



Financial analyst presentation

Q3 2018

Q3 2018 earnings call

October 25th, 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

Q3 2018 in review

Q3 revenues: EUR 126.2m, up from 123.8m in Q2 2018, and from 111.2m in Q3 2017

- Near midpoint of guidance provided on July 19, 2018 of between EUR 123m - EUR 133m

Q3 pro forma operating income*: EUR 6.8m or 5.4% of revenues

- At upper end of guidance between 2% and 6% of revenue

Continuity, execution and focus – investments are delivering returns

- Fourth consecutive quarter with growth
- Margins and profitability good
- Optical market still 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 Q4 2018

We will continue to strengthen our balance sheet and stay in 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 fighting to backfill 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 continues to consolidate while delivering reliable volume

Quarterly revenue growth and good profitability – bigger strides in 2019

Open optical networking – capacity engine

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 continues to be moderately positive
- New ICP win with fiber assurance
- Teraflex™ on schedule
- MicroMux™ shipping



Software-defined capacity for the cloud

Packet edge – service creation and assurance



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
- Momentum with Ensemble Connector based uCPE* solution coupled with many new use cases
- Layer 3 capabilities increasing our TAM

*universal customer premise equipment

Secure, zero-touch service delivery

Synchronization – precision matters



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;



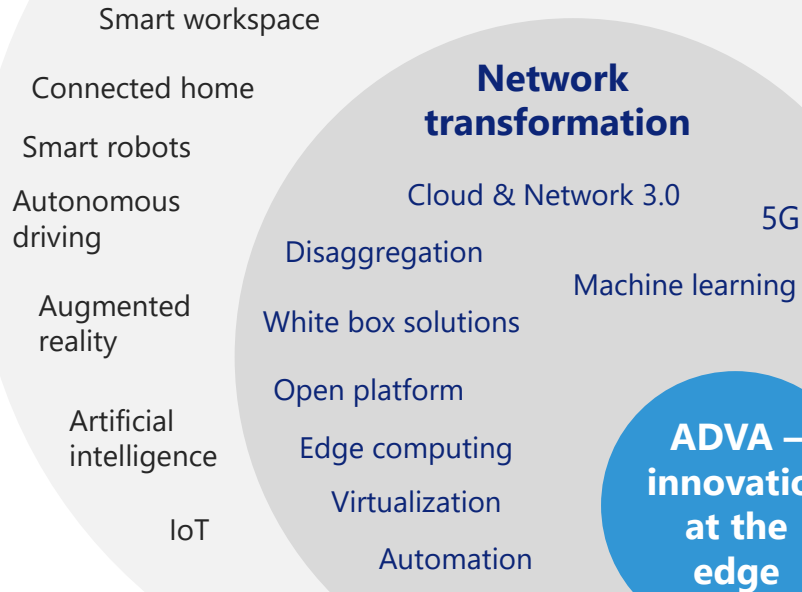
- Utilize technology leadership in synchronization to further improve overall corporate gross margin
 - Pursue new opportunities in ICP and enterprise verticals
 - Win new footprint for 5G infrastructure
- Positive outlook for 2019 with strong margins
 - Pipeline continues to grow
 - Solid ICP revenue contribution



Accurate and scalable time and frequency synchronization

2019 – the investment focus moves to the edge

Digitization of all ecosystems (and humans)



Open terascale networking

Bandwidth

- Disaggregated optical architecture
- Highest level of security and automation
- Unparalleled data center expertise

Empowering the network edge

Service creation

- Leader in secure, zero-touch service delivery solutions
- Proven and scalable NFVi architecture
- Seamless transition to virtual service delivery

Precision timing

Performance

- Most comprehensive network synchronization portfolio
- Best accuracy and assurance
- Key enabler for 5G and many other ecosystems

