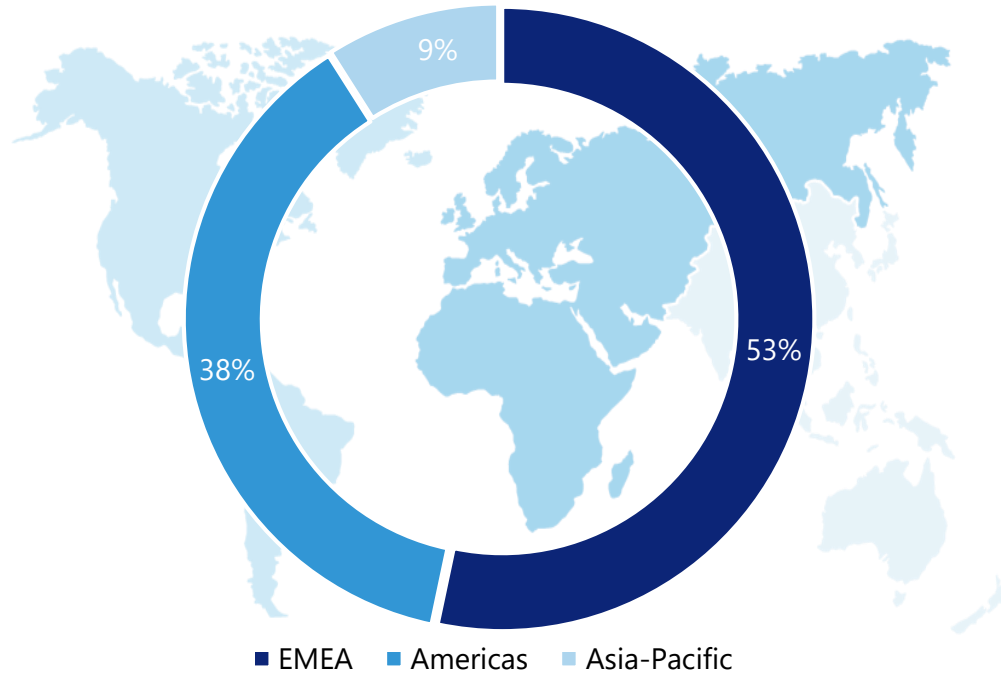
## Pro forma operating income & margin



\* 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 revenues per region

Revenue by region Q1 2019



vs. Q1 2018

