



# Financial analyst presentation

Q2 2020

Q2 2020 earnings call

July 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 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 and opportunity 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

# Q2 2020 in review

## Positive financial performance despite Covid-19 pandemic

- Q2 revenues EUR 145.0m up 9.3% sequentially and 8.9% y-o-y;
  - Covid-19 related revenue deferral to following quarter c. EUR 15m compared to c. EUR 10m in Q1
  - Profitability and net debt significantly improved
  - Customer mix still biased towards lower margin business

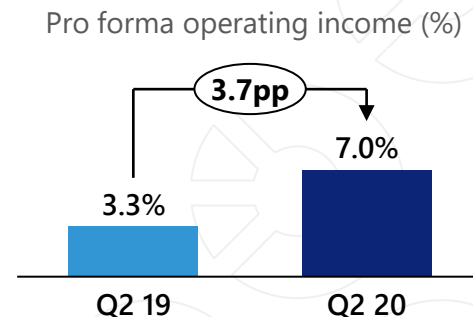
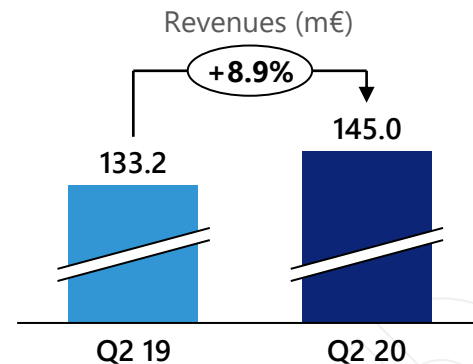
## Steady customer demand and order entry

- Demand concentration around large CSPs and ICPs
- Optical networking and synchronization technologies lead

## Strict OPEX discipline

- Positive impact from 2019 cost improvement program, less travel and weaker US Dollar
- Supply chain challenges and revenue delays increased costs

\* 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.



Steady demand – 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%\*



Q2 trend

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

- Network is the product, and utilization has been increasing significantly
- Resilient demand continued, but could be impacted mid-term by recession

### Internet content provider

- 4 of top 5 global ICPs

10%\*



Q2 trend

- 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
- Resilient demand continued, but could be impacted mid-term by recession

### Private enterprises

- 30 of top 50 banks (revenue)

25%\*



Q2 trend

- 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*

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

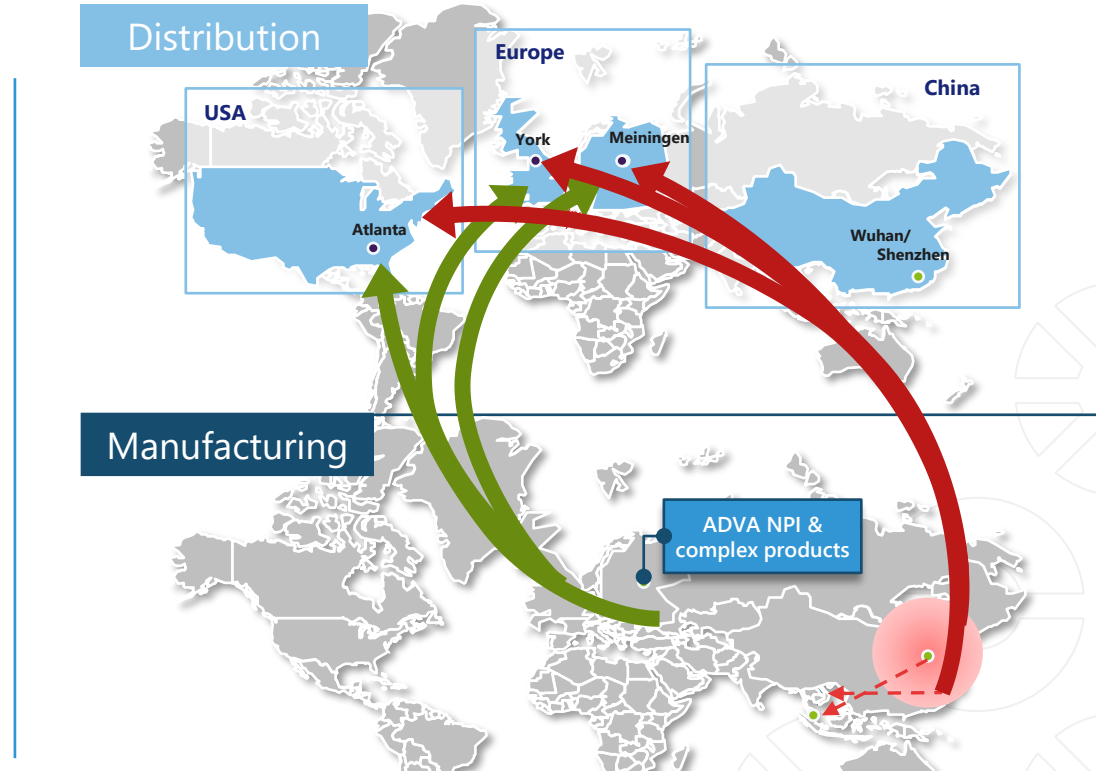
# Supply chain update in times of Covid-19

