Financial analyst presentation

Q4 and full year 2018

Q4 2018 earnings call

February 21st, 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 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.

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Business update and outlook

Brian Protiva, CEO

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Q4 2018 in review

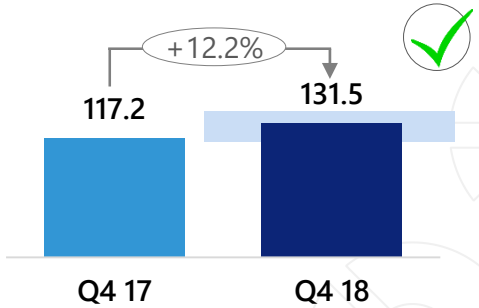
Continuity, execution and focus

- Fifth consecutive quarter with growth
- Margins and profitability good
- Investments on track – packet edge and synchronization performing very well

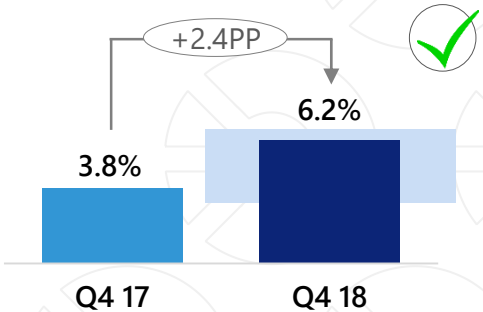
Very healthy customer and product mix

- No >10% customer dependency

Revenues (m€)



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.

Further margin expansion and positive cash flow

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Growth strategy 2018 (recap)

2018

Focus: Return to quarterly growth and increase profitability

Tactics:

- Protect MRV customer base and drive cross-selling initiatives; extend customer base for cloud access solutions
- Leverage metro core upgrade cycle to drive additional optical revenue
- Utilize technology leadership in synchronization to further improve overall corporate gross margin

2019

On track for 2019 ++

Focus: Leverage expanded solution portfolio to increase market share and reaccelerate growth

Tactics:

- Aggressively pursue more DCI opportunities with new Teraflex terminal and open line system
- Win new footprint for flexible, programmable 5G infrastructure leveraging optical, packet edge and synchronization
- Accelerate revenue contribution from Ensemble and win new designs for NFV-based service delivery

2020 and beyond

Focus: Capitalize on the transition to virtualized service delivery and 5G

Tactics:

- Harness Ensemble software architecture and increase software revenue contribution to >10%
- Dominate market for network synchronization systems
- Continue to pursue tuck-in acquisitions or consolidate with and expand into a larger entity

We accomplished our 2018 goals and continue to execute against our plan

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Digitization drives investment focus to the edge

Digitization of all ecosystems

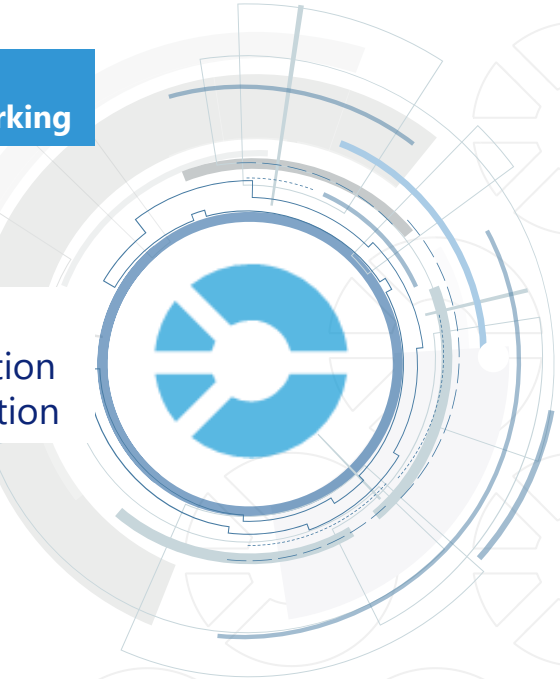
- IoT
- Smart workspace
- Connected home
- Smart robots
- Autonomous driving
- Augmented reality
- Artificial intelligence

