



Open edge  
networking



Quarterly statement  
9M 2020

## LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates,

Political and economic events continue to be significantly influenced by the global Covid-19 pandemic. The latest news of a second wave with infection rates again increasing in many countries is worrying. Following the relaxation of preventive measures over the summer months there is now the threat of renewed tightening of lockdown regulations with disruption to people's lives and businesses' operational processes in many places.

While many industries are now struggling for economic survival, the topic of information and communications technology (ICT) is increasingly becoming the focus of political discussion. The current crisis shows how important an efficient and robust telecommunications infrastructure is for the functioning of an increasingly digital economy. In addition, the positive impact of lockdowns on the environment makes it clear that ICT has a crucial role to play in combating climate change. Reducing climate-damaging greenhouse gases (de-carbonization) and lessening global dependencies in our value chain (de-globalization) have emerged as key issues for the future. For us as an innovative telecommunications supplier, these developments bring new opportunities as well as some challenges.

### **De-globalization and stability in supply chains**

As early as 2019, we had already shifted part of our value creation out of China in response to US trade policy. These measures were costly, but they gave us additional flexibility and agility and made us less vulnerable to regional lockdown regulations. Despite various bottlenecks and challenges in parts of our production and supply chains, we have managed to fully service all orders, although sometimes with delays. We are confident that we will continue to successfully overcome the challenges on the supply side and deliver innovative solutions to our customers on time and with the highest quality.

### **Demand uneven but overall positive**

Demand for our products and services has been pleasingly robust in the first nine months of the fiscal year to date although a bit slower in the past quarter. The third quarter is always subject to the influences of the vacation season with a slowdown in business activity in July and August. However, there were no exceptional swings in the year-on-year comparison. Order entry from our largest customer group, communication service providers, continues to be satisfactory. Especially in Europe, where network expansion has traditionally been strongly geared to current demand, further investments and upgrades are being made to adequately support the new data streams for home office, video conferencing and streaming services, while at the same time laying the foundations for 5G. We are somewhat cautious about our business with large enterprise customers. In some industries, economic uncertainty is leading to a slowdown in IT investments.

### **Profitable growth and stability**

Having already delivered very positive figures in the second quarter, we were able to further increase both revenue and profitability in Q3. Once again, we were able to demonstrate that our solutions are very competitive and have won numerous new customers. This expansion of our footprint in the global network infrastructure is of long-term importance. Our active cost management, reduced travel as well as a comparatively weaker US dollar, provide additional positive effects. We are generating cash and have reduced our net debt significantly. Thus, we feel very well prepared to master the challenges ahead.

## Outlook

While the financial markets remain volatile, our attention is primarily focused on the development of the global economy. Our industry has historically been quite robust against fluctuations in the various sectors of the economy, as demand for bandwidth keeps growing. However, our network operator customers, in particular, cannot completely decouple themselves from what is happening in the real economy, and in some cases are confronted with a weakening of demand for modern telecommunications services. Overall, however, the environment for ADVA remains largely positive. The increased risks posed by Covid-19 are offset by new opportunities arising from an acceleration of digitization, the roll-out of 5G and de-globalization.

Our industry is system-relevant and an essential pillar for maintaining communication and economic processes. We are aware of this responsibility and will continue to do everything to protect our employees and invest all our energy and creativity in innovative solutions for the benefit of our customers, partners and shareholders.

October 20, 2020

A handwritten signature in black ink, appearing to read 'B. Protiva', with a stylized flourish at the end.