## EMS partners

- Wuhan and China mostly normalized, catching up on delayed orders, other regions still struggling
- Continued risk of disruption either through infection, government mandated shut down or shortages;
- Preventative measures are being taken and contingency developed

## ADVA

- Approx. 80% of staff working from home – productivity high
- Securing sites through access restrictions, social distancing, disinfection and emergency operating teams



Flexibility in our supply chain proven very valuable – 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;

- Some impact due to slowdown in demand for physical access and aggregation solutions
- Testing, qualifying and implementing of new virtual solutions continues to be slow

## Network synchronization

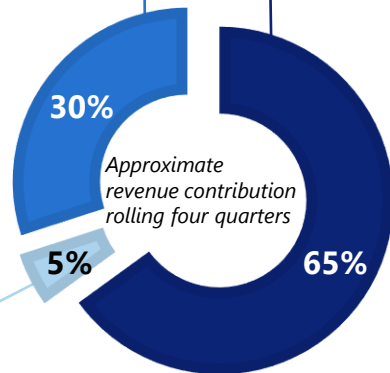
Solutions to deliver accurate and scalable time and frequency synchronization for mobile network infrastructure, utilities, media distribution networks, financial services, distributed data bases and meteorology;

- CSP demand for precision timing continues
- Expansion into new verticals looks promising

## 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 customer wins > 15 and growing



### Spotlight on synchronization

- ADVA upgrades timing technology to provide risk-free route to 5G
- ADVA's Oscilloquartz portfolio enables seamless transition to PTP for power utilities
- ADVA launched the industry's first ePRC optical cesium atomic clock solution, protecting networks from costly and dangerous interruptions to satellite signals

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

# Recent wins and success stories

... Finnish University and Research Network, has transported 400Gbit/s 2,844km over its existing long-haul network using the ADVA FSP 3000 TeraFlex™

Telstra Wholesale deploys ADVA technology in Australian-first Ethernet service

Zenlayer is deploying FSP 3000 technology to address some of the world's biggest gaming, cloud computing and social media companies

ADVA brings post-quantum security to packet networks via FSP 150 ConnectGuard™ to protect VPNs from quantum computer attacks in pioneering research project

Central Bank of Austria leverages ADVA FSP 3000 for secure high-speed connectivity

dacoso protects managed services with ADVA's virtualized encryption technology ConnectGuard™

WiTCOM deploys ADVA's NFV hosting platform and 6WIND vRouter in open public IoT network

Türk Telekom upgrades its synchronization network with ADVA's high-performance cesium clocks

