



# Financial analyst presentation

Q1 2020

Q1 2020 earnings call

April 23<sup>rd</sup>, 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

# Q1 2020 in review

## Respectable financial performance despite Covid-19

- Q1 revenues up 3.5% y-o-y;
  - Deliveries above expectations; only ~EUR10m impact from Covid-19
- Profitability low, mainly due to customer mix and seasonality

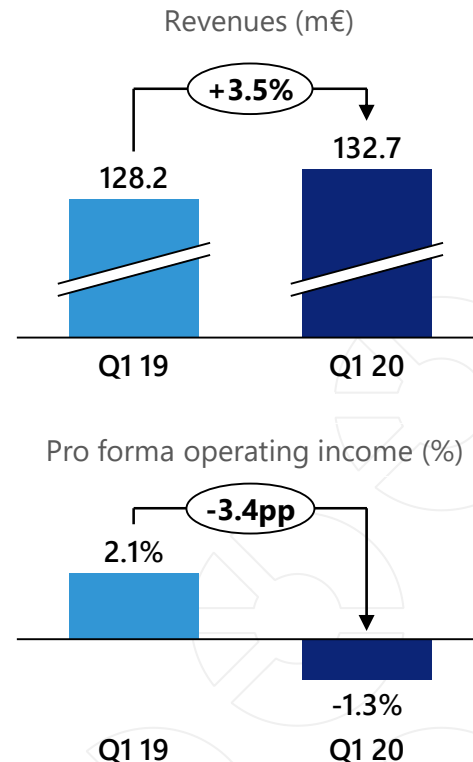
## Good customer demand and order entry

- Demand concentration around large CSPs and ICPs
- All three technology legs in line with expectations and on plan

## Further tightening of OPEX control

- Supply chain protection, revenue delays, customer mix and US dollar strength with related costs put pressure on margins

\* 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.



Good order entry – supply chain risk mitigation – financial stability

# Customer demand in times of Covid-19

## Global diverse customer base mitigates risk

### Communication service providers

- 17 of top 25 global CSPs
- 5 of top 6 global Ethernet service leaders

65%\*

- Long sales cycle (RFPs)
- + Volume
- + Longevity (stickiness)

- Network is the product, and utilization has been increasing significantly
- Early order placements to secure capacity expansion
- Expect resilient demand, but could be impacted mid-term by major recession

### Internet content provider

- 4 of top 5 global ICPs

10%\*

- Aggressive pricing
- Limited visibility and stickiness
- + Volume and growth potential

- Digital content and cloud computing facilities are the product, and cloud utilization has been increasing
- Good order entry
- Expect resilient demand, but could be impacted mid-term by major recession

### Private enterprises

- 30 of top 50 banks (revenue)

25%\*

- Limited project volume
- + Premium quality
- + Customer loyalty and trust

- Network is not the product, but part of IT infrastructure
- IT investments likely to be reviewed and delayed

*\*Approximate revenue contribution rolling four quarters*

Good order entry support from several large customers (CSP / ICP)

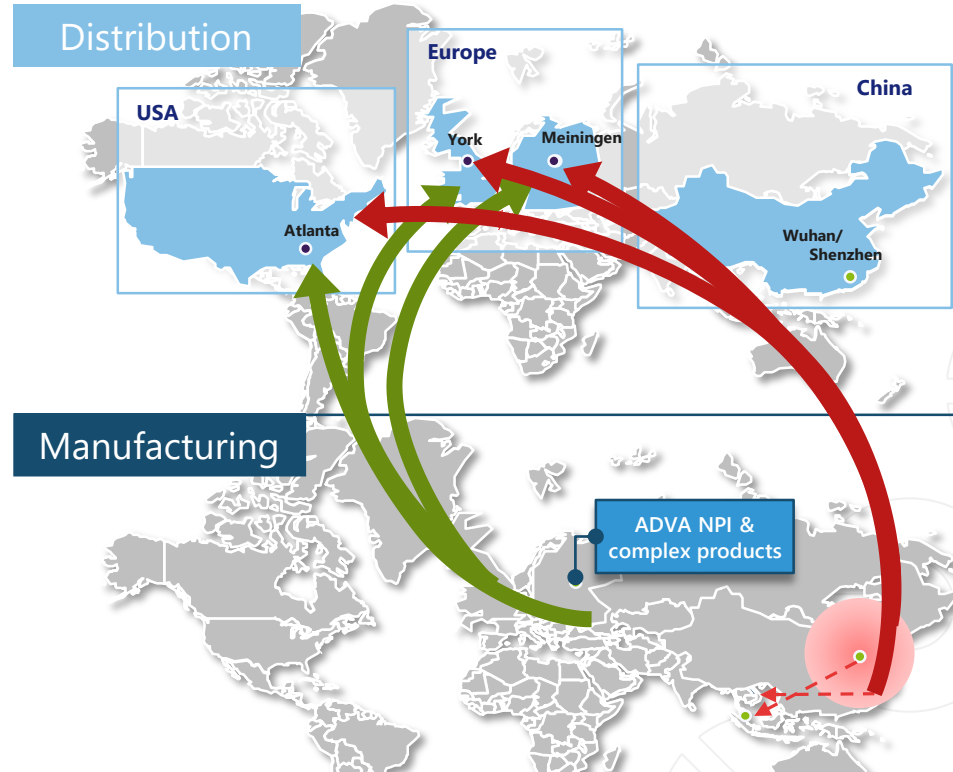
# Supply chain update in times of Covid-19