Brian Protiva

Chief executive officer

## IFRS FINANCIAL HIGHLIGHTS 9M 2020

### Income statement

(in thousands of EUR, except earnings per share and ratios)	Q3 2020	Q3 2019	Change	9M 2020	9M 2019	Change
Revenues	146,676	144,310	2%	424,386	405,686	5%
Pro forma operating income (loss) *)	11,053	7,393	50%	19,489	14,478	35%
Pro forma operating margin in %	7.5%	5.1%	2.4pp	4.6%	3.6%	1.0pp
Operating income (loss)	9,768	3,200	205%	14,388	6,565	119%
Operating margin in %	6.7%	2.2%	4.5pp	3.4%	1.6%	1.8pp
Net income (loss)	6,671	2,190	205%	7,065	4,523	56%
Diluted earnings per share in EUR	0.13	0.04	225%	0.14	0.09	56%

### Cash flow statement

(in thousands of EUR)	Q3 2020	Q3 2019	Change	9M 2020	9M 2019	Change
Cash flow from operating activities	25,065	9,015	178%	74,181	37,345	99%
Cash flow from investing activities	-13,859	-14,958	-7%	-45,800	-45,111	2%

### Balance sheet and financial ratios

(in thousands of EUR)	Sep. 30, 2020	Dec. 31, 2019	Change
Liabilities to banks	73,744	80,979	-9%
Leverage last-twelve-months *)	1.0	1.2	-17%
Lease liabilities	29,558	34,430	-14%
Financial debt	103,302	115,409	-10%
Cash and cash equivalents	68,293	54,263	26%
Net debt *)	35,009	61,146	-43%
Net working capital *)	124,043	128,150	-3%
Equity	256,935	255,792	0%
Equity ratio in %	49.3%	47.7%	1.6pp
Capital Employed *)	375,093	366,462	3%
ROCE in % *)	5.1%	3.3%	1.8pp

### Employees

(at period end)	Sep. 30, 2020	Dec. 31, 2019	Change
	1,878	1,903	-1%

\*) The four key performance indicators and other ratios are defined in the glossary at the end of this document.

# RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

## Business development and operational performance

### Revenues

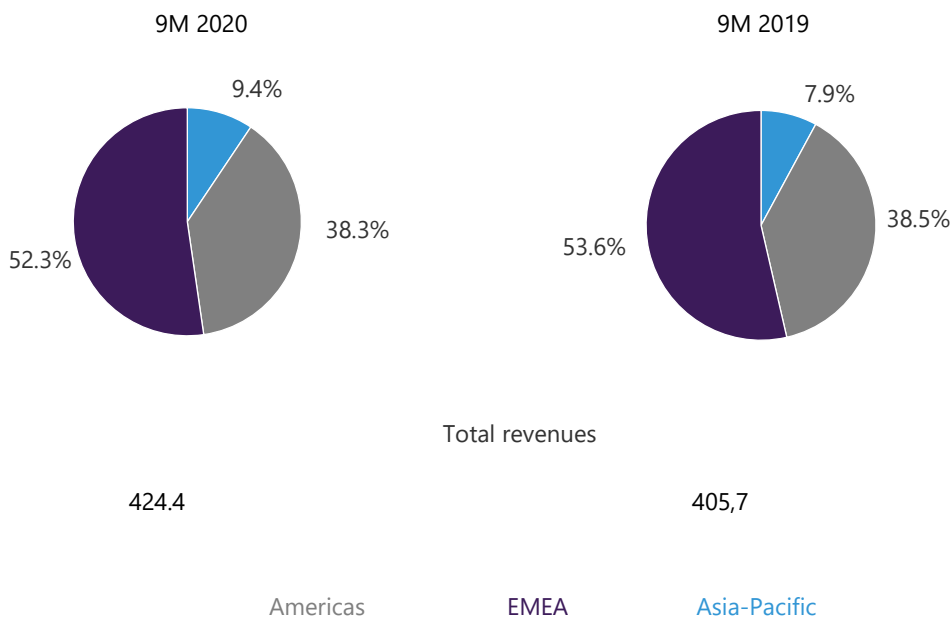
Revenues represent one of the four key performance indicators for ADVA. The group's revenues in 9M 2020 amounted to EUR 424.4 million and were EUR 18.7 million or 4.6% above revenues of EUR 405.7 million in 9M 2019. Compared to revenues of EUR 145.0 million in Q2 2020, revenues in Q3 2020 slightly increased by 1.1%. The increase in revenues is driven by continued strong demand from major communication service providers (CSPs) and the internet content providers (ICPs).

