



Financial analyst presentation

Q2 2018

Q2 2018 earnings call

July 19th, 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

Q2 2018 in review

Q2 revenues: EUR 123.8m, up from 120.5m in Q1 2018, down from 144.2m in Q2 2017

- Within guidance provided on April 26, 2018 of between EUR 120m - EUR 135m

Q2 pro forma operating income*: EUR 6.1m or 5.0% of revenues

- At upper end of guidance between 1% and 6% of revenue

Good execution and focus – strategic investments are delivering returns

- Third consecutive quarter with growth
- Margins and profitability good
- Optical market remains competitive, business edge and synchronization deliver according to plan

* 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.

Margin expansion and positive cash flow

Prospects for Q3 2018

We will continue to strengthen our balance sheet and go back into growth mode

- Tightly manage our cost model and generate cash
- We forecast revenue growth both sequentially and year-over-year
 - On an annual basis we are still working on backfilling the strong ICP business from 1H 2017

Continue to leverage our technology leadership in timing and the business edge

- Contributions from synchronization and the packet edge support growth and profitability
- Optical market remains competitive while delivering reliable volume

Quarterly revenue growth and good profitability – bigger strides in 2019

Open optical networking

Cloud interconnect



FSP 3000

Open optical networking solutions based on wavelength division multiplexing (WDM) technology to deliver scalable bandwidth for access, metro and long-haul networks; high levels of open interworking, programmability and ease-of-use;



- Leverage metro core upgrade cycle to drive additional optical revenue
 - Aggressively pursue more DCI opportunities with our FSP 3000 CloudConnect™ open line system
 - Win new footprint for flexible, programmable 5G infrastructure
- Business moderately positive
 - >50 FSP 3000 CloudConnect™ customers
 - Teraflex on schedule
 - MicroMux shipping



Software-defined capacity for the cloud

Physical and virtual packet edge

Cloud access



FSP 150 and Ensemble

Carrier Ethernet access and network functions virtualization (NFV) solutions that enable communication service providers to deliver software-defined, differentiated and performance-assured wholesale, mobile backhaul and business services;



- Protect MRV customer base and drive cross-selling initiatives
 - Extend customer base for cloud access solutions
 - Accelerate revenue contribution from Ensemble and win new designs for NFV-based service delivery
 - Positive revenue and margin development
 - *Zero-touch provisioning* (ZTP) and *secure cloud access* drive additional momentum
 - Colt win with Ensemble Connector based uCPE* solution
- *universal customer premise equipment

Secure, zero-touch service delivery

Synchronization



Timing excellence

Oscilloquartz

Primary reference sources (atomic clocks) and distribution solutions to deliver accurate and scalable time and frequency synchronization for mobile network infrastructure, utilities, financial services, distributed data bases and meteorology;



- Utilize technology leadership in synchronization to further improve overall corporate gross margin

- Pursue new opportunities in ICP and enterprise verticals

- Win new footprint for 5G infrastructure

- Positive revenue development and strong margins
- New tier 1 wins – pipeline is growing
- Solid ICP revenue contribution