## Manufacturing

- China recovery faster than anticipated, catching up on delayed orders
- Uncertainty shifted to Europe and Southeast Asia
- Continued risk of disruption either through infection, government mandated shut down or shortages; preventative measures are being taken and contingency developed
- Asking customers to place orders early

## Distribution

- Securing through access restrictions, social distancing, disinfection and emergency operating teams
- Developing contingency plans to ship product from alternate sites



Flexibility proven very valuable – Covid-19 uncertainties remain high

# Innovation in times of Covid-19

## Cloud access

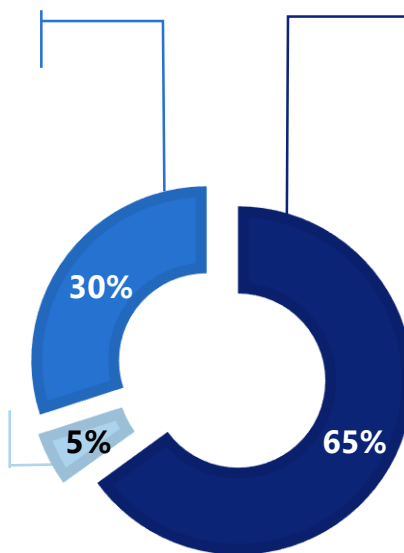
Solutions that enable CSPs to deliver software-defined, differentiated and performance-assured wholesale, mobile backhaul and business services;

- Solid demand for physical access and aggregation solutions
- Lab-testing and qualifying of innovative virtual solutions slowed down

## Network synchronization

Solutions to deliver accurate and scalable time and frequency synchronization for mobile network infrastructure, utilities, media distribution networks, financial services, distributed data bases and meteorology;

- CSP demand for precise timing continues
- Expansion into new verticals at slower pace



*Approximate revenue contribution rolling four quarters*

## Cloud interconnect

Solutions that deliver scalable bandwidth for access, metro and long-haul networks; high levels of open interworking, programmability and ease-of-use;

- Solid demand from CSPs and ICPs to scale network and cloud capacity
- Number of TeraFlex customers keeps growing
- Launched innovative "Spectrum as a Service" capabilities, creating a new level of openness
- Launch of G.metro product for new generation of 5G front-haul

ADVA technology – supporting some of the world's most critical network infrastructures



