



Financial analyst presentation

Q1 2018

Q1 2018 earnings call

April 26th, 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

Q1 2018 in review

Q1 revenues: EUR 120.5m, up from 117.2m in Q4 2017, down from 141.8m in Q1 2017

- Within guidance provided on February 22, 2018 of between EUR 115m - EUR 130m

Q1 pro forma operating income* EUR 2.2m or 1.9% of revenues

- Above midpoint of guidance between -1% and 4% of revenue

Good execution – strategic investments are delivering returns

- Carrier and enterprise business solid in all regions
- MRV integration completed, delivering additional revenue and profitability
- Oscilloquartz EBIT contribution continues to increase, paying back investment

* 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.

Positive start with solid foundation for more profitability and moderate growth

Prospects for Q2 2018

We will continue to strengthen our balance sheet

- Tightly manage our cost model and generate cash

We are leveraging our technology leadership in Timing and the Business Edge

- First two quarters in 2017 had significant ICP revenue contribution; we will refill with new business from other areas while aggressively pursuing more and new DCI opportunities
- Positive contributions from the packet edge and synchronization are growing

More customers, better revenue diversification and a broader solutions portfolio

Open optical networking in 2018



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

Software-defined capacity for the cloud

Physical and virtual packet edge in 2018



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

Secure, zero-touch service delivery

Synchronization in 2018



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

Accurate and scalable time and frequency synchronization



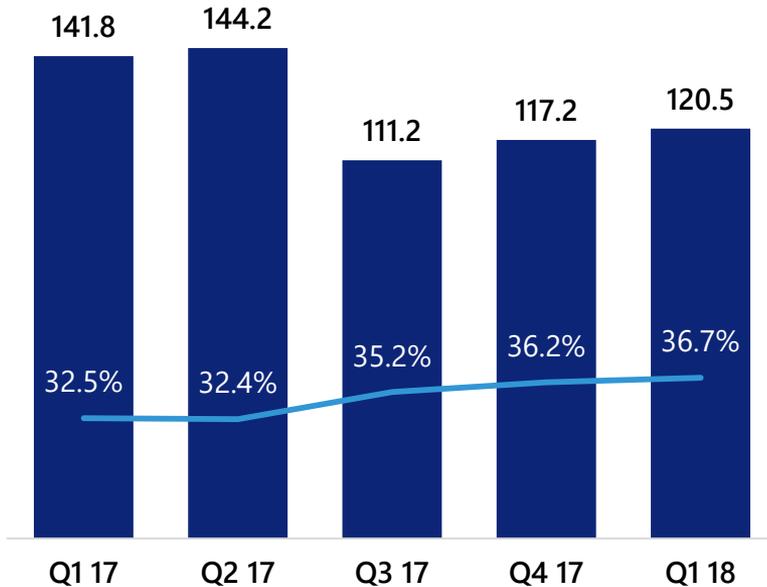
Financial performance

Ulrich Dopfer, CFO

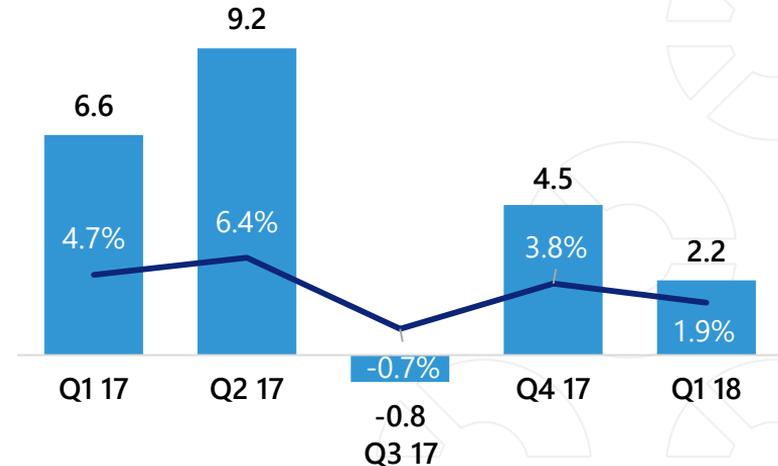
Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & gross margin