Accurate and scalable time and frequency synchronization



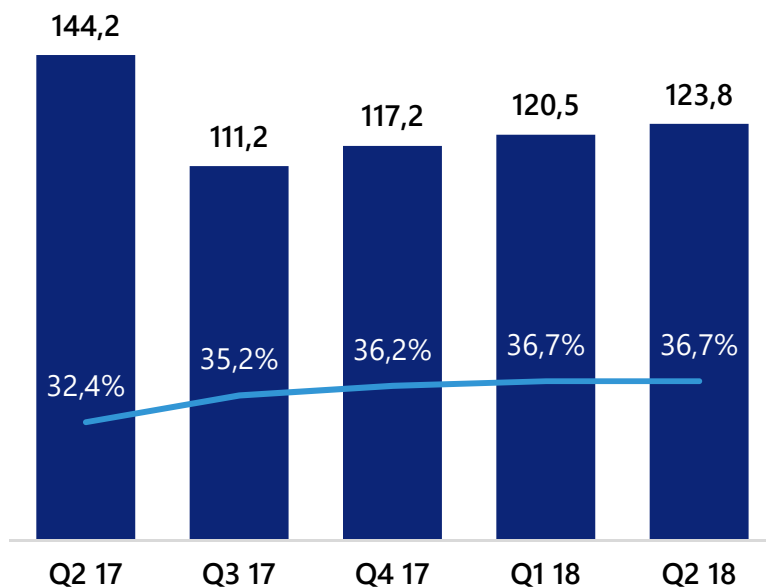
Financial performance

Ulrich Dopfer, CFO

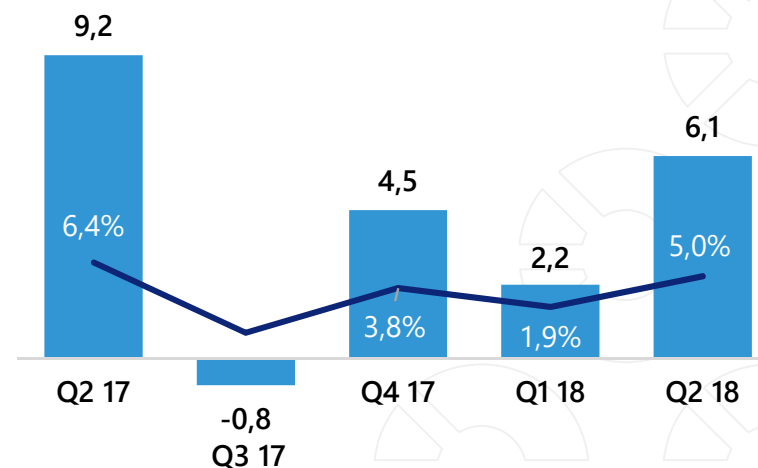
Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & gross margin



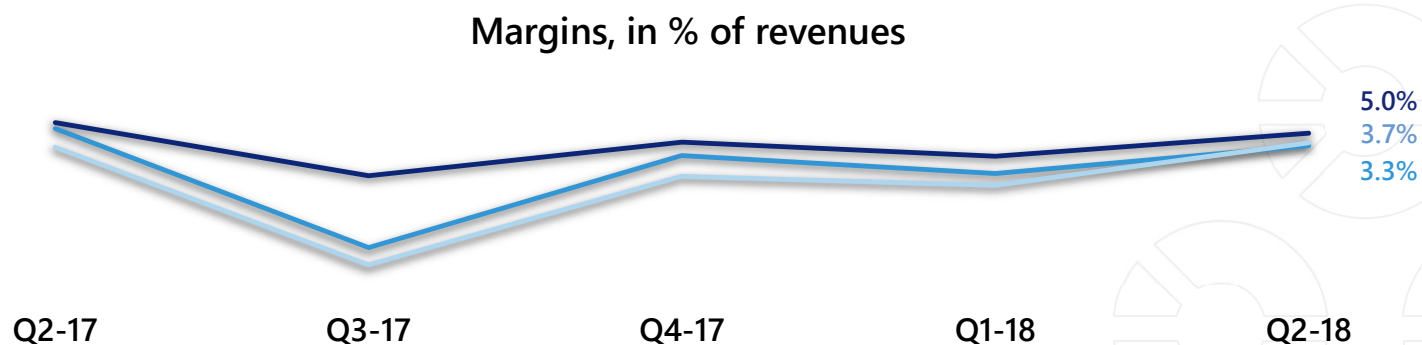
Pro forma operating income & margin



* 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.