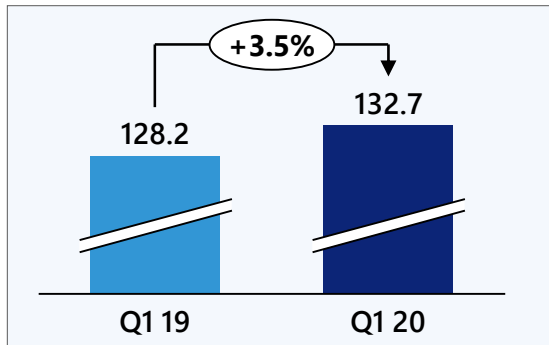
# Financial performance

Ulrich Dopfer, CFO

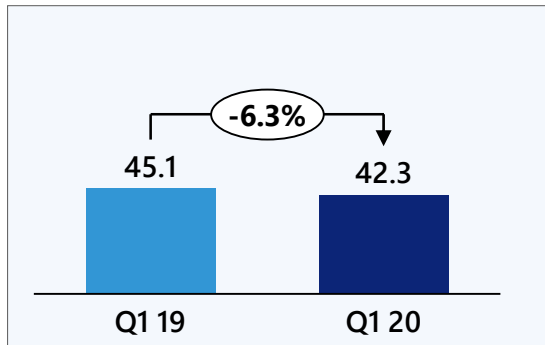


# Q1 2020 key financials

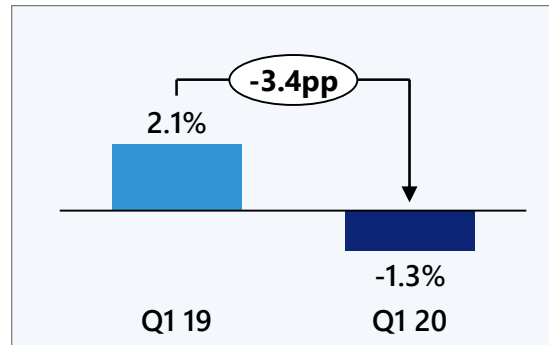
Revenues (m€)



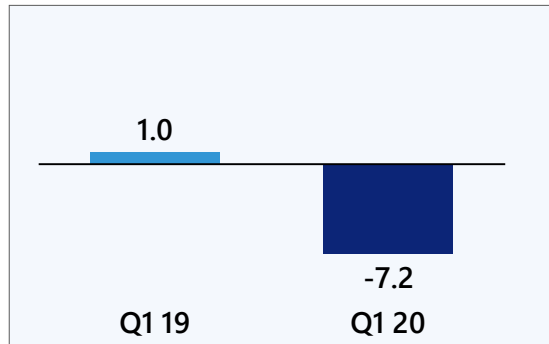
Pro forma gross profit (m€)



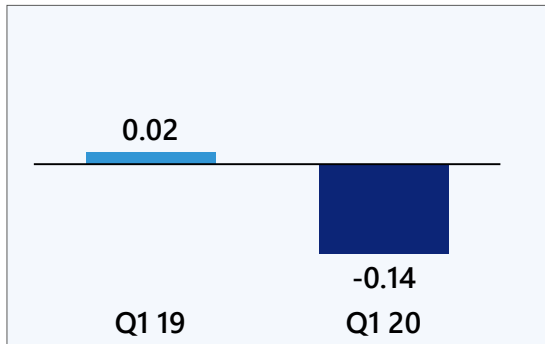
Pro forma operating income (%)



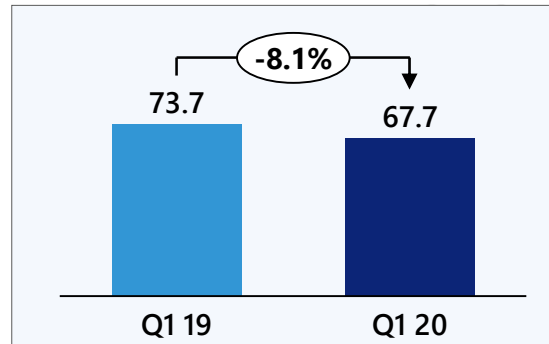
Net income (m€)



Diluted EPS (€)