In 9M 2020, EMEA (Europe, the Middle East and Africa) was once again the most important sales region, followed by

Americas and Asia-Pacific. Year-on-year, sales in EMEA increased to EUR 221.9 million in 9M 2020 compared to EUR 217.5 million in 9M 2019. However, the share of total sales slightly decreased to 52.3% after 53.6% reported in 9M 2019. In Europe, ADVA can rely on a very mature partner landscape, a positive market perception and achieves good results due to a broad and loyal customer base. Revenues in Americas increased by 4.3% from EUR 156.0 million in 9M 2019 to EUR 162.6 million in 9M 2020. Like in the EMEA region, business with CSPs and ICPs developed well. In the Asia-Pacific region, sales improved to EUR 39.9 million in 9M 2020 compared to EUR 32.2 million in 9M 2019. The region is typically predominated by project-based business, leading to greater fluctuations in individual quarters. But also in APAC the contribution of CSPs has been relatively high in the last nine months, and in the past quarter the demand for network synchronization solutions was particularly strong.

### Revenues by region

(in millions of EUR and relative to total revenues)



## Results of operations

Cost of goods sold increased by EUR 13.8 million to EUR 281.9 million in 9M 2020 mainly in line with increased revenues. In 9M 2020, cost of goods sold included EUR 26.8 million (9M 2019: EUR 23.9 million) of amortization of capitalized development projects.

Gross profit increased from EUR 137.5 million in 9M 2019 to EUR 142.5 million in 9M 2020, with gross margins however slightly declining to 33.6% in 9M 2020 after 33.9% in 9M 2019. The improvement of the gross profit in 9M 2020 compared to 9M 2019 results from increased revenues, whereas the decline in gross margin is due to a change in the customer and product mix.

ADVA's operating income improved significantly by EUR 7.8 million to a positive EUR 14.4 million in 9M 2020, mainly driven by higher gross profit paired with a decrease in operating costs from EUR 131.0 million in 9M 2019 to EUR 128.1 million in the current quarter.

Within operating costs, sales and marketing expenses in 9M 2020 of EUR 46.8 million were below the prior-year number of EUR 52.7 million. They amounted to 11.0% and 13.0% of revenues and thus decreased compared to revenue development.

General and administrative expenses of EUR 26.7 million in 9M 2020 slightly increased from EUR 26.2 million in 9M 2019 and amounted to 6.3% and 6.5% of revenues, respectively.

At EUR 55.8 million in 9M 2020, R&D expenses were at the same level as the EUR 55.7 million seen in 9M 2019, comprising 13.1% and 13.7% of revenues, respectively. Gross R&D expenses at EUR 88.1 million in 9M 2020 were slightly below the EUR 88.4 million reported in 9M 2019, while income from capitalization of development expenses decreased from EUR 32.7 million in 9M 2019 to EUR 32.3 million in 9M 2020. The capitalization rate in 9M 2020 amounted to 36.7%, down from 37.0% reported in 9M 2019.

ADVA's research and development activities are driven by the distinct emphasis on differentiating its innovative connectivity solutions for cloud and mobile services and working with customers and partners to identify and meet their current and future needs. The resulting key technologies and products simplify complicated existing network structures and supplement existing solutions.

Pro forma operating income represents one of the four key performance indicators for ADVA. As pro forma operating income excludes non-cash charges related to stock compensation and business combinations as well as non-recurring expenses related to restructuring measures, the management board of ADVA believes that pro forma operating income is a more appropriate measure than operating income when benchmarking the group's operational performance against other telecommunications equipment providers. In 9M 2020, ADVA reported a pro forma operating income of EUR 19.5 million after a pro forma operating income of EUR 14.5 million in 9M 2019, representing positive 4.6% and positive 3.6% of revenues, respectively.

