

ADVA unveils path to higher profitability at 2021 capital markets day

ADVA is transforming its operating model and expects solid growth over the coming years with higher pro forma operating income targeting 10% of revenues

- New applications and growth verticals to contribute 40% of revenues by 2023
- Software and services to contribute 30% of revenues by 2023
- Verticalization with optical sub-module revenues to contribute 10% of revenues by 2023

Munich, Germany. March 24, 2021. ADVA (ISIN: DE0005103006), a leading provider of open networking solutions for the delivery of cloud and mobile services, held its virtual capital markets day on March 23, 2021. During the event, the company outlined its path for accelerating growth with higher profitability levels aiming at 10% of revenues by 2023. Cash flow generation will become another key area of value creation. “Our focus on innovation leadership required high R&D investment – often at the expense of higher profitability,” explained Brian Protiva, CEO, ADVA. “But now we started to see returns from several new technologies we’ve brought to market,” he added. Brian Protiva cited three main drivers that will fundamentally change the business and increase enterprise value:

- New applications and growth in new verticals
- Software and service revenue expansion
- Verticalization opportunities

A fundamental change of business model

Also at the event, ADVA CTO Christoph Glingener discussed new opportunities resulting from megatrends, such as digitization, deglobalization and decarbonization, which require innovative and differentiated technologies. ADVA’s recent investments in new technologies tackle these trends and provide access to new markets in which

ADVA can operate in a highly differentiated way. This enables above-average growth rates and higher profitability. New applications and markets with a high degree of differentiation are one important pillar of the strategy. "Revenue growth of our network synchronization technology area has outperformed other technologies and will continue to increase disproportionately. With our technology investments of recent years, we can address new higher-value applications with carriers and ICPs and open up new markets outside these customer groups. Revenue contribution from non-telco customer segments will grow from approximately 30% last year to over 40% in the next three years," explained Brian Protiva. The company aims to leverage innovation leadership in synchronization, security and network operating systems. "Partner expansion with global IT solution providers as well as expanding and upskilling the company's sales force in growth areas will open the door for a revenue contribution of 40% by 2023," added Scott St. John, CMSO, ADVA.

Increased growth in software and services will positively impact customer retention and further increase ADVA's margins. "In recent years, we've been steadily increasing the share of software and services in our revenue to around 20%. In 2020, the contribution grew further to 23%," stressed Brian Protiva, citing that 30% revenue contribution is a priority during the next three years. ADVA is going to leverage new tools and products in this area. State-of-the-art software licensing platforms, the ramp-up of new NOS (network operating systems) products and the expansion of partnership models for IT will be key to increase the software share. The company sees a higher attachment rate through software and new services, including AI-based risk mitigation and predictive maintenance.

Control of crucial parts of the value chain is a key aspect in the telecommunication industry. This includes components and subsystems that either ensure additional differentiation on the product side and increase competitiveness or decisively improve the cost basis of ADVA's own solutions. Brian Protiva emphasized the excellent network of partners in the field of electro-photonic components. "However, we've also launched our own activities in the field of photonic integration. With a key focus on optical transceivers, we launched a family of highly integrated multiplexers and will further expand this product line. These pluggable modules are required in large quantities in our own systems and provide increasing value for neighboring technology areas. With our activities around photonic integration, we are sustainably improving our cost base and opening new markets," said Brian Protiva. The company aims for a revenue contribution from these modules to grow to 10% in the next three years and 15% in the next five years.

Cash flow generation and capital allocation for value creation

The company reemphasized its focus on cash and value creation. "Since the acquisition of MRV in 2017, we followed a clear path of deleveraging, even in times of high R&D spend and restructuring efforts to transition our production out of China as well as introduce our cost improvement measures. Every step we took was important to build the base for the returns we see already today," said Uli Dopfer, CFO, ADVA. Already in 2019, ADVA relocated the majority of its China-based production facilities to other countries. "This was cost-intensive but an important step in responding to current geopolitical trends, such as US tariffs, deglobalization and the increasingly important question around products and country of origin," explained Paulus Bucher, COO, ADVA.

The company introduced a cost improvement program in 2019 with the clear goal to keep OPEX stable in 2020. In the financial year 2020, OPEX was EUR 165.2 million, even EUR 5.3 million below the EUR 170.6 million the company saw in 2019. “Our cost improvement measures showed the expected effects, but, like many other companies, we also saw cost savings from lower travel activities due to the ongoing pandemic. However, the new normalized cost base will contribute to higher margin levels going forward,” Uli Dopfer emphasized. The CFO reported that gross margins in 2020 already benefited from the investments made in recent years.

The company improved its free cash flow from EUR 7 million to EUR 39 million in 2020 and reduced its debt from EUR 81 million to EUR 62.6 million year-over-year. “Without applying IFRS 16, which includes lease liabilities, ADVA is once again cash positive. With gross leverage of only 0.7x, we have a very solid balance sheet and investment-grade capital structure that gives us flexibility for strategic investments,” Uli Dopfer said. Higher volumes, the acceleration of ADVA’s transformation strategy, Covid-19 recovery and the OPEX improvement measures will set the path for new profitability levels and cash improvements. “Our clear goal is to reach a pro forma operating income of 10% of revenues by 2023,” Uli Dopfer stated.

ADVA has set clear priorities for capital allocation and driving shareholder value. “We will continue to translate our higher profitability into cash flow. Sustainability forms an integral part of our strategy, growth plans and management remuneration. Our solid balance sheet lets us think about strategic opportunities – but let’s do it step by step,” concluded Uli Dopfer as he finished the presentation.

Learn more about ADVA’s 2021 capital markets day here: <https://www.adva.com/en/about-us/investors/capital-markets-day>.

Forward-looking statements

The economic projections and forward-looking statements contained in this document relate to future facts. Such projections and forward-looking statements are subject to risks that cannot be foreseen and that are beyond the control of ADVA. ADVA is therefore not in a position to make any representation as to the accuracy of economic projections and forward-looking statements or their impact on the financial situation of ADVA or the market in the shares of ADVA.

About ADVA

ADVA is a company founded on innovation and focused on helping our customers succeed. Our technology forms the building blocks of a shared digital future and empowers networks across the globe. We’re continually developing breakthrough hardware and software that leads the networking industry and creates new business opportunities. It’s these open connectivity solutions that enable our customers to deliver the cloud and mobile services that are vital to today’s society and for imagining new tomorrows. Together, we’re building a truly connected and sustainable future. For more information on how we can help you, please visit us at www.adva.com.



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