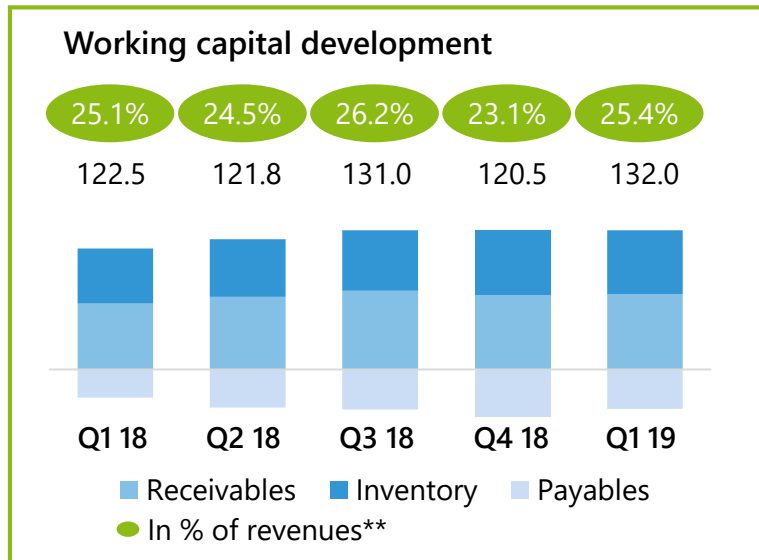
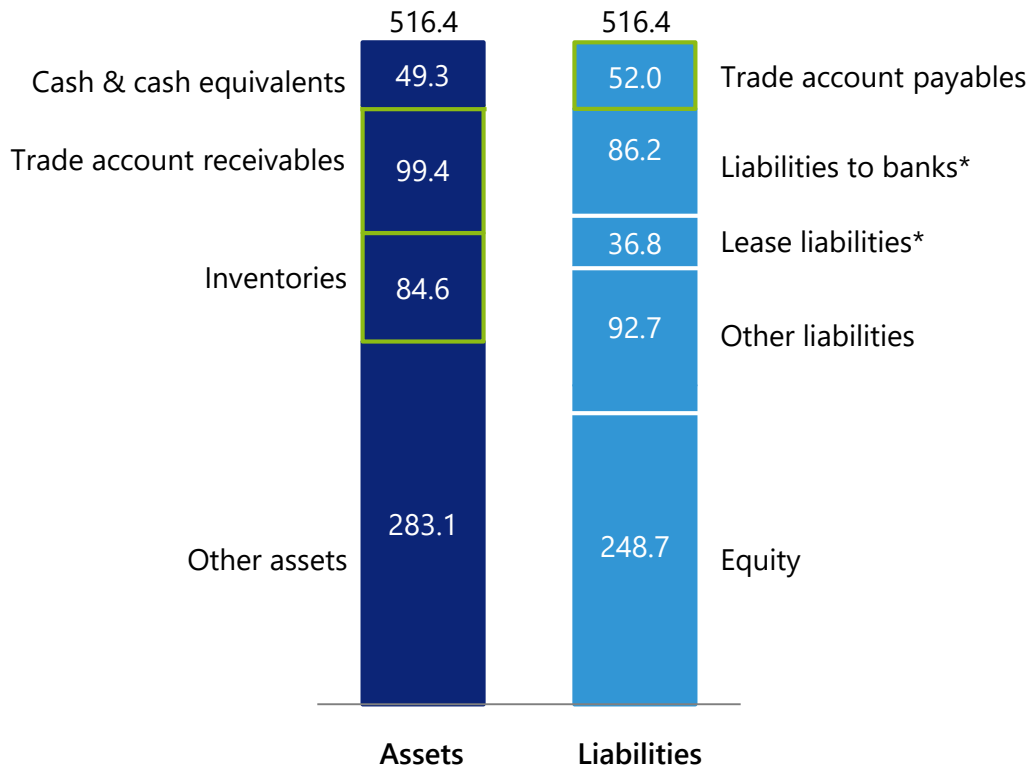
↑ EMEA  
+ 5.7%

↑ Americas  
+ 16.9%

↓ Asia-Pacific  
- 20.8%

# Healthy balance sheet ratios

(In millions of EUR)