Beyond the operating result net income is impacted by net interest expenses of EUR 2.0 million (9M 2019: EUR 1.7 million), which includes interest effects from lease accounting of EUR 0.7 million (9M 2019: EUR 0.9 million). Furthermore, net financial losses of EUR 1.7 million (9M 2019: net financial gains of EUR 1.5 million) related to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 9M 2020.

In 9M 2020, the group reported an income tax expense of EUR 3.6 million after an income tax expense of EUR 1.8 million in 9M 2019. In both periods income tax effects result from the application of the expected tax rate to the relevant income before tax of the respective entity of the ADVA group.

## Summary: Business development and operational performance

In 9M 2020, ADVA reported increased revenues while gross margin at the same time slightly declined. Predominantly due to the positive development of the operating result in 9M 2020, a net income of EUR 7.1 million was achieved in the current period after a net income of EUR 4.5 million in 9M 2019, despite the inclusion of a negative financial result and an increased tax expense.

## Net assets and financial position

### Balance sheet structure

ADVA's total assets decreased by EUR 15.8 million from EUR 536.4 million at the end of 2019 to EUR 520.6 million at the end of September 2020 mainly due to the decline in inventories, trade accounts receivable as well as capitalized right of use assets from rental and lease agreements and property, plant and equipment.

At EUR 261.7 million at the end of 9M 2020, current assets were EUR 7.5 million lower than the corresponding figure of EUR 269.2 million at the end of 2019, accounting for 50.3% and 50.2% of the balance sheet total, respectively, at these reporting dates. The decrease in current assets was mainly driven by the strong decrease in inventories from EUR 105.4 million at December 31, 2019 to EUR 93.0 million at the end of 9M 2020, with inventory turns slightly declining to 3.9 in 9M 2020 after 4.0 in 12M 2019. Moreover, trade accounts receivable decreased from EUR 96.2 million at the end of 2019 to EUR 88.2 million at the end of 9M 2020. The average days sales outstanding decreased from 66 days in 12M 2019 to 59 days in 9M 2020.

Non-current assets decreased to EUR 258.9 million at the end of 9M 2020 from EUR 267.1 million at year-end 2019, mainly due to the decrease of right of use assets from rental and leasing agreements by EUR 4.8 million as well as property, plant and equipment by EUR 2.1 million. At the same time, intangible assets excluding capitalized development projects decreased. Capitalized development projects increased to EUR 100.7 million after EUR 96.2 million at year-end 2019.

Meaningful additional assets belonging to ADVA are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA brand, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not included in the balance sheet. Customer satisfaction as measured by the Net Promoter Score represents one of the group's four key performance indicators, highlighting the value of sustainable relationships with customers to ADVA. The development of the Net Promoter Score is presented in the "ADVA Overview" section of the 2019 Annual Report.

On the equity and liabilities side, current liabilities decreased by EUR 12.7 million from EUR 159.1 million on December 31, 2019 to EUR 146.4 million on September 30, 2020. This decline is primarily due to significantly decreased trade accounts payable by EUR 16.2 million, from EUR 73.4 million reported at the end of December 2019 to EUR 57.2 million at the end of 9M 2020. In 9M 2020, days payables outstanding were at 57 days compared to 63 days in 12M 2019. The decrease in trade payables was mainly due to the termination of material purchases. In addition, other current liabilities decreased by EUR 12.0 million to EUR 19.2 million at September 30, 2020, in particular due to the payment of variable compensation components for 2019 in 9M 2020. At the same time, current provisions increased by EUR 11.2 million for the current period, mainly as employees' variable compensation entitlement for 2020 has been included on a pro rata basis. Current contract liabilities amounted to EUR 18.1 million as of September 30, 2020, compared to EUR 12.4 million at year-end 2019.