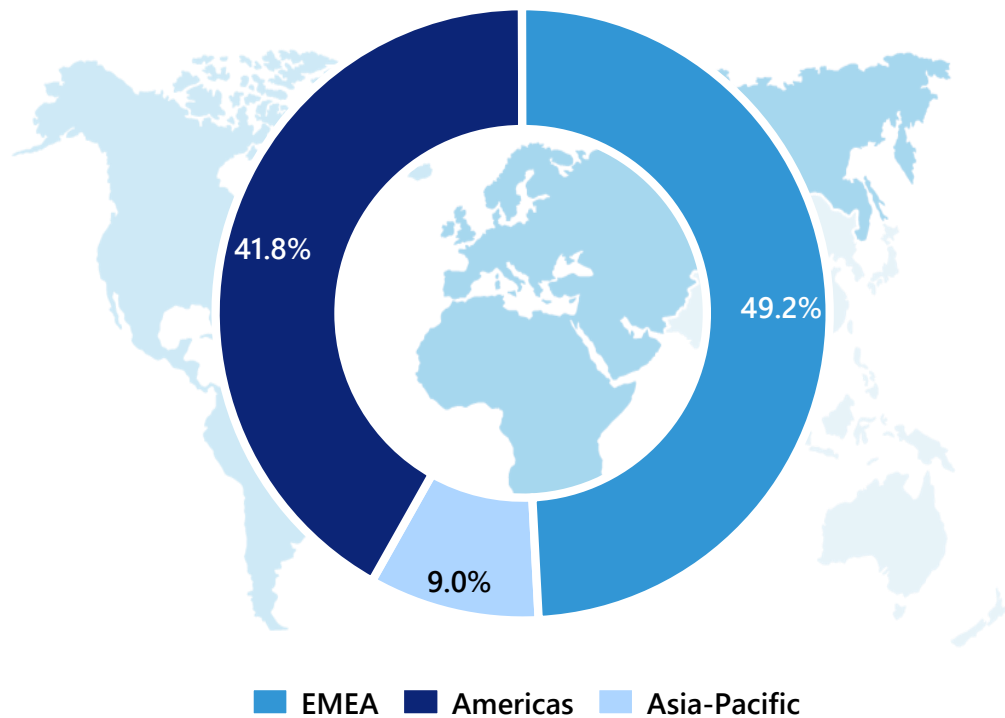


Net debt (m€)\*



\*Note: Net debt Q1 2020 includes EUR 32.5 million lease liabilities due to IFRS 16

# Q1 revenues per region



vs. Q1 2019

↓ EMEA  
- 4.4%

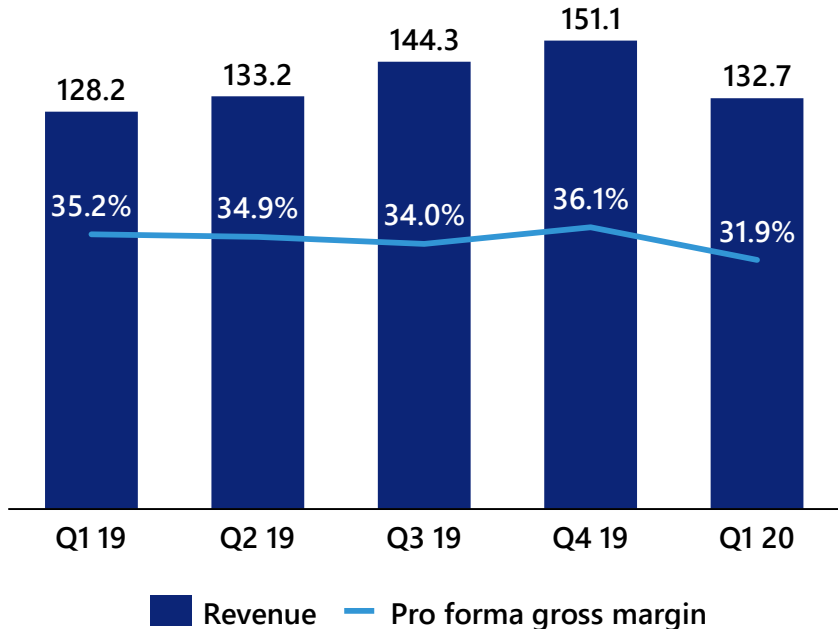
↑ Americas  
+ 14.9%

↑ Asia-Pacific  
+ 3.1%

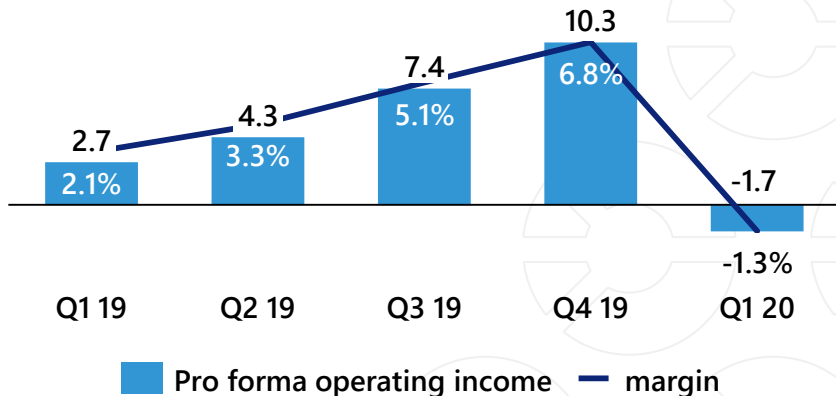
# Quarterly revenue and pro forma profitability

