



Financial analyst presentation

Q4 and full year 2019

Q4 and full year 2019 earnings call

February 20th, 2020

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 2019.

CONSOLIDATED PRO FORMA FINANCIAL RESULTS

ADVA 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’s operating results from one financial period to another. ADVA 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

Q4 2019 in review

Strong financial performance

- Q4 revenues and pro forma EBIT at top end of guidance
- Annual revenue targets exceeded

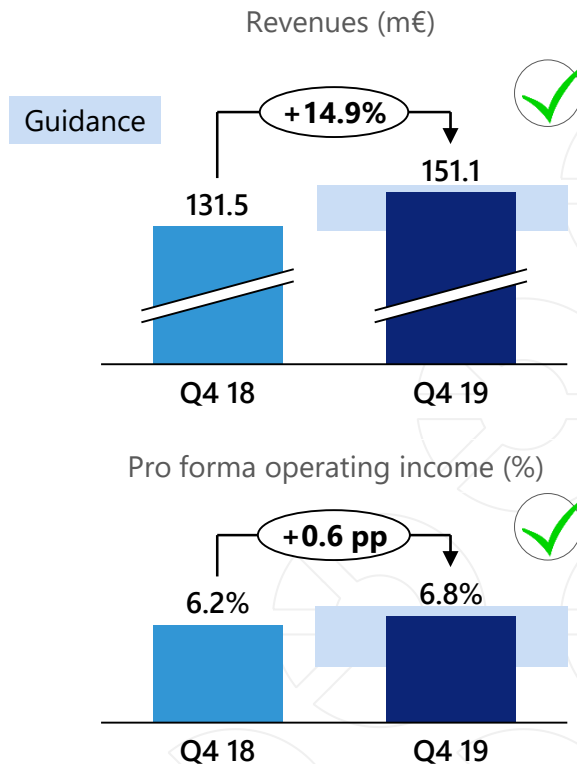
Solid customer demand and very good order entry

- Revenues developed very well across the portfolio
- Win rates with new products continue to be high allowing us to realize efficiencies and expand into new markets

Tight OPEX control continues

- US dollar strength, trade tensions with related costs continue to put pressure on margins leading to flat annual OPEX

* 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, non-recurring expenses related to restructuring measures are not included.



Strong Q4 results and order entry underscore confidence for 2020 demand

Macro environment update

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 Virtualization
Edge computing

ADVA open edge networking

Scalable bandwidth
Instant service creation
Precise synchronization

GROWTH DRIVERS: Digitization drives investment focus to the edge, where ADVA performs best

INDUSTRY: 5G momentum building, driving need for synchronization and edge computing