Cloud interconnect

Cloud access

Network synchronization

Innovation secures future growth and profitability

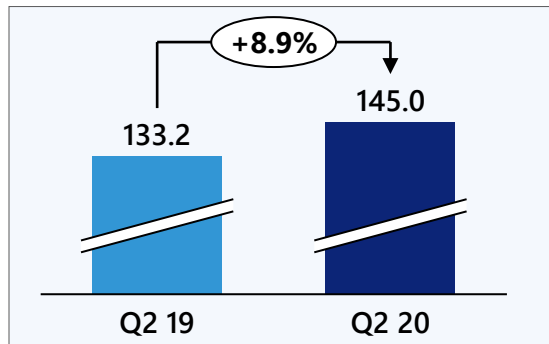


# Financial performance

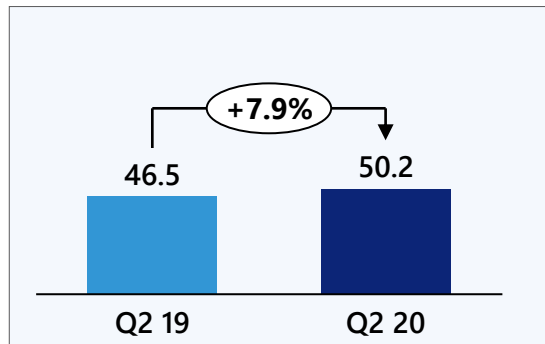
Ulrich Dopfer, CFO

# Q2 2020 key financials

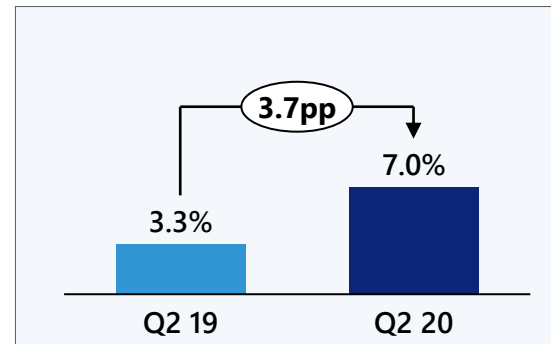
Revenues (m€)



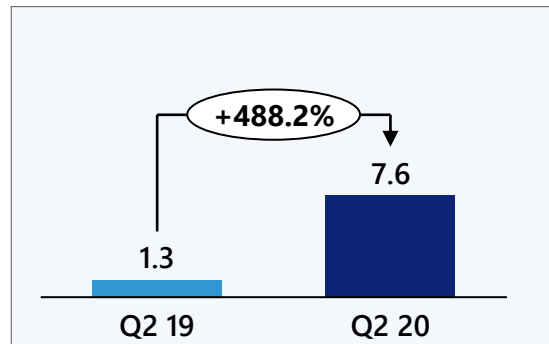
Pro forma gross profit (m€)



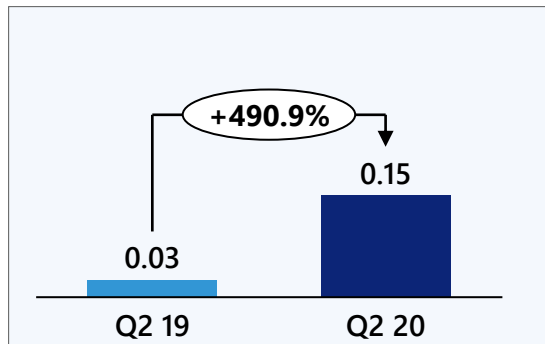
Pro forma operating income (%)



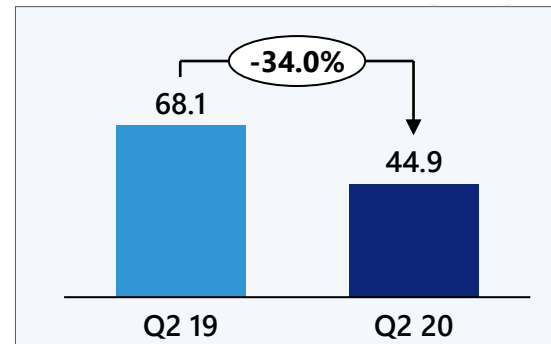
Net income (m€)



Diluted EPS (€)