Non-current liabilities decreased to EUR 117.4 million after EUR 121.4 million reported at the end of 2019. While non-current contract liabilities increased from EUR 7.1 million at the end of 2019 to EUR 10.9 million as of September 30, 2020, and deferred tax liabilities rose by EUR 3.1 million in the same period, non-current lease liabilities decreased to EUR 23.8 million at the end of 9M 2020, down from EUR 28.3 million at the end of 2019. Moreover, non-current liabilities to banks decreased by EUR 7.2 million due to the scheduled redemption in 9M 2020.

Stockholders' equity slightly improved from EUR 255.8 million reported on December 31, 2019, to EUR 256.9 million on September 30, 2020. The equity ratio was at 49.3% on September 30, 2020, after 47.7% on December 31, 2019, while the non-current assets ratio amounted to 99.2% and 95.8%, respectively, with stockholders' equity largely covering the non-current assets.

### Capital expenditures

Capital expenditures for additions to property, plant and equipment in 9M 2020 amounted to EUR 9.0 million, down from EUR 11.8 million seen in 9M 2019.

Capital expenditures for intangible assets of EUR 36.8 million in 9M 2020 were up from EUR 33.5 million in 9M 2019. This total consists of capitalized development projects of EUR 32.3 million in 9M 2020 after EUR 32.7 million in 9M 2019 and capital expenditures for other intangible assets of EUR 4.5 million in 9M 2020 after EUR 0.8

million in 9M 2019. The investments in other intangible assets include in particular the capitalization of software licenses.

### **Cash flow**

Cash flow from operating activities was positive EUR 74.2 million in 9M 2020, after positive EUR 37.3 million in 9M 2019, and mainly relates to non-cash depreciation charges as well as positive income before tax. While the development of net working capital also contributed to the positive cash flow from operating activities in 9M 2020, net cash outflows from changes in net working capital were included in 9M 2019.

Cash flow from investing activities amounted to negative EUR 45.8 million in 9M 2020 after negative EUR 45.1 million in 9M 2019. The slight increased use of funds for investing activities is largely due to higher investment in other intangible assets paired at the same time lower investments in property, plant and equipment.

Finally, net cash outflows of EUR 13.7 million were reported from financing activities in 9M 2020, after cash outflows of EUR 16.5 million from financing activities in 9M 2019. The cash outflow in 9M 2020 results mainly from scheduled repayments of existing liabilities, which were partially offset by the inflows from the utilization of a borrowing facility. In 9M 2019, the cash outflow was mainly due to scheduled repayments and interest payments for existing liabilities to banks and liabilities from leasing.

Overall, including the net effect of foreign currency translation of negative EUR 0.7 million, cash and cash equivalents strongly increased by EUR 14.0 million, from EUR 54.3 million at the end of December 2019 to EUR 68.3 million on September 30, 2020. With the exception of local currency regulations for cash and cash equivalents in China amounting to EUR 4.0 million, there were no significant restrictions at the end of the quarter.

### **Financing and liquidity**

ADVA's financial management is performed centrally by ADVA Optical Networking SE. Its objective is to provide sufficient funds to ensure ongoing operations and to support the group's projected growth. Beyond the strong equity base appropriate for the business, ADVA finances its business by means of liabilities with maturities typically exceeding the life of the assets being financed. For any liability taken, ADVA is focused on minimizing related

interest cost, as long as access to funds is not at risk. Excess funds are generally used to redeem liabilities.

Total financial debt decreased by EUR 12.1 million to EUR 103.3 million at the end of 9M 2020. While the current portion of liabilities to banks remained fairly stable at EUR 19.2 million, the non-current portion of liabilities to banks decreased to EUR 54.5 million at the end of September 2020 after EUR 61.8 million at the end of 2019 mainly due to scheduled redemption. In addition, current and non-current liabilities from leasing amounting to EUR 29.6 million and EUR 34.4 million, respectively, are included in financial debt at the end of 9M 2020 and at year-end 2019.