POLITICS: Trade tensions continue to weigh on operational costs

COVID-19: Wuhan crisis impacts global supply chain

Growth drivers intact – portfolio aligned – temporary supply chain uncertainties

Operating model – adapting to a changing world

Distribution

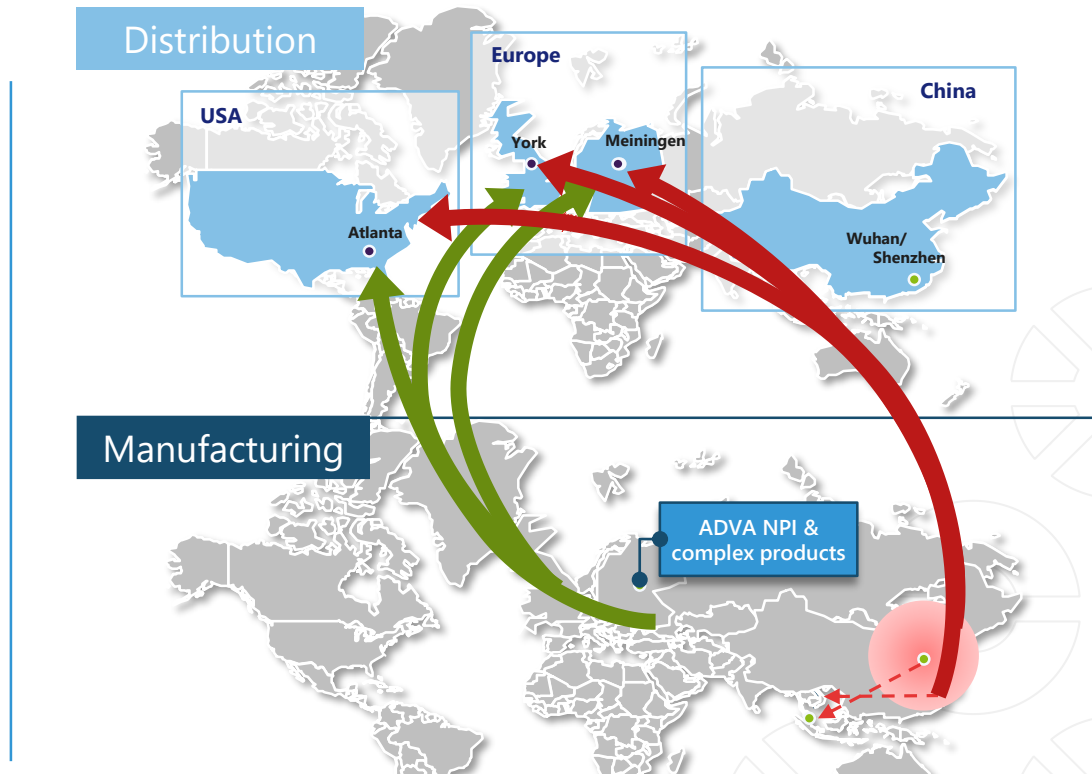
- Setup intact – fine tuning
- Strengthen staging and configuration competence
- Efficiency in freight and logistics

Manufacturing

- Trade conflict driving change
 - Tactical: Tariff escape transfers
 - Strategic: Reduce dependency on China

COVID-19 crisis

- Wuhan shut-down is causing delays in global supply chain leading to delayed order fulfilment and deferred revenues



Tariff mitigation nearing completion – COVID-19 uncertainties in supply chain

Cloud interconnect growth opportunities

Maximizing network capacity for a digital future



Open and secure terascale networking

- Loyal growing base of large-scale customers
 - Top ten drive ~60% of revenues
- Share gain in the metro*
 - Market share metro WDM in EMEA increased from 11% in Q2 and reached 15% in Q3 2019
 - Global leader and fastest growing vendor in enterprise DCI (>30% global, >50% EMEA)
- Industry consolidation continues
- Disaggregation and fear of single vendor lock-in favors open players
- Political security discussions change supplier landscape
- Market share gain with TeraFlex™ terminal and open line systems
- Margin expansion and differentiation through vertical integration

Our foundation

Market disruption

Potential upside

*Source: Ovum, market share 3Q19 (rolling four quarters) optical networks global and data center interconnect, publ. November 2019

Continue to outperform in select markets and increase vertical content

Cloud access growth opportunities

Empowering the network edge

- Leading supplier of Ethernet access devices (EAD)
- Most mature NFVi* solution with world's largest VNF ecosystem
 - Ten new wins in 2019
 - >50 VNF** partners

- Transition from 1G to 10G/100G in access and backhaul
- NFV driving software-based value creation, converging Layer2 and Layer3

- Winning new footprint with differentiated 100G portfolio



Packet edge with NFV



FSP 150-XG480

- Turning exceptional NFV win rate (2019) into revenue

Our foundation

Market disruption

Potential upside

*network function virtualization infrastructure; **virtual network function

Expand market share with new-generation 100G EAD and monetize NFV wins

Synchronization growth opportunities

Delivering precision timing at scale



- Market leading IEEE 1588 PTP* timing portfolio
 - Very high win rates leading to impressive list of MNO** customers
 - >20% annual revenue growth in 2018/2019
- Industry consolidation
 - GNSS*** vulnerability increasingly problematic as timing requirements become more stringent
- Accelerating 5G rollouts
 - Increasingly stringent timing requirements in other verticals

Our foundation

Market disruption

Potential upside

*precision time protocol; **mobile network operator; ***global navigation satellite system

Use technology leadership to expand into other verticals

Why we win – the ADVA brand promise

Innovation leadership

Speed for customers

Trusted partner



Open networking solutions

- Differentiated technology
- Network-level applications
- Market-leading scalability and efficiency