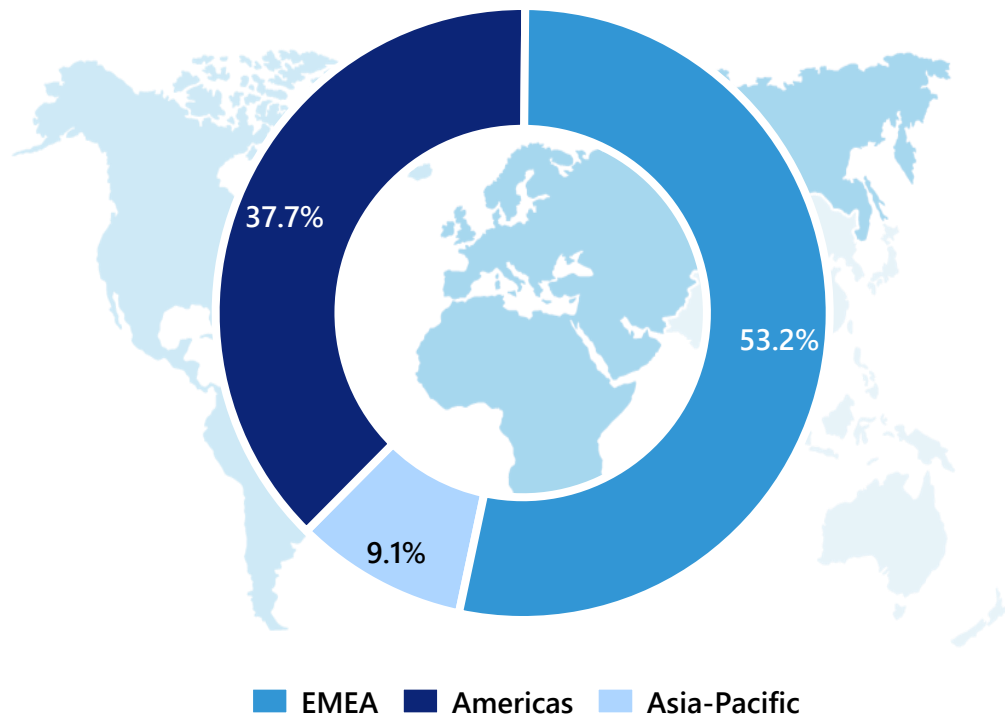


Net debt (m€)\*



\*Note: Net debt Q2 2020 includes EUR 30.7 million lease liabilities due to IFRS 16

# Q2 revenues per region



vs. Q2 2019

↑ EMEA  
+ 8.2%

↑ Americas  
+ 5.0%

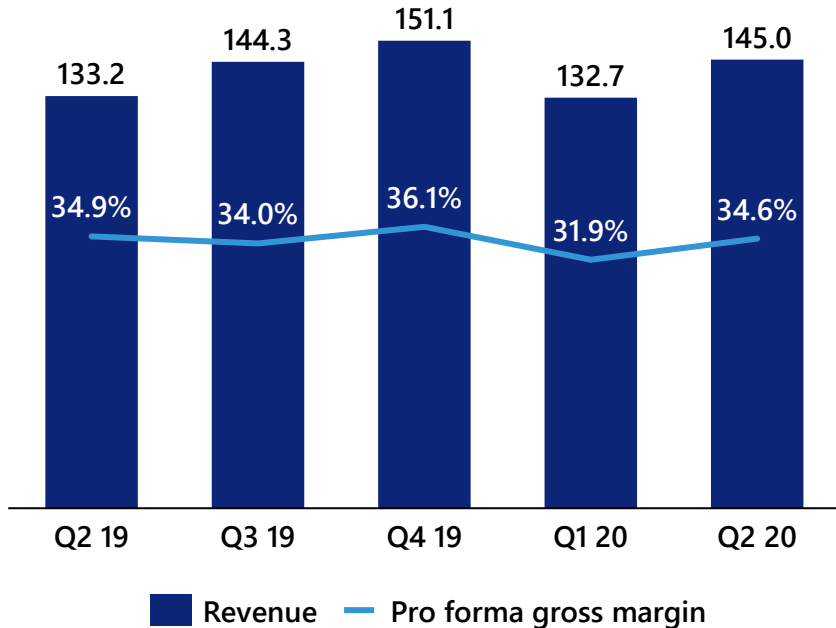
↑ Asia-Pacific  
+ 34.2%



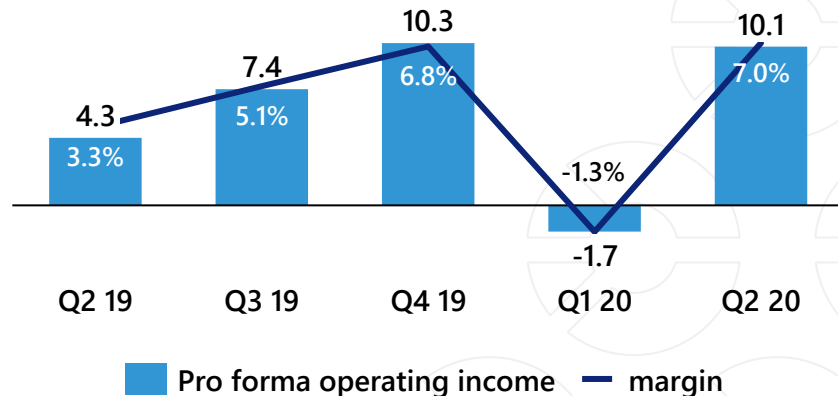
# Quarterly revenue and pro forma profitability