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



The market is coming to our sweet spot – the edge is, where ADVA performs best

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Portfolio growth opportunities 2019

Cloud access

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

Packet edge with NFV



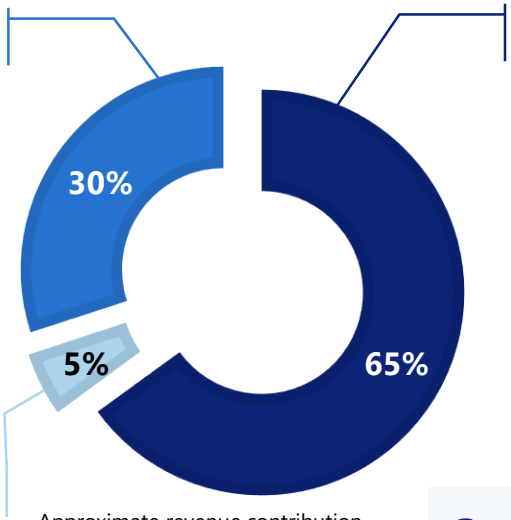
Network synchronization

- Use technology leadership to expand into other verticals





OSCILLOQUARTZ
An ADVA Optical Networking Company



Approximate revenue contribution rolling four quarters

Cloud interconnect

- Aggressively pursue more DCI opportunities with new Teraflex terminal and open line system
- Leverage our 32G FibreChannel first-mover advantage

Open optical transport



Cross portfolio

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

Technology tripod matured, enabling us to grow high single digits in 2019

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ADVA Optical Networking

Financial performance

Ulrich Dopfer, CFO

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Financial year 2018 at a glance

Revenues

502m

Revenues increased sequentially in all four quarters …

Gross margin contribution

+11.2m

… with overall margin improvements due to product innovation …

Pro forma EBIT margin expansion

4.6%

… and active cost management.

Net liquidity increase

+30%

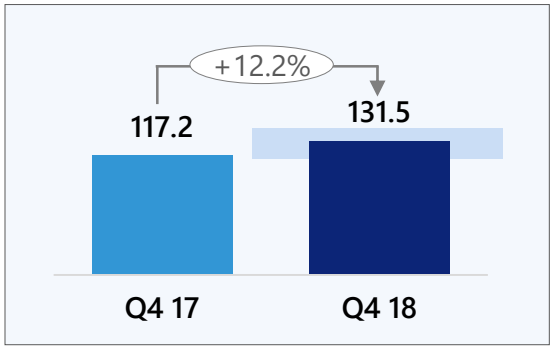
Net liquidity increased significantly due to higher cash flow from operations.

Consolidation phase completed, improvement of margins and cash flow

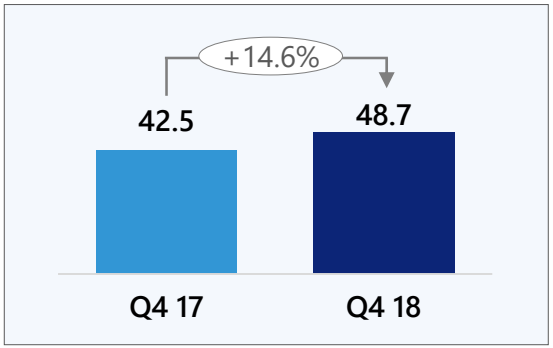
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Q4 2018 in review

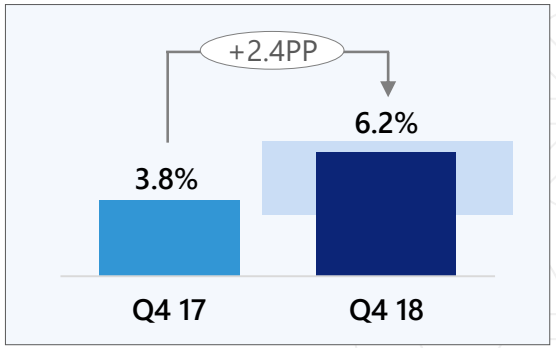
Revenues (m€)