(in millions of EUR, in % of revenues)

## Revenue & Pro forma gross margin



## Pro forma operating income & margin

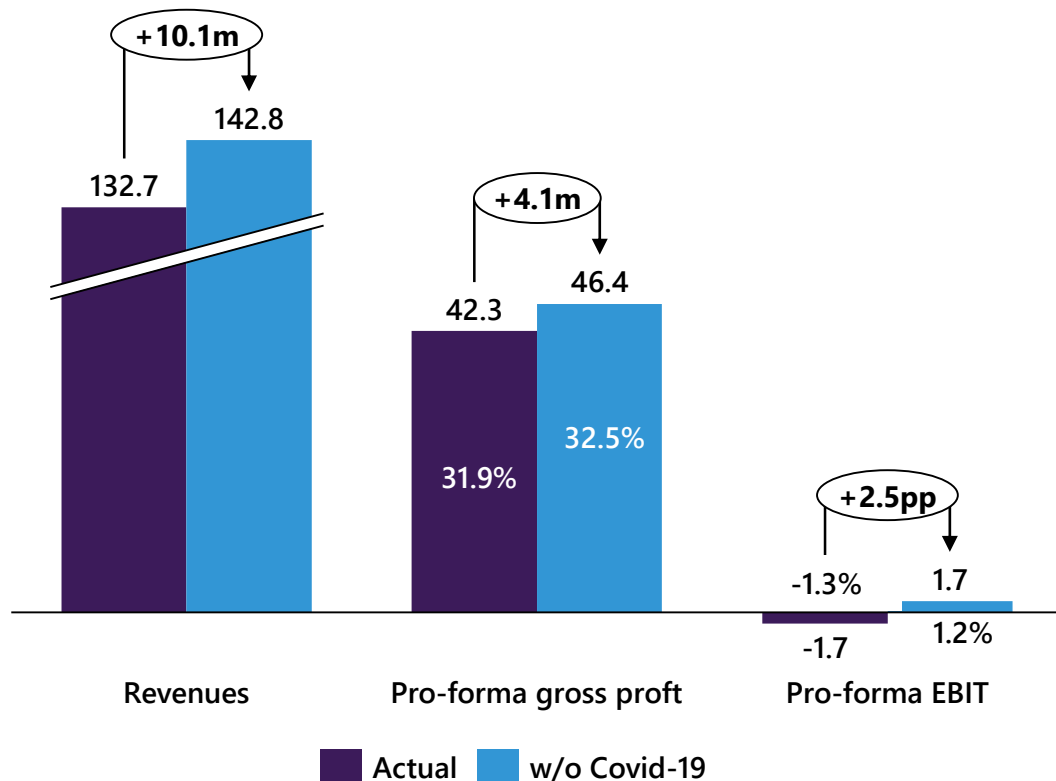


\* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

# Covid-19 impact on Q1 2020

(in millions of EUR, in % of revenues)