(in millions of EUR, in % of revenues)

## Revenue & Pro forma gross margin



## Pro forma operating income & margin

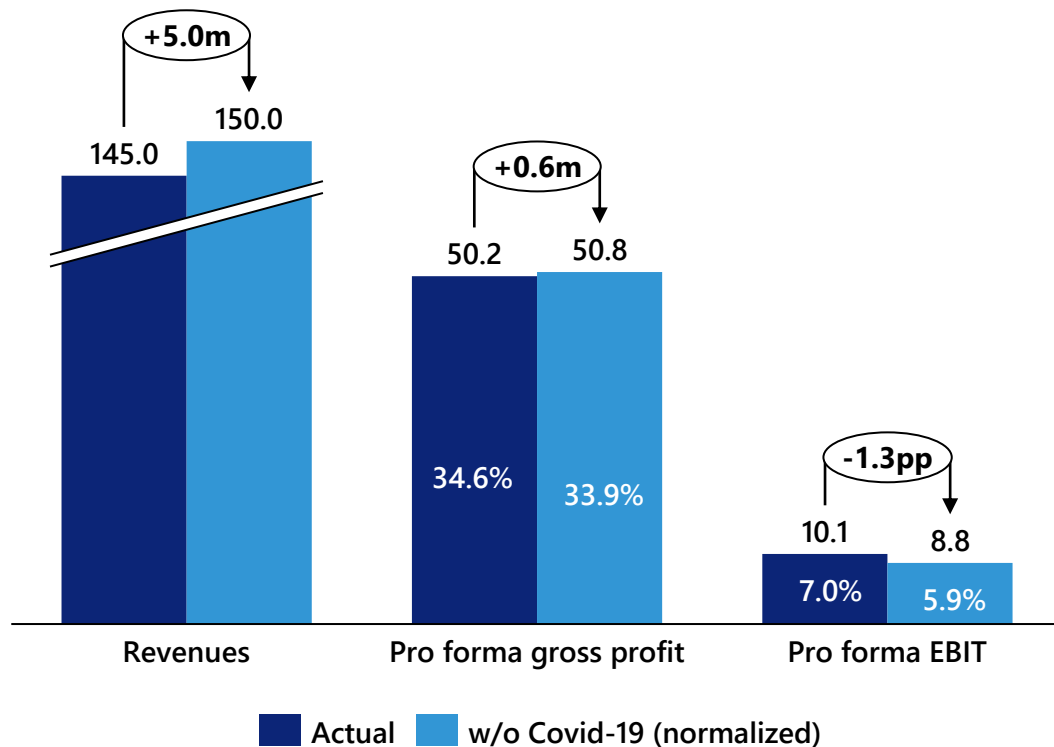


\* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

# Covid-19 impact on Q2 2020

(in millions of EUR, in % of revenues)