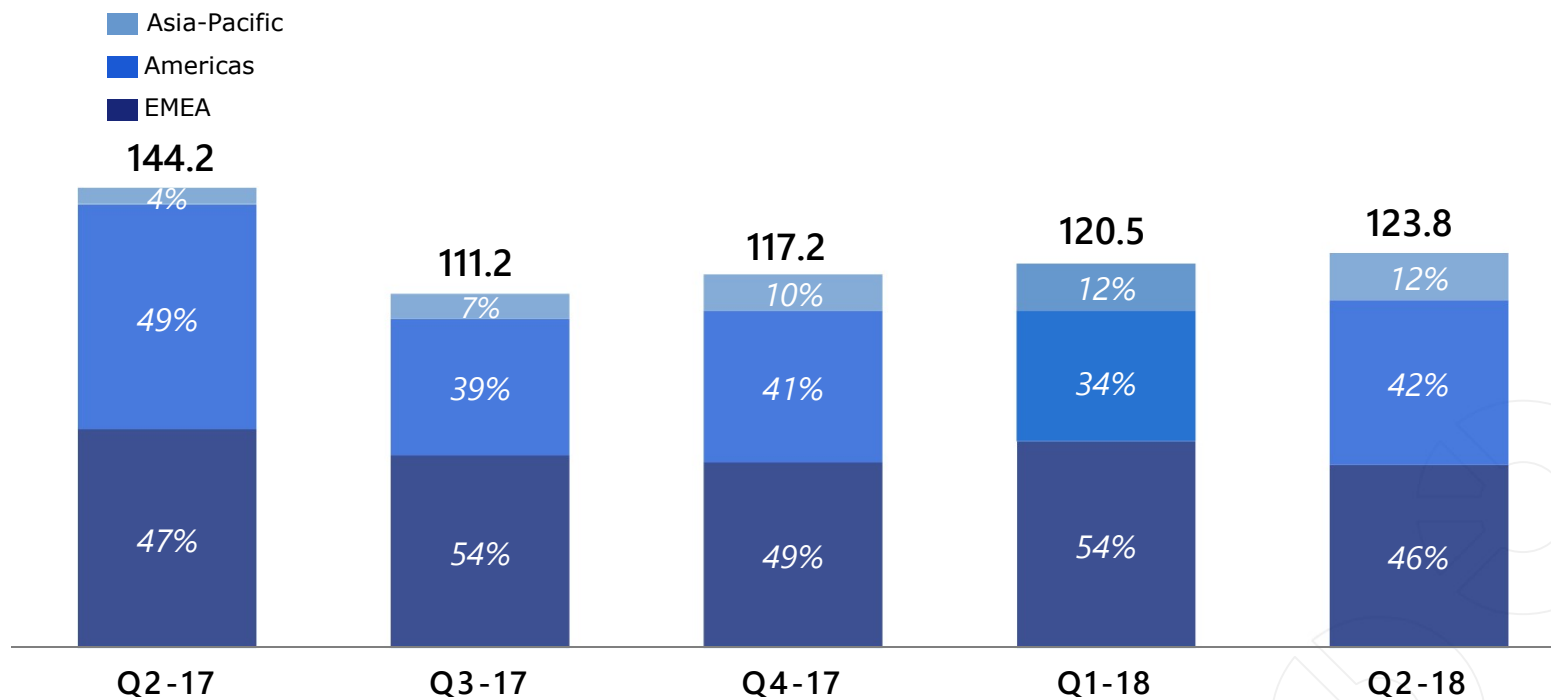
Quarterly IFRS profitability

| EUR Million | 2017 | | | 2018 | |
|-----------------------------------|---------------|-------------------|-----------------|-----------------|---------------|
| | Q2 | Q3 | Q4 | Q1 | Q2 |
| Pro forma operating income | 9.2 (6.4%) | -0.8 (-0.7%) | 4.5 (3.8%) | 2.2 (1.9%) | 6.1 (5.0%) |
| Operating income | 8.1 (5.6%) | -11.5 (-10.3%) | 2.3 (2.0%) | -0.4 (-0.4%) | 4.1 (3.3%) |
| Net income | 4.5 (3.1%) | -14.0 (-12.6%) | -0.9 (-0.8%) | -2.4 (-2.0%) | 4.6 (3.7%) |
| Diluted EPS in EUR | 0.09 | -0.28 | -0.02 | -0.05 | 0.09 |