Pro forma operating income & margin

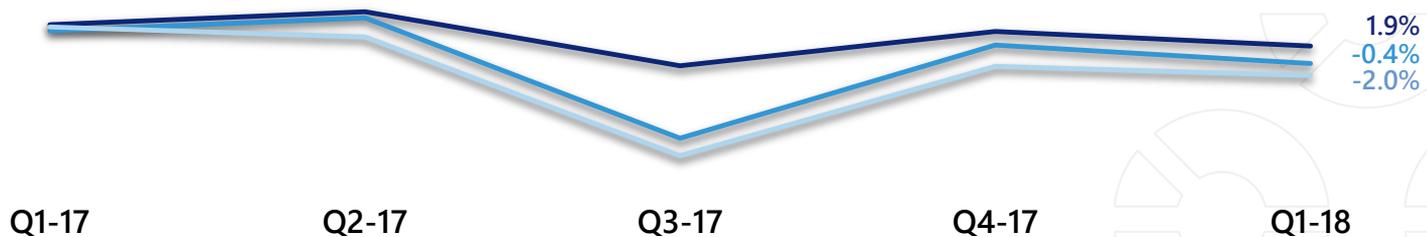


* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

Quarterly IFRS profitability

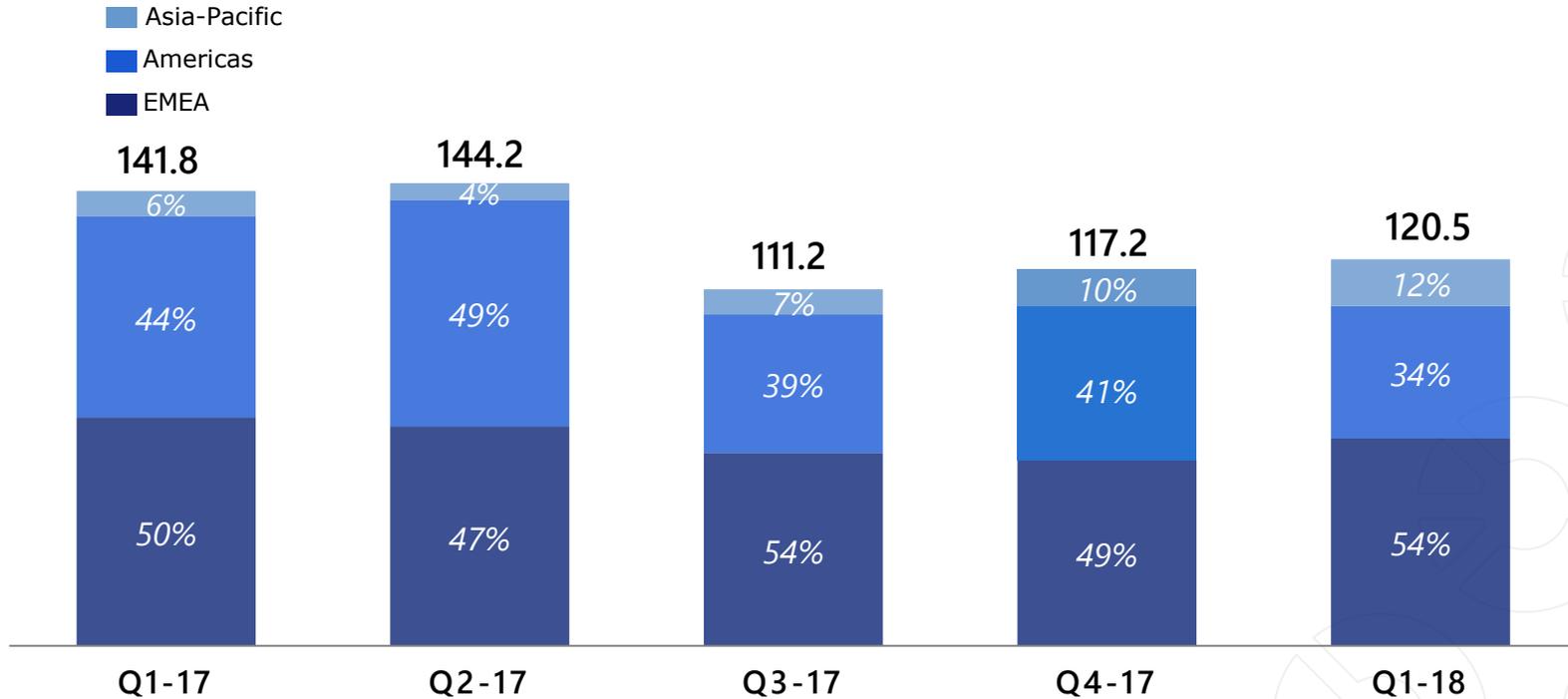
EUR Million	2017				2018
	Q1	Q2	Q3	Q4	Q1
Pro forma operating income	6.6 (4.7%)	9.2 (6.4%)	-0.8 (-0.7%)	4.5 (3.8%)	2.2 (1.9%)
Operating income	5.5 (3.9%)	8.1 (5.6%)	-11.5 (-10.3%)	2.3 (2.0%)	-0.4 (-0.4%)
Net income	6.2 (4.4%)	4.5 (3.1%)	-14.0 (-12.6%)	-0.9 (-0.8%)	-2.4 (-2.0%)
Diluted EPS in EUR	0.12	0.09	-0.28	-0.02	-0.05