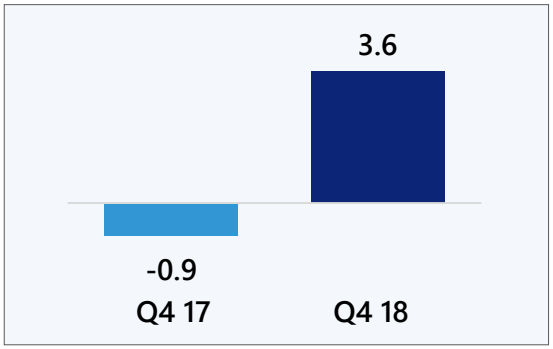
Gross profit (m€)



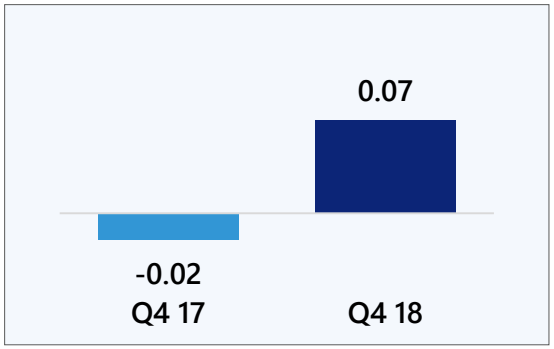
Pro forma operating income (%)



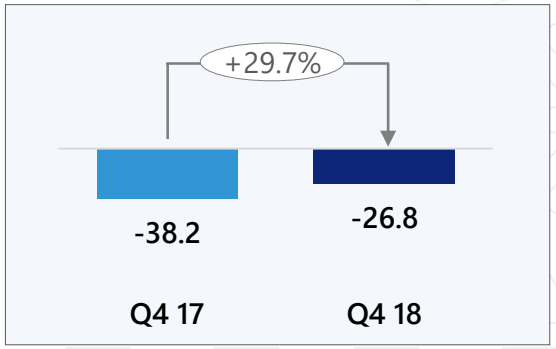
Net income (m€)



Diluted EPS (€)



Net debt (-) / Net liquidty (+) (m€)