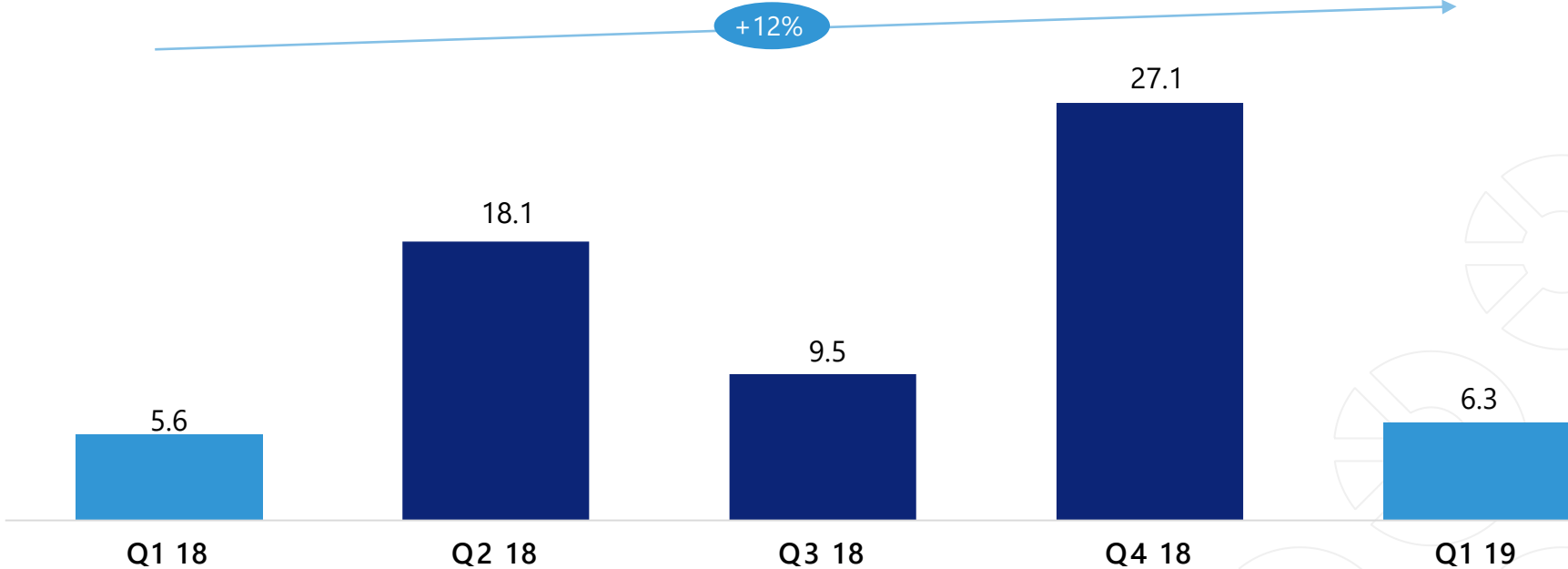
\*Financial debt: liabilities to banks + lease liabilities due to IFRS 16

\*\* Calculated on a quarterly basis

\*\*\* Leverage is calculated as total bank debt divided by EBITDA. EBITDA is calculated as operating income plus depreciation and amortization of non-current assets. Impacts from IFRS 16 are excluded from leverage calculation.

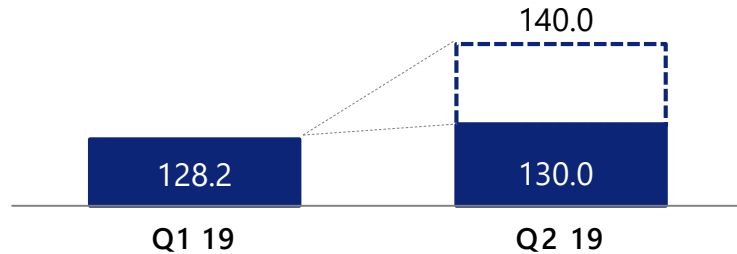
# Seasonality of operating cash flow

(In millions of EUR)

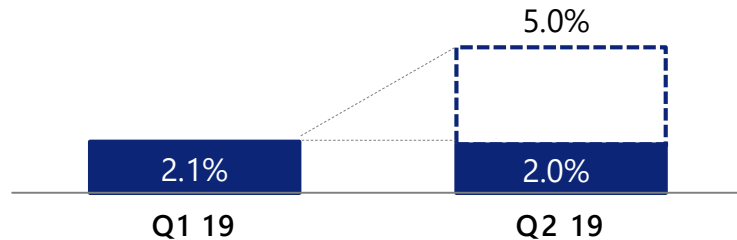


# Guidance Q2 2019

Revenues between EUR 130 million and EUR 140 million



Pro forma operating margin between 2% and 5% of revenues



## Summary

- Good start to the new fiscal year: y-o-y growth in EMEA and Americas, we are winning tenders and new customers in our core markets;
- Digitization is changing the networks and bringing the investment focus to us: We are technologically very well positioned, our three core competencies are strategically relevant to the transformation of networks;
- We remain committed to the positive outlook for the current fiscal year and continue to invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees;

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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