Operational excellence

- High quality
- Short lead times
- Award-winning sustainability focus

Ease of doing business

- Technology and VAR ecosystems
- Broad and deep application expertise
- Financial stability, solid balance sheet

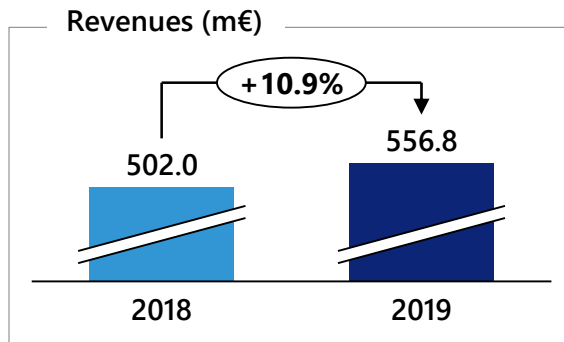
Award-winning factory in Meiningen, Germany

Enabling our customers to capitalize on cloud and mobility

Financial performance

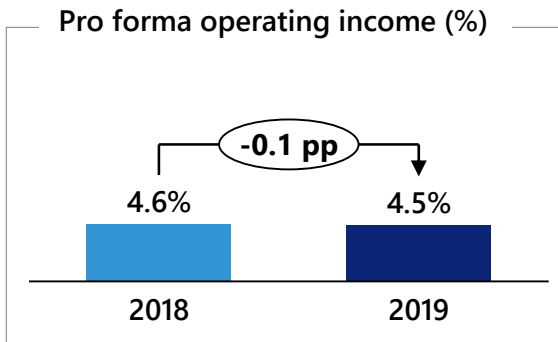
Ulrich Dopfer, CFO

Financial year 2019 at a glance



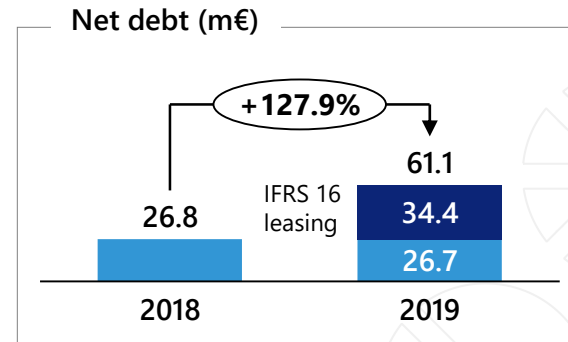
Revenues increased +10.9% y-o-y ...

- Positive development due to solid demand from all customer groups across all technology areas
- Except for Q1 2019, quarterly revenues increased sequentially in 2019 and reached EUR 151.1m in Q4 (+14.9% y-o-y)



... with stable margin in the mid-single digit range

- Margin was negatively impacted by the US trade policy and strong USD
- High cost discipline within OPEX to offset these impacts
- One-off expense of EUR 5.7m excluded from pro forma operating income



Net debt before IFRS 16 stable

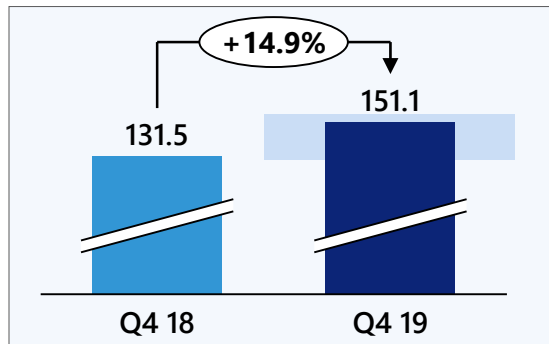
- Gross cash impacted by decrease in EBT (EUR -3.6m), significant higher R&D investments (EUR 10.6m) and reduction of bank liabilities (EUR -8.5m)
- Financial debt Q4 2019 includes EUR 34.4m lease liabilities due to the first-time adoption of IFRS 16