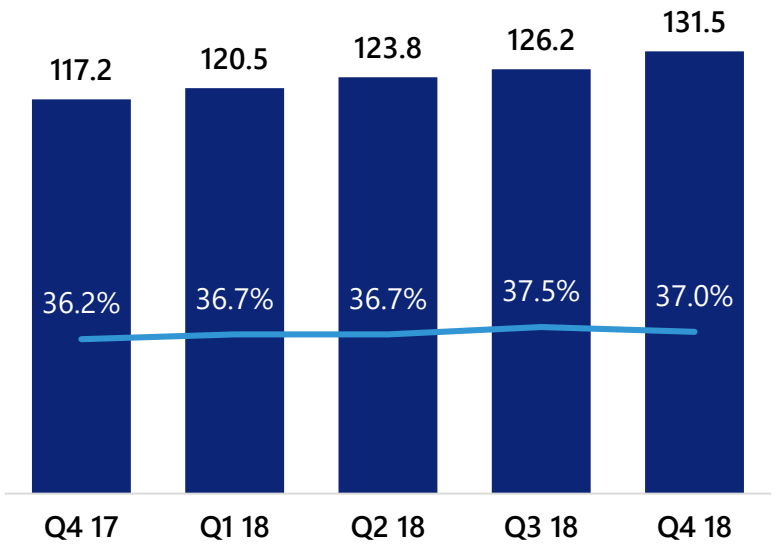
Guidance

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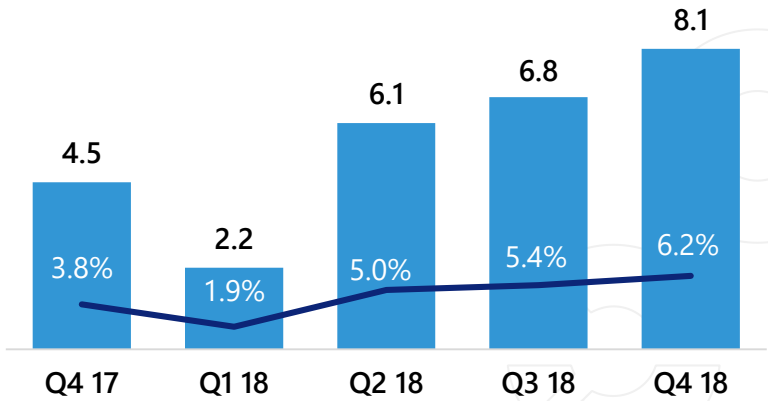
Quarterly IFRS revenue and pro forma profitability

Revenue & gross margin

(in millions of EUR, in % of revenues)



Pro forma operating income & margin

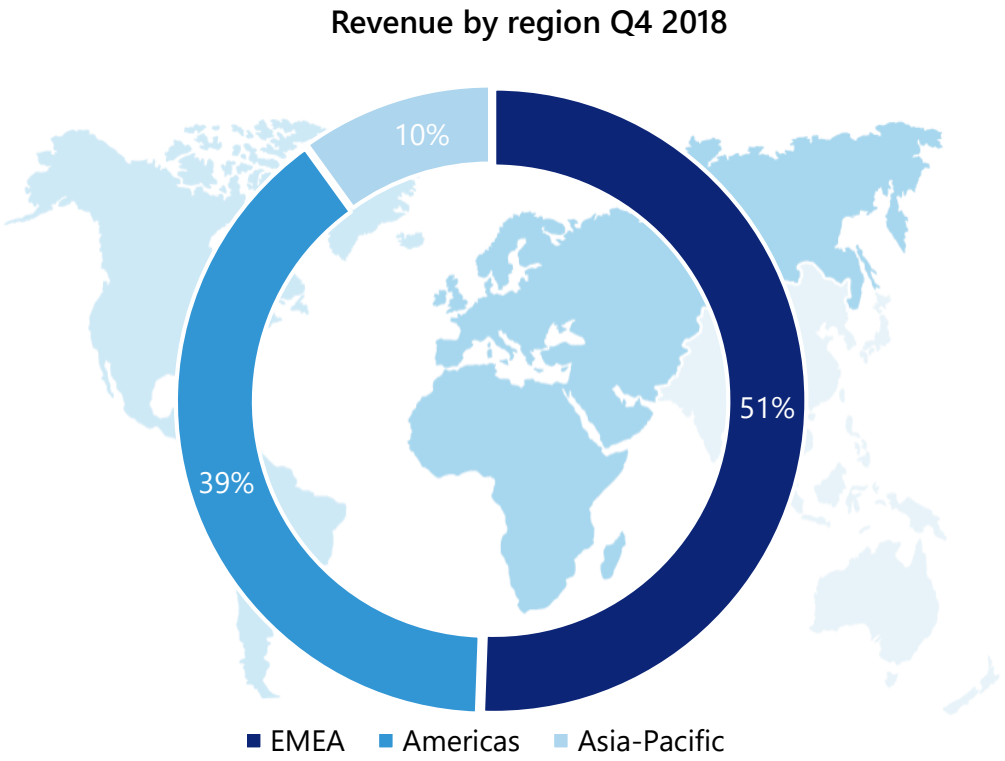


* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

Five quarters of sequential growth – improving profitability throughout 2018

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Quarterly revenues per region