Key figures actual vs. w/o Covid-19



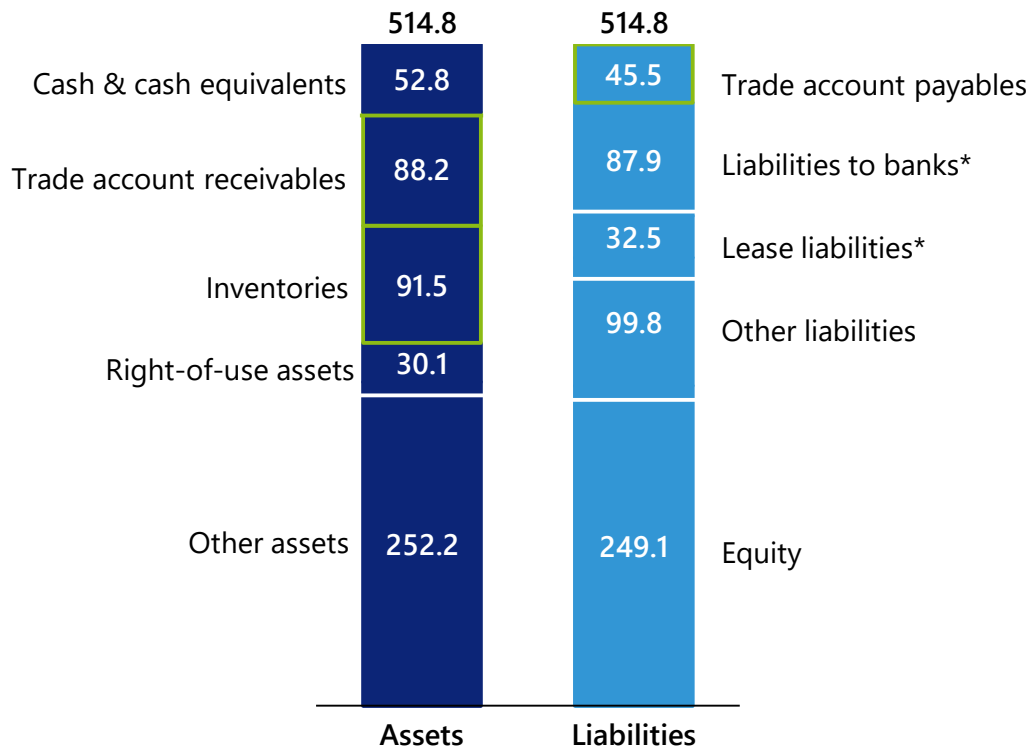
## Comment

- Only EUR 10.1m revenue shift due to Wuhan lockdown at the lower end of our expectations.
- Gross margin consequently impacted by EUR 4.1m.
- OPEX savings of EUR 0.7m.
- Covid-19 adjusted pro-forma EBIT would have been at positive EUR 1.7m or 1.2% of revenues.



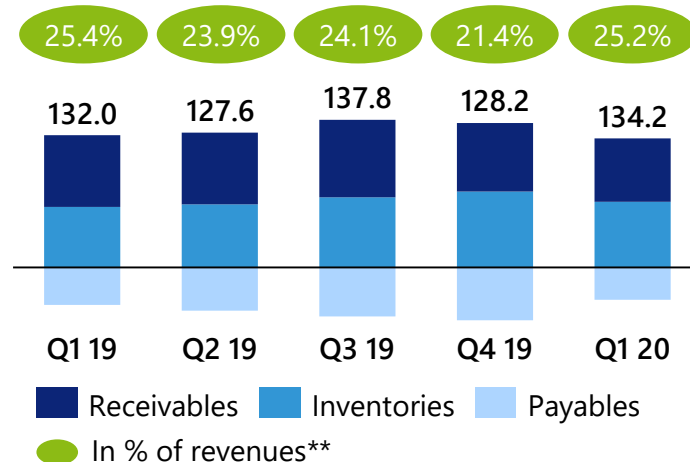
# Healthy balance sheet metrics

(In millions of EUR)