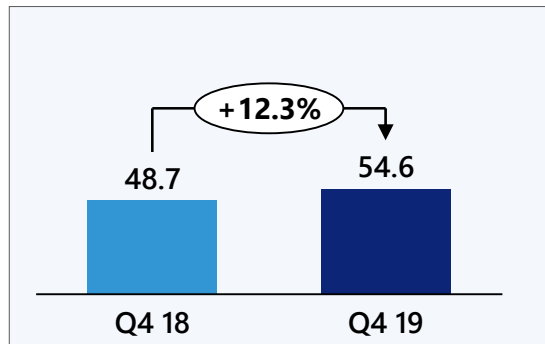
* Without IFRS 16

Q4 2019 key financials

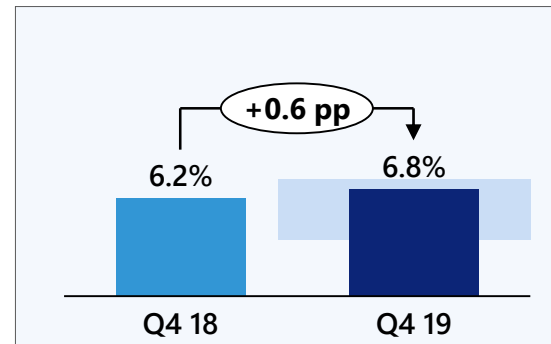
Revenues (m€)



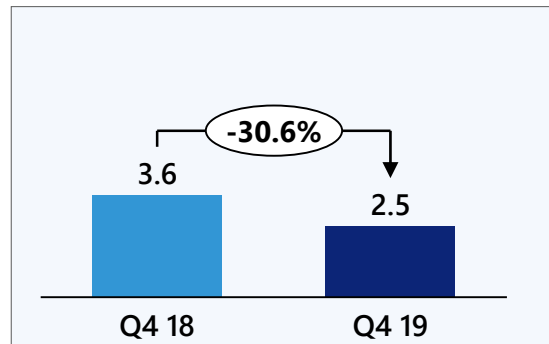
Pro forma gross profit (m€)



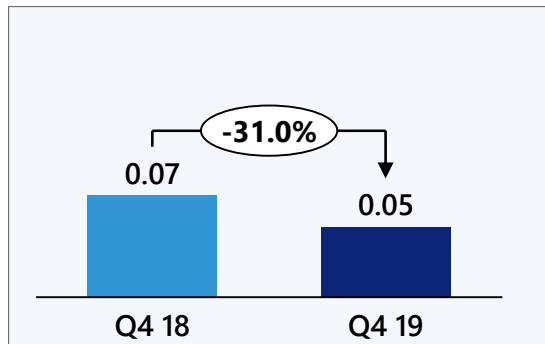
Pro forma operating income (%)



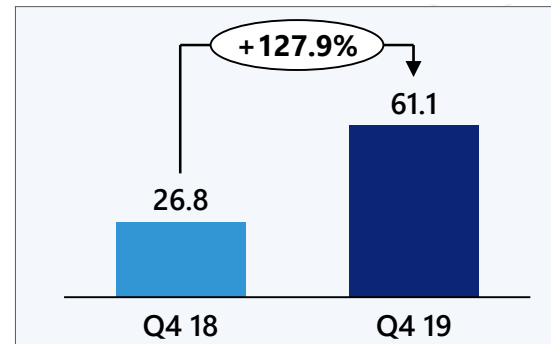
Net income (m€)



Diluted EPS (€)