vs. Q4 2017

EMEA
+ 14.7%

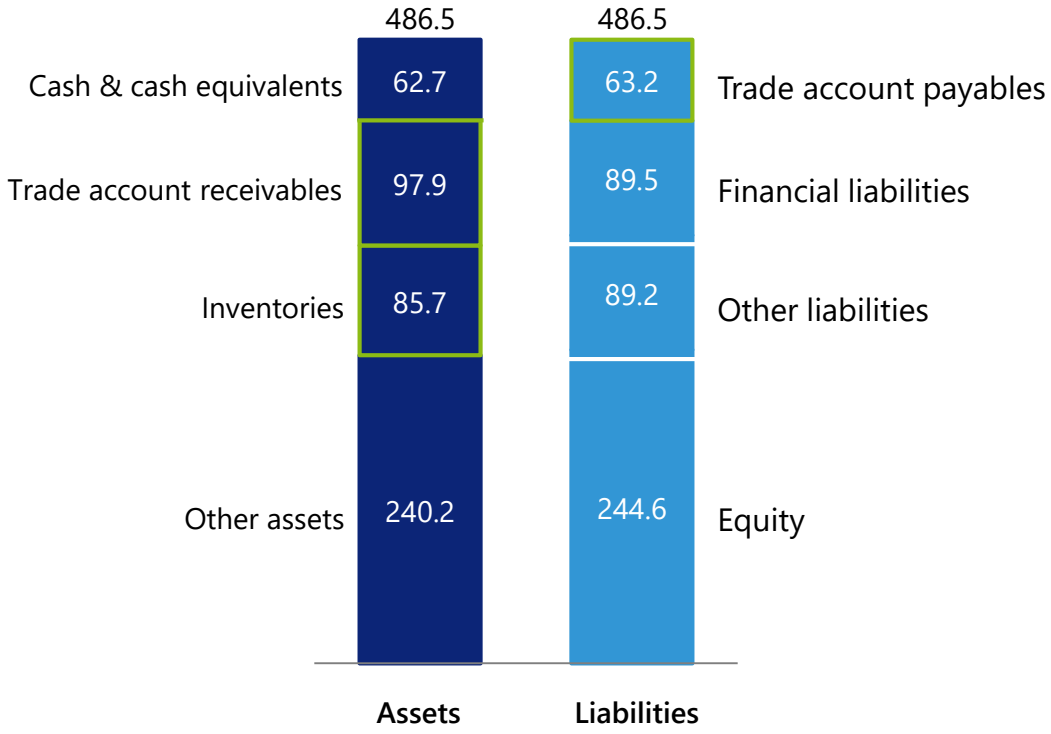
Americas
+ 8.5%

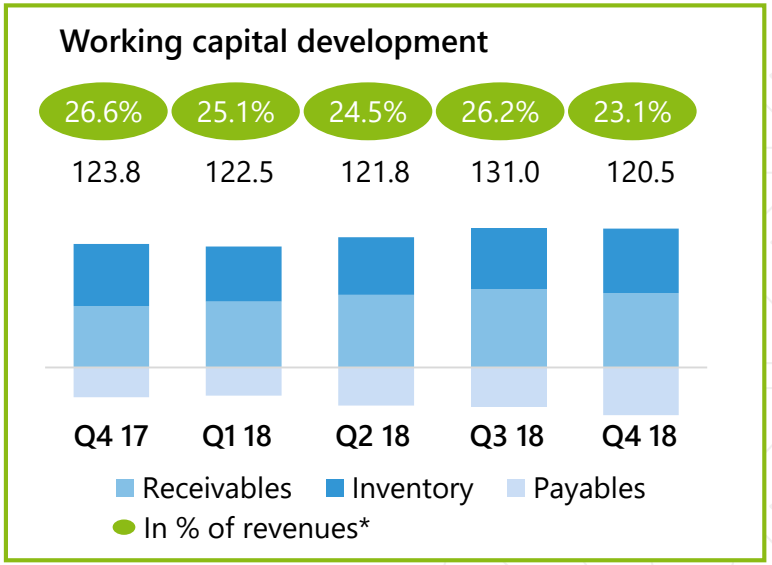
Asia-Pacific
+ 14.4%

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Healthy balance sheet ratios

(In millions of EUR)