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

## Working capital development



Equity ratio

48.4%

Leverage\*\*\*  
LTM

1.4x

ROCE  
YTD

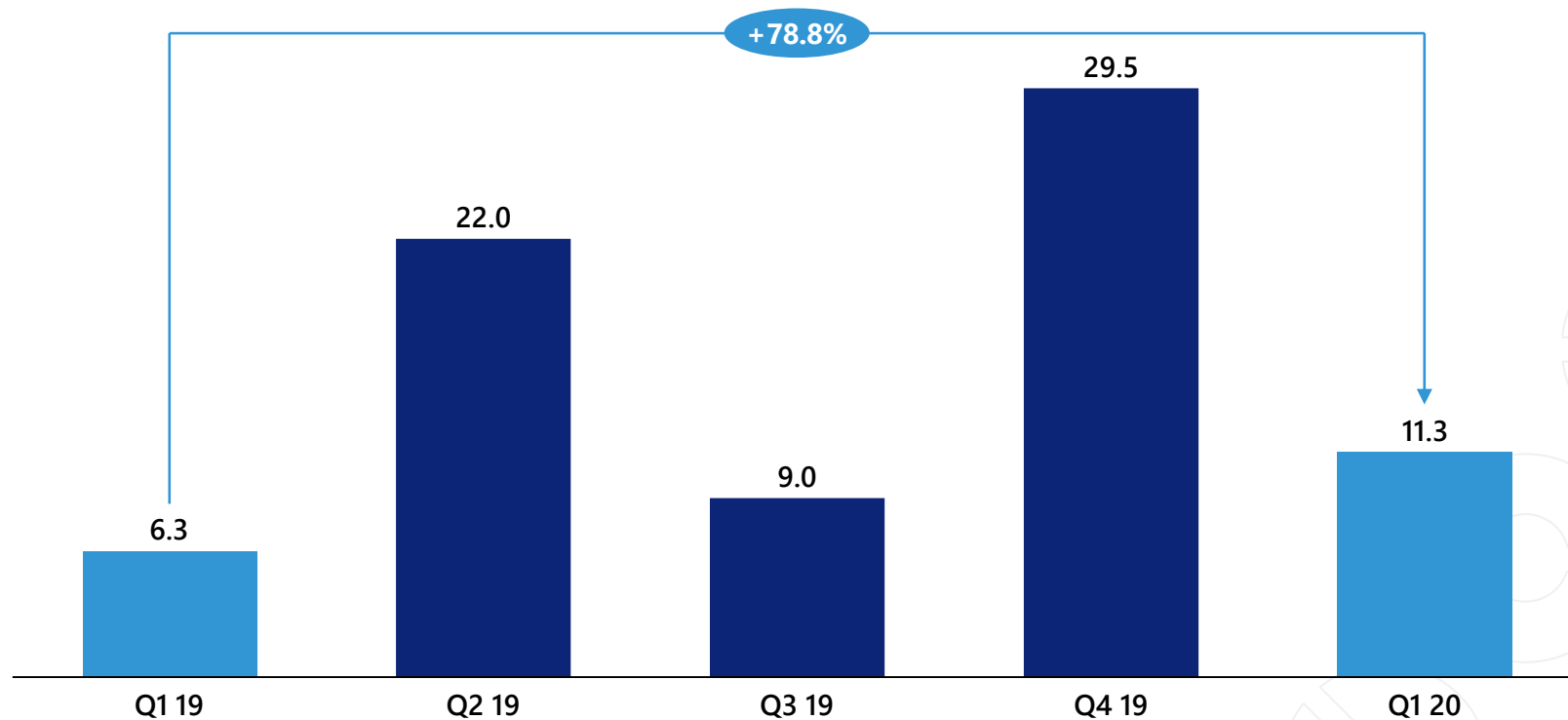
-4.3%

\*\* Calculated on a quarterly basis

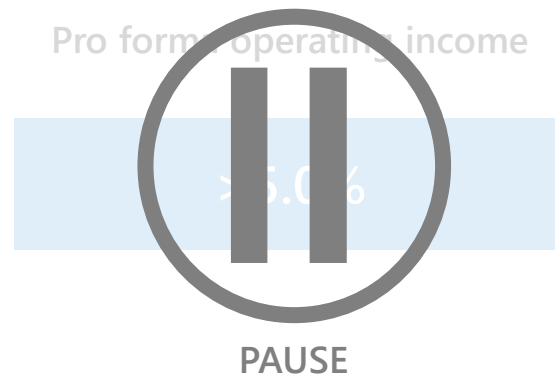
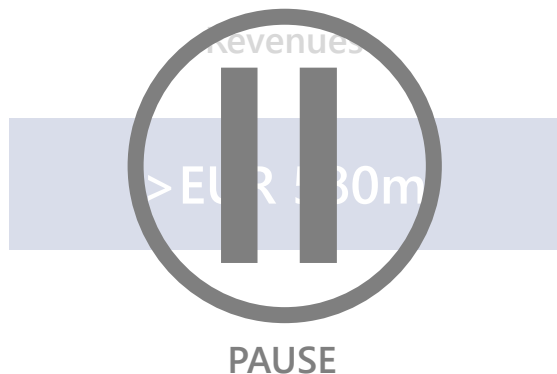
\*\*\* Leverage is calculated as total bank debt divided by EBITDA. EBITDA is calculated as operating income plus depreciation and amortization of non-current assets. Impacts from IFRS 16 are excluded from leverage calculation.

# Seasonality of operating cash flow

(In millions of EUR)



# Guidance FY 2020



## Comment

- Order backlog encouraging
- However, uncertainties and business risks significantly increased since last guidance on February 20, 2020.
- Supply chain constraints or recession driven drop in demand are the main risk areas resulting from Covid-19.
- Due to the current uncertainties about the further course of the crisis and its effects on ADVA's business, management decided to withdraw the previous guidance for the 2020 financial year.
- Originally, the company had expected increasing revenues to more than EUR 580 million with pro forma operating income to exceed 5% of revenues.

Guidance FY 2020 withdrawn until further notice



# Thank you

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