Quarterly revenues per region

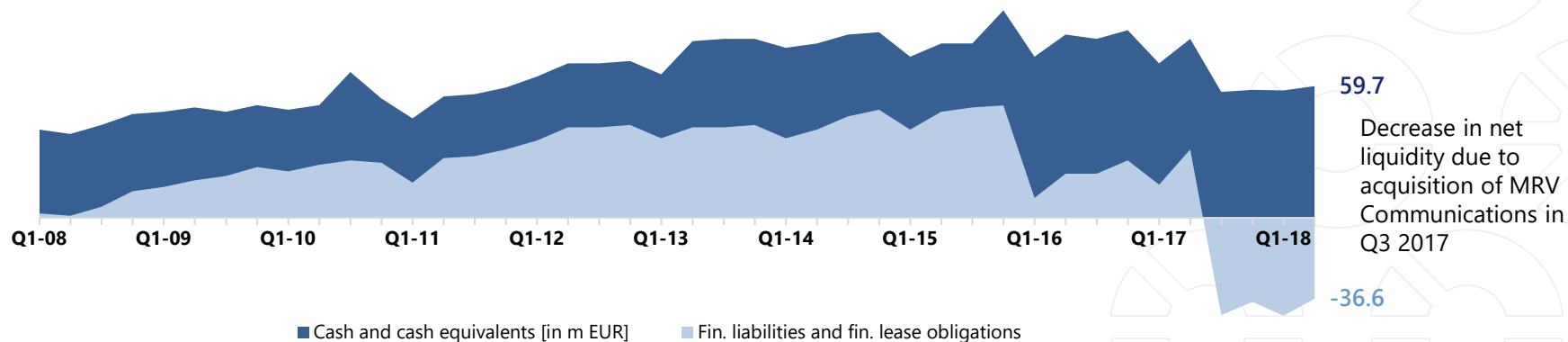
(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

IFRS balance sheet

| Assets | Mar. 31 2018 | Jun. 30 2018 | Equity & liabilities | Mar. 31 2018 | Jun. 30 2018 |
|-------------------------|-----------------|-----------------|-----------------------|-----------------|-----------------|
| Cash & cash equivalents | 57.7 | 59.7 | Accounts payable | 37.4 | 50.4 |
| Accounts receivable | 86.9 | 95.9 | Financial liabilities | 101.9 | 96.3 |
| Inventories | 73.0 | 76.3 | Other liabilities | 95.5 | 94.8 |
| Other assets | 240.7 | 242.8 | Equity | 223.5 | 233.2 |
| Total | 458.3 | 474.7 | Total | 458.3 | 474.7 |



59.7

Decrease in net liquidity due to acquisition of MRV Communications in Q3 2017

-36.6

Guidance Q3 2018

Revenues between EUR 123 million and EUR 133 million

Pro forma operating margin between 2% and 6% 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

- Good execution and focus – strategic investments are delivering returns
 - Optimized cost structure that is aligned with our revenue profile, and which will enable us to grow profitability in 2018 and beyond;
 - MRV acquisition delivers more customers, better revenue diversification, and broader solutions portfolio;
 - Third consecutive quarter with growth; profitability growing
- Focused on cloud and mobility with multiple ways to win:
 - Cloud interconnect – supplying the industry's transition to new architecture
 - Cloud access & extension – rapid customer expansion
 - Synchronization – increasing relevance in ever more applications and success winning new tier 1 footprint

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.

Solid foundation for growth and increased profitability in 2018



Thank you

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