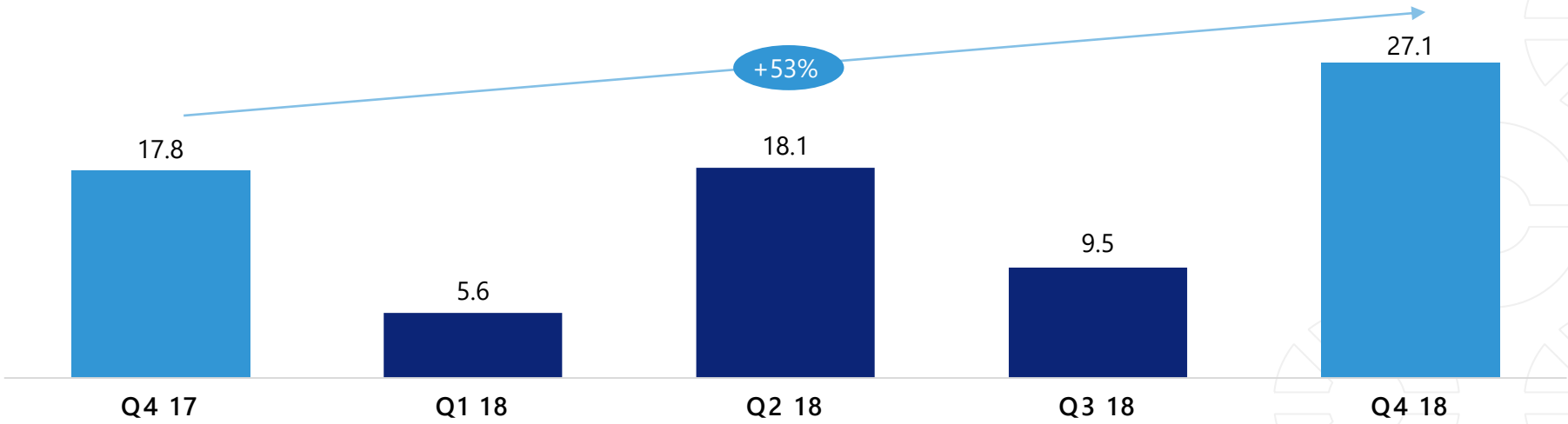
Equity ratio FY18	Leverage** FY18	ROCE FY18
50.3%	1.4x	4.8%

* Calculated on a quarterly basis
** Leverage is calculated as total financial liabilities divided by EBITDA. EBITDA is calculated as operating income plus depreciation and amortization of non-current assets.

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Seasonality of operating cash flow

(In millions of EUR)

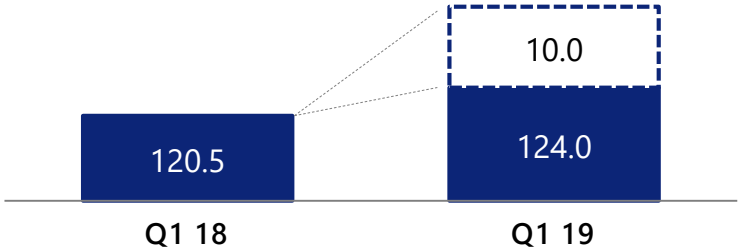


Operating cash flow significantly increased by 53% year-over-year

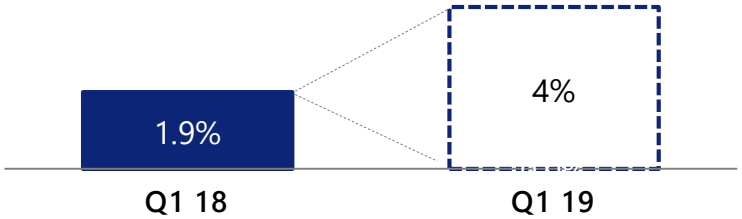
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Guidance Q1 2019 and outlook FY 19

Revenues between EUR 124 million and EUR 134 million



Pro forma operating margin between 0% and 4% of revenues



Summary

- Investment focus is moving to the network edge, where ADVA performs best
- Our three core competencies are strategically relevant for the transformation of network gaining momentum in multiple accounts
- Packet edge and synchronization growing nicely, with NFV starting to contribute significant revenues
- FSP 3000 TeraFlex™ terminal has the potential to change DCI market momentum in our favor
- Industry consolidation and regionalization sharpen our profile as innovator and trusted partner

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.

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Thank you

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