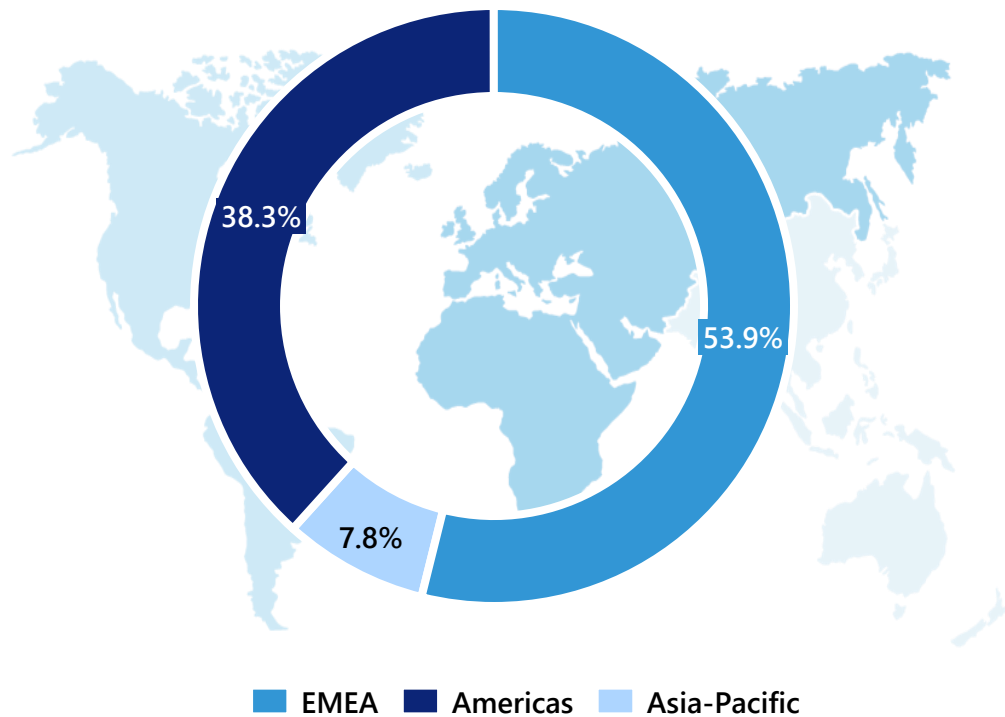
Net debt (m€)*



Guidance

*Note: Net debt Q4 2019 includes EUR 34.4 million lease liabilities due to first-time adoption of IFRS 16

Q4 revenues per region



vs. Q4 2018

↑ EMEA
+ 22.5%

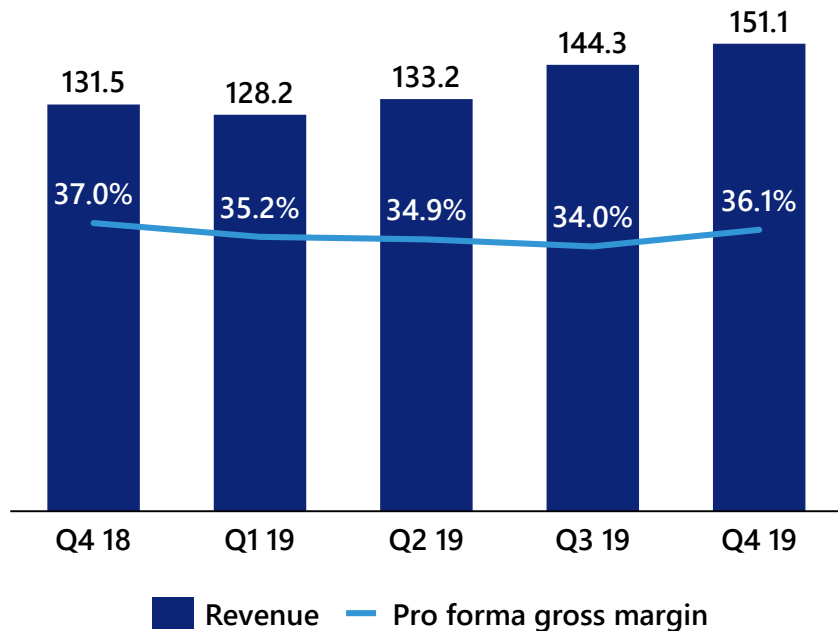
↑ Americas
+ 11.4%

↓ Asia-Pacific
- 9.6%

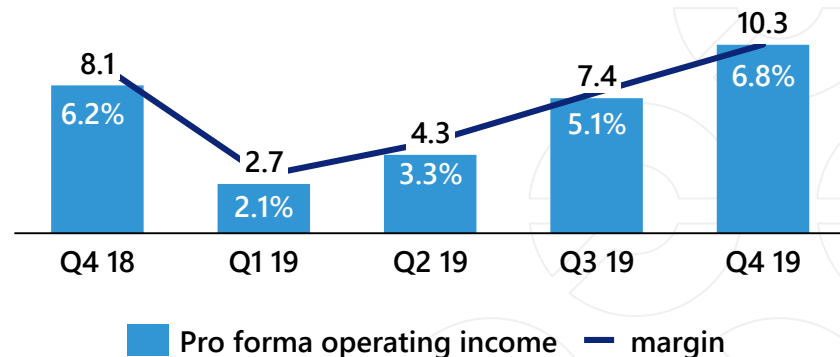
Quarterly revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & Pro forma gross margin