Key figures actual vs. w/o Covid-19



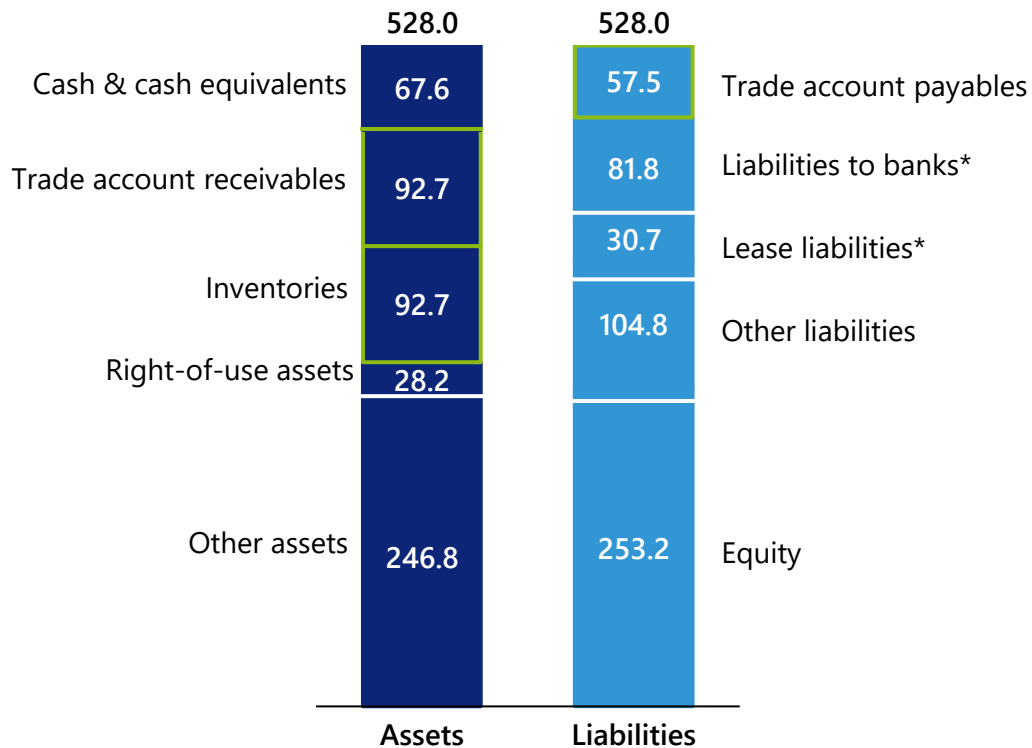
## Comment

- Revenue effect in Q2 2020 of c. EUR 15m partially offset by c. EUR 10m revenue deferral from Q1 to Q2
- Lower gross margin in normalized scenario due to changed customer mix
- OPEX savings due to Covid-19 were c. EUR 1.9m
- Normalized pro-forma EBIT at EUR 8.8m or 5.9% of revenues and is still 2.6pp up y-o-y

Covid-19 impacting our financials is part of the "new normal"

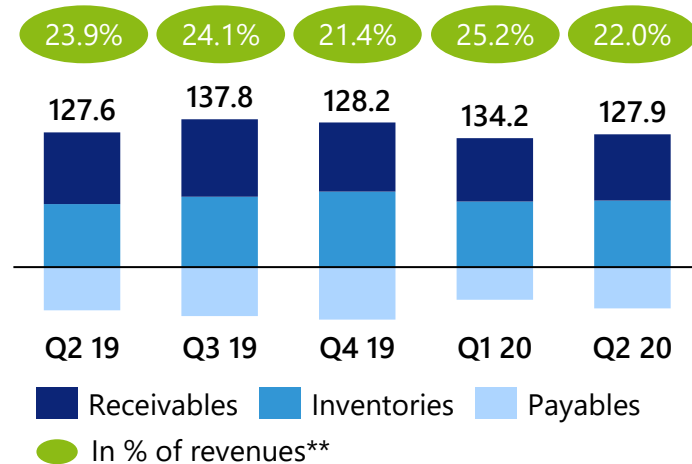
# Healthy balance sheet metrics

(In millions of EUR)