From the edge on in – customer focus – profound application know how



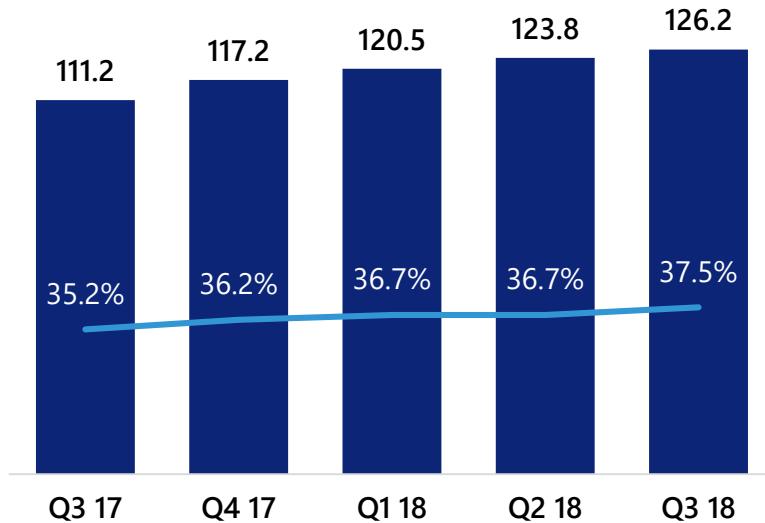
Financial performance

Ulrich Dopfer, CFO

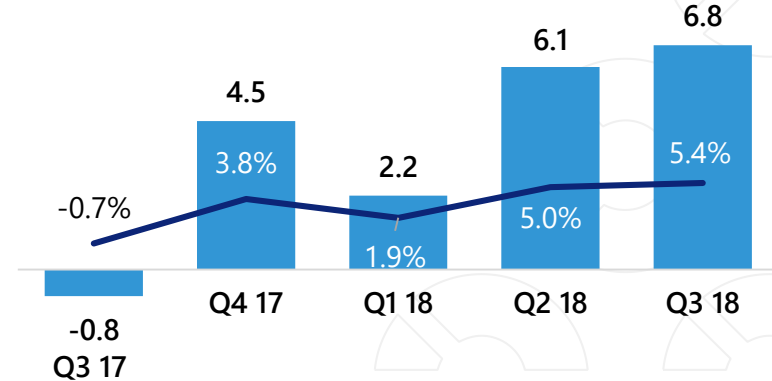
Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & gross margin



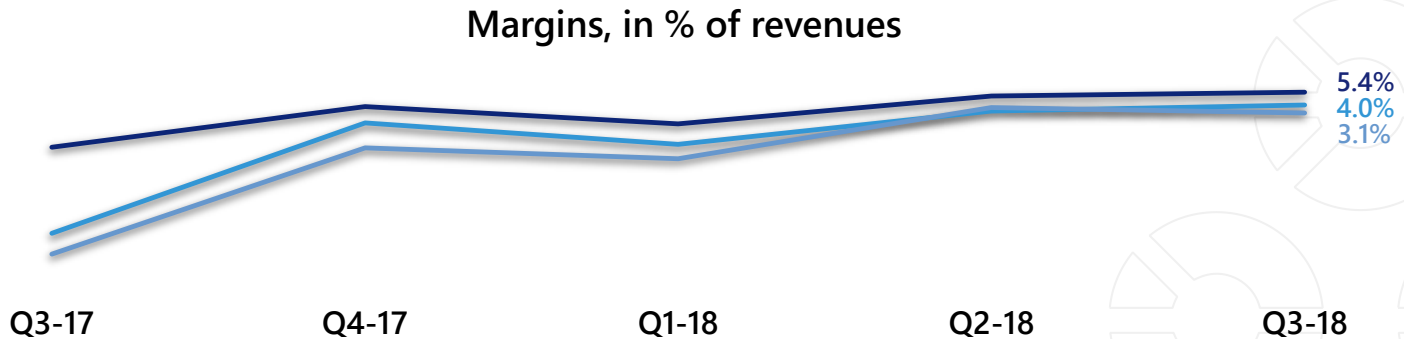
Pro forma operating income & margin



* 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.