Pro forma operating income & margin

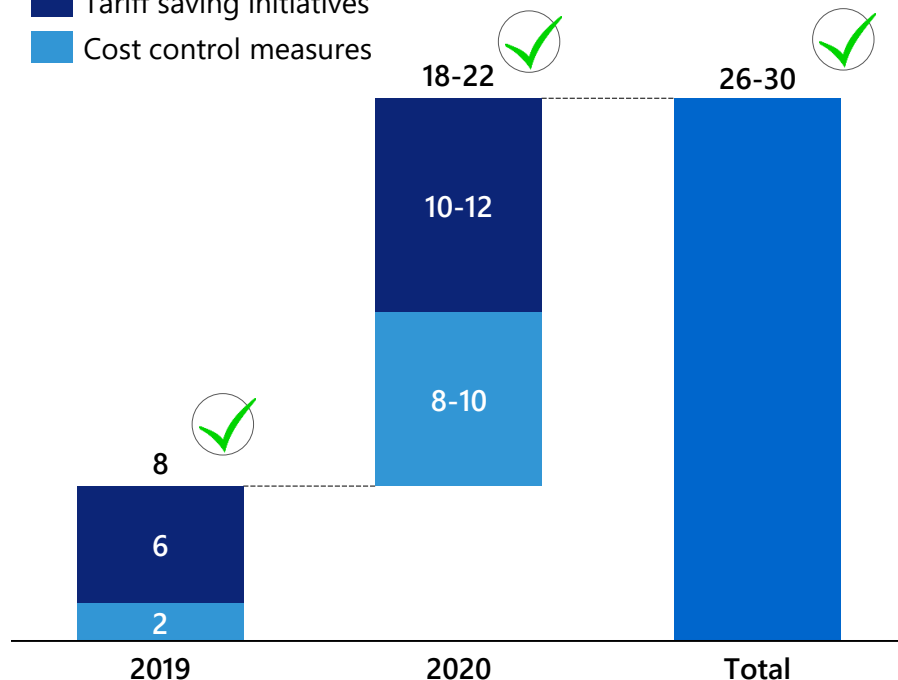


* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

Improvement measures – status update

(in millions of EUR)