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

## Working capital development



Equity ratio

48.0%

Leverage\*\*\*  
LTM

1.1x

ROCE  
YTD

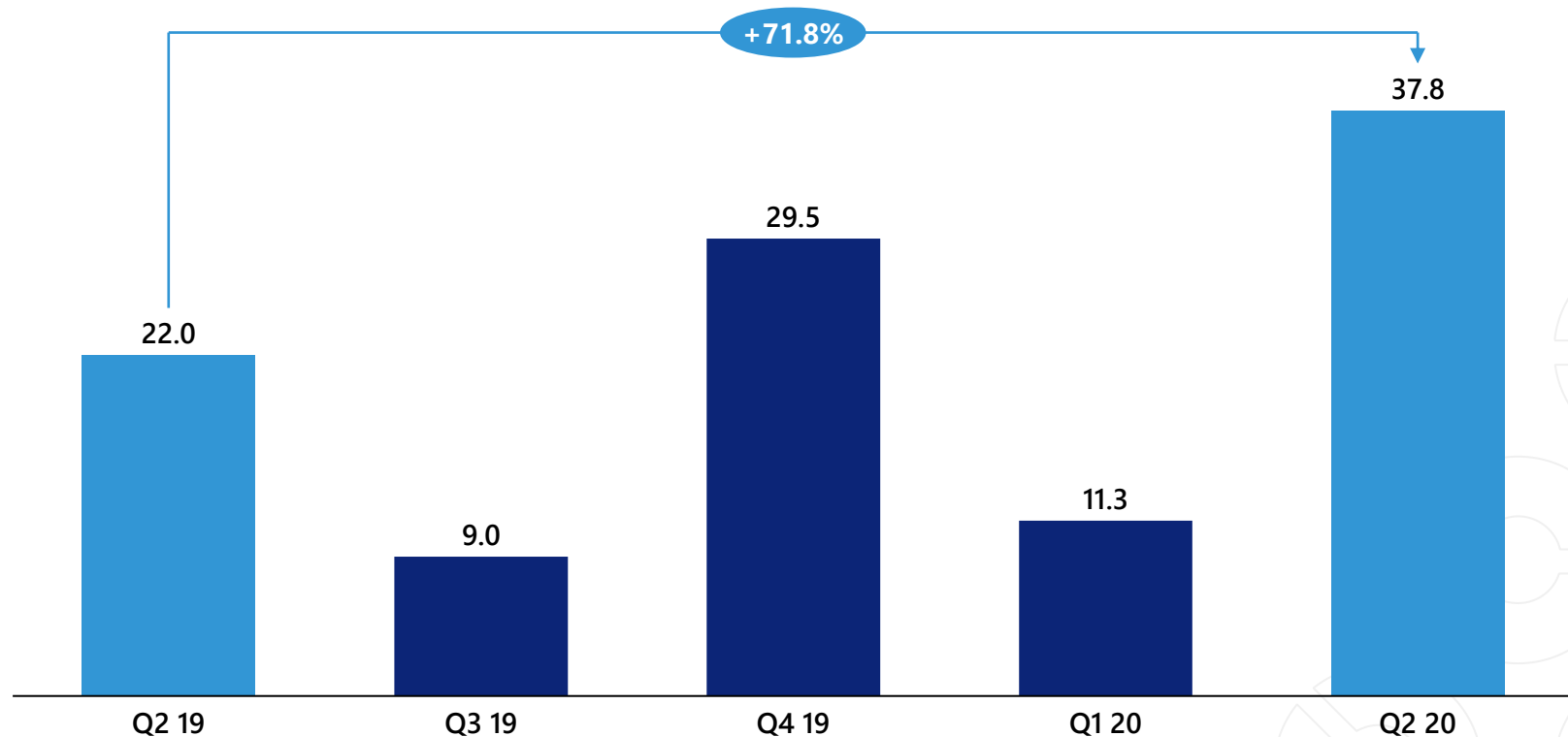
2.5%

\*\* Calculated on a quarterly basis

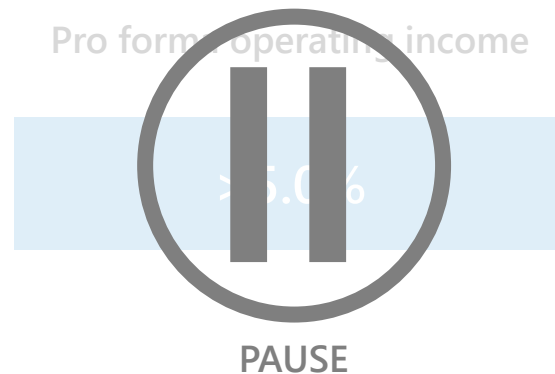
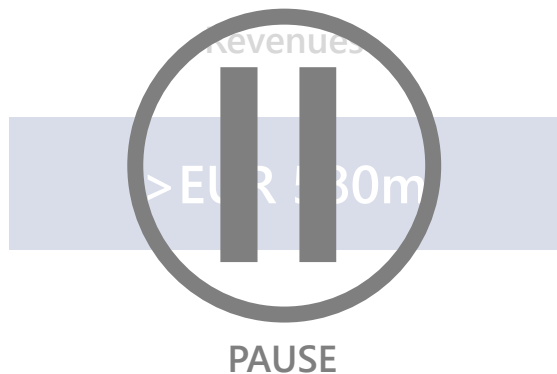
\*\*\* Leverage is calculated as total bank debt divided by EBITDA. EBITDA is calculated as operating income plus depreciation and amortization of non-current assets. Impacts from IFRS 16 are excluded from leverage calculation.

# Seasonality of operating cash flow

(In millions of EUR)



# Guidance FY 2020



## Comment

- Order backlog strong but uncertainties and business risks continue to be high.
- Supply chain constraints and 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 will not issue new 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.

The management board will not issue a new guidance for FY 2020





# Thank you

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