Margins, in % of revenues



Quarterly revenues per region

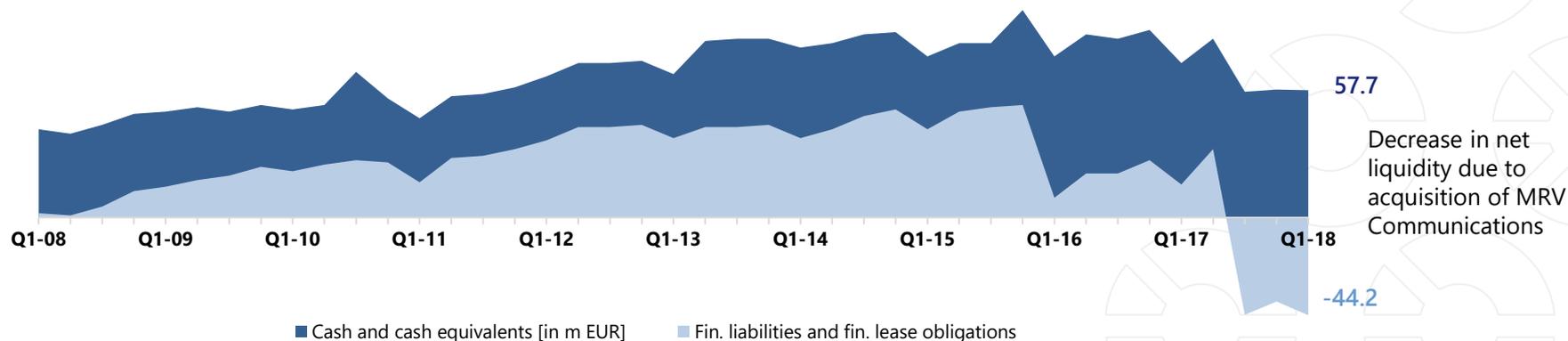
(in millions of EUR, in % of revenues)



Note: Potential differences due to rounding

IFRS balance sheet

Assets	Dec. 31 2017	Mar. 31 2018	Equity & liabilities	Dec. 31 2017	Mar. 31 2018
Cash & cash equivalents	58.4	57.7	Accounts payable	39.2	37.4
Accounts receivable	81.3	86.9	Financial liabilities	96.6	101.9
Inventories	81.7	73.0	Other liabilities	101.2	95.5
Other assets	242.6	240.7	Equity	227.0	223.5
Total	464.0	458.3	Total	464.0	458.3



Guidance Q2 2018

Revenues between EUR 120 million and EUR 135 million

Pro forma operating margin between 1% 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

- Optimized cost structure that is aligned with our revenue profile, and which will enable us to grow profitability in 2018 and beyond;
- MRV acquisition brings us more customers, better revenue diversification, and broader solutions portfolio;
- 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

investor-relations@advaoptical.com



IMPORTANT NOTICE

The content of this presentation is strictly confidential. ADVA Optical Networking is the exclusive owner or licensee of the content, material, and information in this presentation. Any reproduction, publication or reprint, in whole or in part, is strictly prohibited.

The information in this presentation may not be accurate, complete or up to date, and is provided without warranties or representations of any kind, either express or implied. ADVA Optical Networking shall not be responsible for and disclaims any liability for any loss or damages, including without limitation, direct, indirect, incidental, consequential and special damages, alleged to have been caused by or in connection with using and/or relying on the information contained in this presentation.

Copyright © for the entire content of this presentation: ADVA Optical Networking.