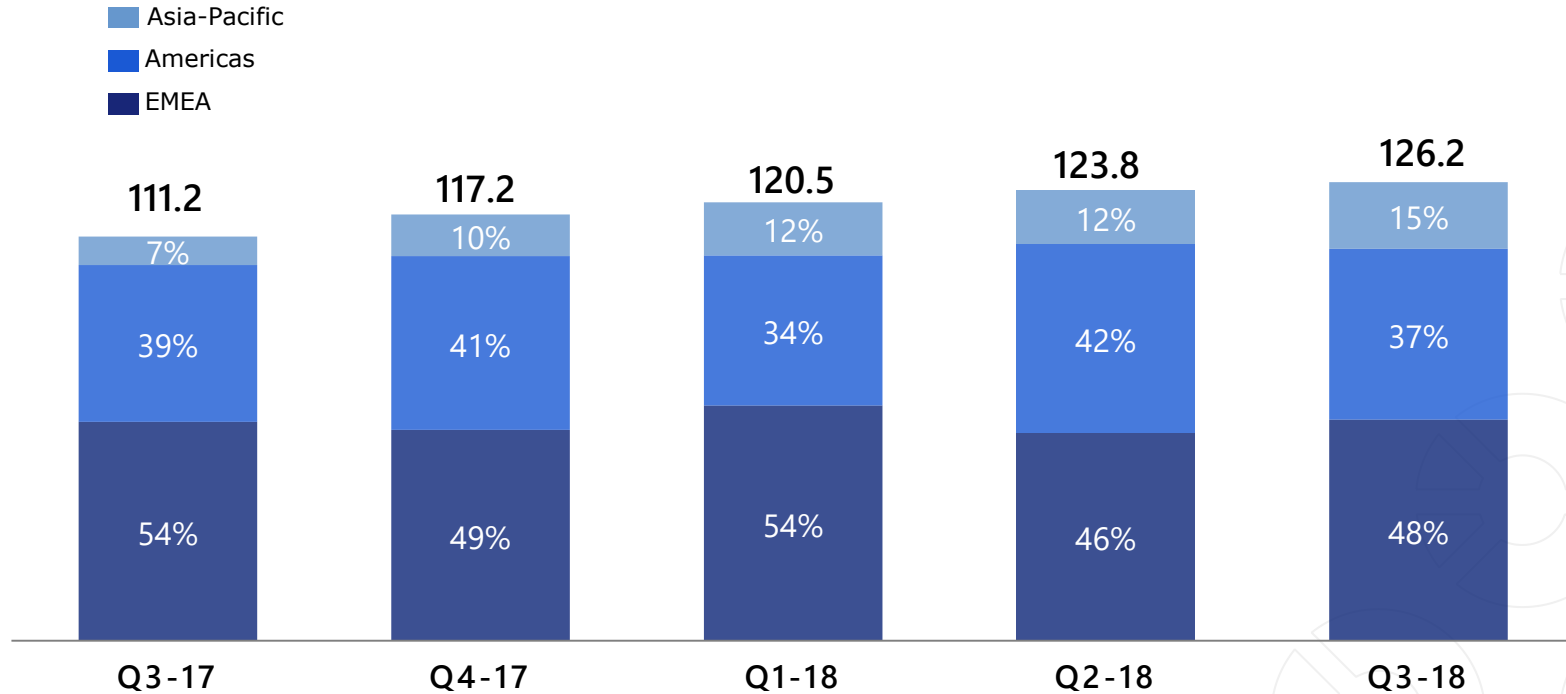
Quarterly IFRS profitability

EUR Million	2017		2018		
	Q3	Q4	Q1	Q2	Q3
Pro forma operating income	-0.8 (-0.7%)	4.5 (3.8%)	2.2 (1.9%)	6.1 (5.0%)	6.8 (5.4%)
Operating income	-11.5 (-10.3%)	2.3 (2.0%)	-0.4 (-0.4%)	4.1 (3.3%)	5.0 (4.0%)
Net income	-14.0 (-12.6%)	-0.9 (-0.8%)	-2.4 (-2.0%)	4.6 (3.7%)	3.9 (3.1%)
Diluted EPS in EUR	-0.28	-0.02	-0.05	0.09	0.08



Quarterly revenues per region

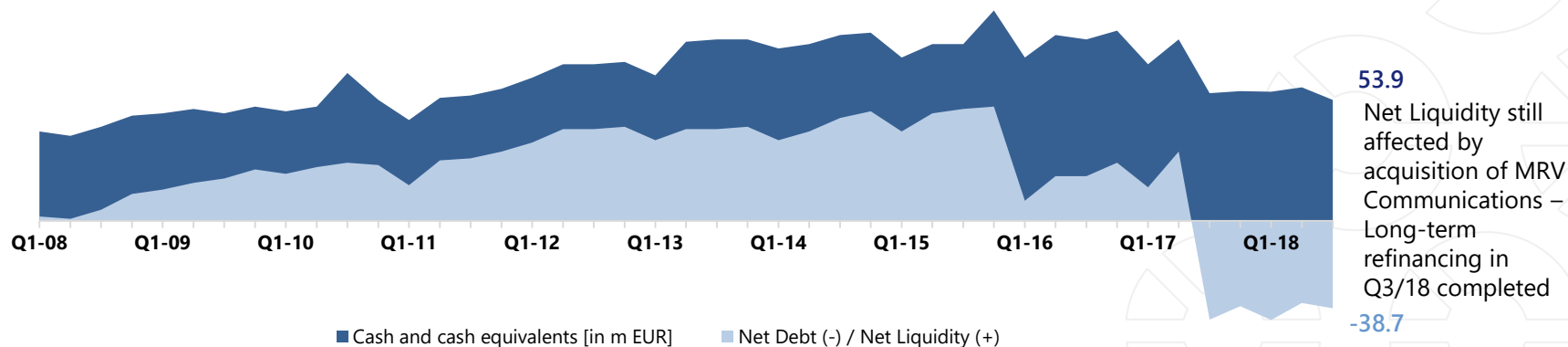
(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

IFRS balance sheet

Assets	Jun. 30 2018	Sep. 30 2018	Equity & liabilities	Jun. 30 2018	Sep. 30 2018
Cash & cash equivalents	59.7	53.9	Accounts payable	50.4	53.1
Accounts receivable	95.9	104.0	Financial liabilities	96.3	92.6
Inventories	76.3	80.1	Other liabilities	94.8	95.8
Other assets	242.8	242.1	Equity	233.2	238.6
Total	474.7	480.1	Total	474.7	480.1



Guidance Q4 2018

Revenues between EUR 126 million and EUR 136 million

Pro forma operating margin between 3% and 7% 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
 - Q3 was the fourth consecutive quarter with top line growth and expanding margins
 - 2018 will be a year of solid revenues and profitability, providing us with a foundation to accelerate in 2019
 - The contribution of our strategic investments has started to outperform the mainstream business;
 - Packet edge and synchronization growing nicely
 - MRV acquisition delivers more customers, better revenue diversification and broader solutions portfolio;
- Investment focus is moving to the edge, where we have multiple ways to win:
 - Optical transmission technology delivers the required bandwidth to interconnect the cloud
 - Physical and virtual edge technologies bring the cloud and related services closer to the customer
 - Synchronization technology guarantees the level of timing needed in a high-performance network

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 2019



Thank you

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