- Tariff saving initiatives
- Cost control measures

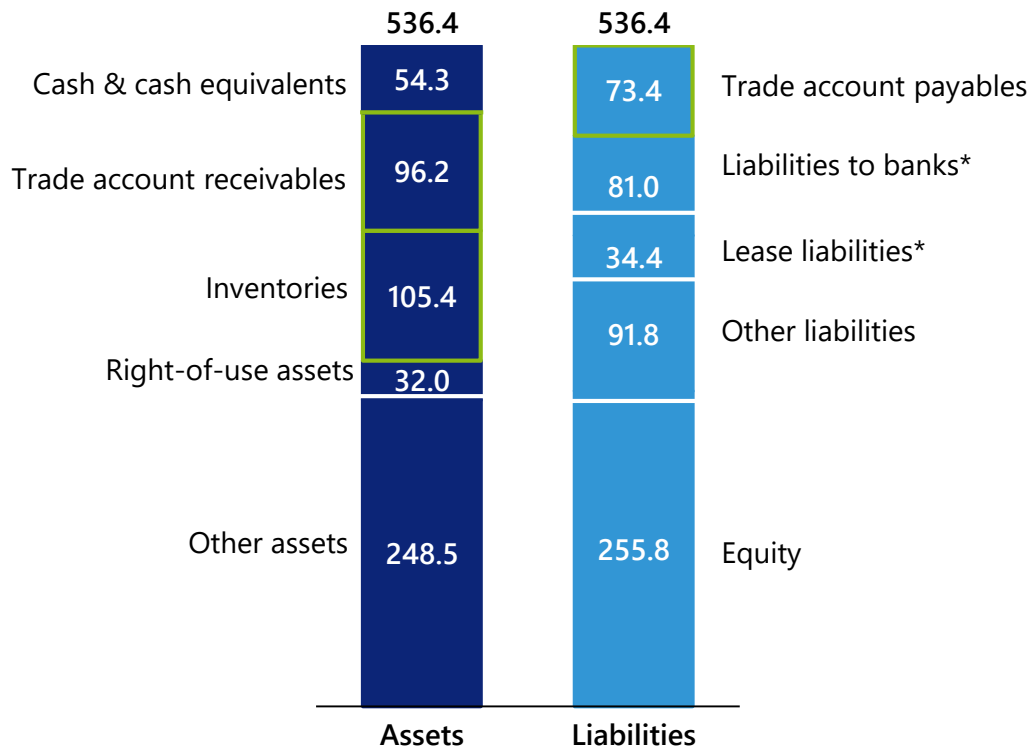


Improvement measure	Status
Relocation of production <ul style="list-style-type: none"> Relocation out of China Short-term one-off costs resulting in future benefits 	<ul style="list-style-type: none"> Establishment of hybrid EMS model to utilize China and South East Asian manufacturing and supply base Major purchase volume now coming from Southeast Asian supply chain for multi-sourced and transferred products and components
Pro-active stock purchases and prefabrication <ul style="list-style-type: none"> Reduce import duties through transferring materials and components to US locations Working capital increase due to proactive stock purchases 	<ul style="list-style-type: none"> Measure completed High inventory increase in FY 2019 due to pro-active stock purchases
Tight control of operating costs <ul style="list-style-type: none"> Selective headcount reduction Streamline footprint Consolidation of R&D expenses 	<ul style="list-style-type: none"> Implementation ongoing Commitment to maintain flat OPEX

Savings target 2019 achieved; 2020 target confirmed

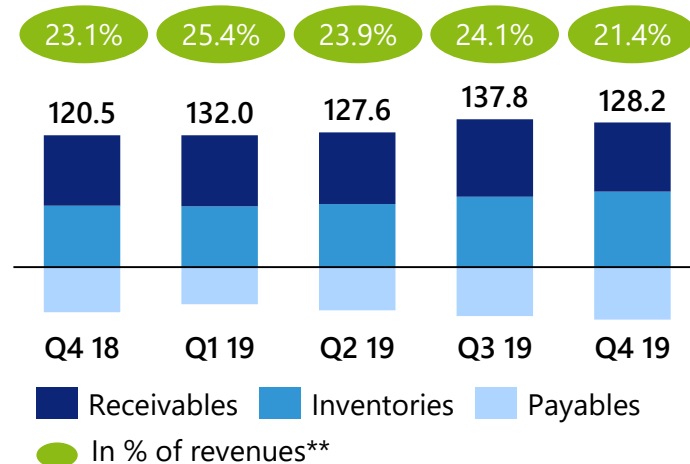
Healthy balance sheet ratios

(In millions of EUR)



*Financial debt: liabilities to banks + lease liabilities due to IFRS 16

Working capital development



Equity ratio

47.7%

Leverage***
LTM

1.2x

ROCE
YTD

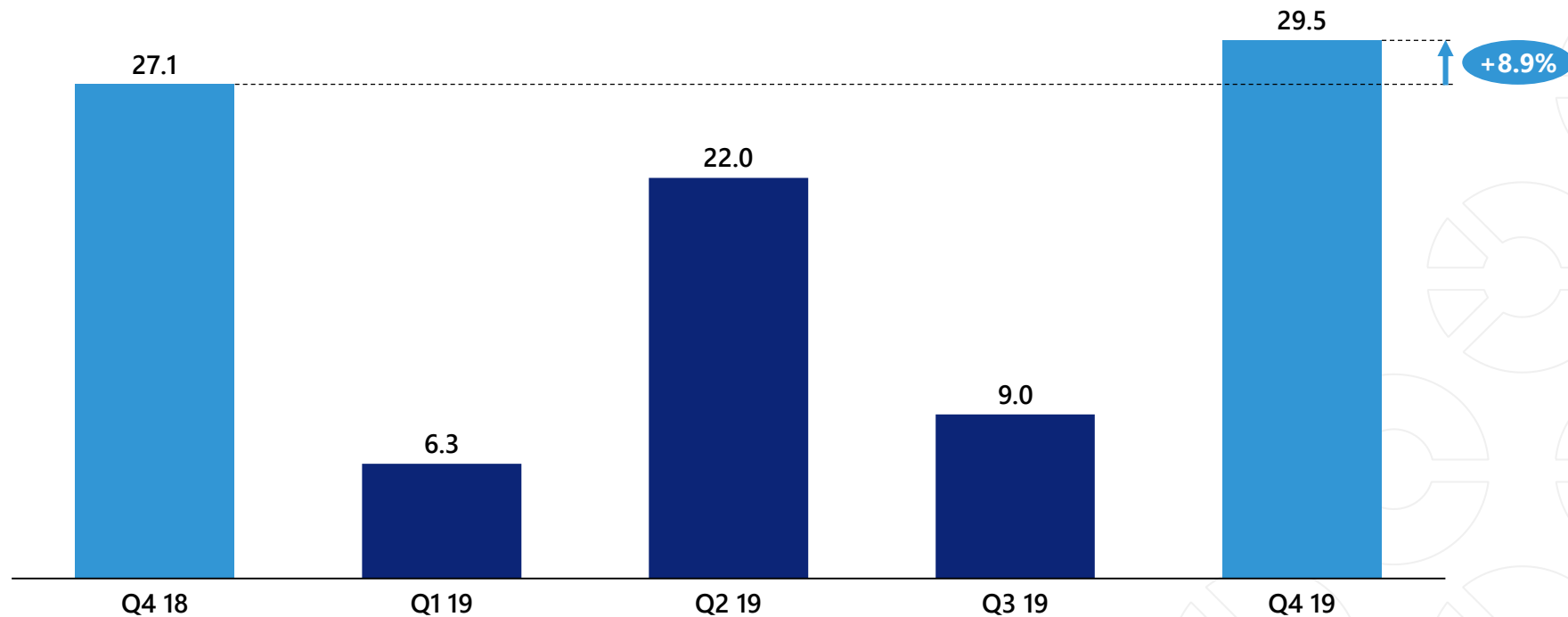
3.3%

** Calculated on a quarterly basis

*** Leverage is calculated as total bank debt divided by EBITDA. EBITDA is calculated as operating income plus depreciation and amortization of non-current assets. Impacts from IFRS 16 are excluded from leverage calculation.

Seasonality of operating cash flow

(In millions of EUR)



Free cash flow 2019

(In millions of EUR)

Cash flow breakdown

	2019	2018
Earnings before taxes	8.9	12.5
(+) Depreciation & Amortization	62.2	49.4
(+/-) Working capital	-8.0	3.1
(+/-) Other	3.8	-4.6
Operating cash flow	66.9	60.4
(-) Investing cash flow	-60.3	-48.1
Free cash flow	6.6	12.3
Gross cash end of period	54.3	62.7

Note: potential differences due to rounding

Operating cash flow

- EBT 2019 impacted by EUR 5.7m extraordinary one-off expenses
- Increase in D&A mainly due to EUR 6.5m IFRS 16 depreciation and higher R&D amortization (+EUR 4.4m)
- Working capital increased (proactive stock purchases due to Brexit and US tariffs)

Investing cash flow

- Mainly driven by EUR 10.6m increase in R&D investments
- Investments in PP&E grew by EUR 2.9m

Free cash flow impacted by restructuring expense, inventory and R&D

Guidance FY 2020

Revenues

>EUR 580m

Pro forma operating income

>5.0%

FY 2020 drivers

- Solid basis in all three technology areas and promising growth scenarios
- Successful market introduction of our FSP 3000 TeraFlex™ terminal – flexibility of our open line system (OLS) has the potential to push market dynamics further in our favor
- High NFV win rate – commercial implementation will continue to gain momentum in 2020
- Network synchronization opportunities in other verticals
- Revenue shift to later quarters due to COVID-19 expected
- Commitment to work diligently on our OPEX to improve margins

Top-line growth and expanding profitability for FY 2020



Thank you

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