In July 2020, the Group extended its existing syndicated loan agreement with a new KfW backup line under the "KfW Entrepreneur Loan" special program 2020. Consequently borrowing facilities of EUR 40.0 million, which can be drawn in the event of a Corona-related liquidity requirement were available at the end of September 2020. In addition, a further EUR 10.0 million borrowing facility exists under the syndicated loan agreement, of which EUR 5.0 million was drawn. At December 31, 2019, undrawn committed borrowing facilities amounted to EUR 10.0 million.

Net debt represents one of the four key performance indicators for ADVA. Mainly due to the increase in cash and cash equivalents as well as decrease in liabilities to banks and lease liabilities as explained above ADVA's net debt significantly improved from EUR 61.1 million at year-end 2019 to EUR 35.0 million at the end of September 2020. Cash and cash equivalents on September 30, 2020, and on December 31, 2019, were invested mainly in EUR, USD and GBP.

Return on capital employed in 9M 2020 was at positive 5.1%, clearly up from positive 3.3% reported in 12M 2019. This development is mainly due to the improved operating result in 9M 2020.

### **Summary: Net assets and financial position**

ADVA's net assets and financial position improved in 9M 2020. Net debt fell further in the current quarter and the equity ratio improved to 49.3%. At the end of 9M 2020, current liabilities are fully covered by cash and cash equivalents and outstanding trade receivables.



## OUTLOOK

In the first nine months, demand for our products and services has been pleasingly robust. The lockdown measures imposed in response to the Covid-19 pandemic led to bottlenecks and challenges in our supply chain, but so far, we have managed to fully service all orders. However, especially in the first six months, we experienced significant shifts in supply and thus also in revenues.

The latest news of a second wave with infection rates again increasing in many countries is concerning. Following the relaxation of preventive measures over the summer months, there is now the threat of renewed tightening of lockdown regulations with disruption to people's lives and businesses' operational processes in many places. The company's production and supply chains and its ability to install and commission equipment in customer networks are at risk. Further regional lockdowns in countries important to ADVA could once more affect the company's business.

Order entries from our largest customer group, communication service providers, were satisfying and benefitted from Covid-19 related trends, such as home office, video conferencing and streaming services. However, certain groups such as our CSP customers cannot completely decouple themselves from what is happening in the real economy, and in some cases are confronted with a weakening of demand for modern telecommunications services. Further, we are somewhat cautious about our business with large enterprise customers. In some industries, economic uncertainty is leading to a slowdown in IT investments.

The further course of our business for the full year 2020 heavily depends on how the rapidly numbers of Covid-19 infections increase and whether new regional lockdown scenarios are imminent. In addition to risk in the supply chain increasing once again, there is also growing uncertainty regarding the development of customer demand in the remaining weeks of the financial year.

With these factors influencing the further course of the 2020 financial year, the management board now expects revenues between EUR 565 million and EUR 580 million and a pro forma operating income of between 5% and 6% of revenues for the full year 2020. The revised guidance assumes that the consequences of the Covid-19 pandemic will not intensify over the course of the year and that no material supply bottlenecks will arise due to new lockdowns.

Originally, the company had anticipated increasing revenues to more than EUR 580 million with an increased pro forma operating income above 5% of revenues. Additionally, the management board expected an improvement in net debt in the single-digit percentage range and a net promoter score of at least 40%.

The group will continue to selectively invest in product development, technology and sales-increasing measures while maintaining cost management. However, since the duration and economic implications of the pandemic cannot be reliably predicted, the specific effects on sales and earnings for the 2020 financial year cannot be reliably estimated or more precisely quantified. The group's main risks are explained in the "risk and opportunity report" section of its 2019 annual report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2020 (UNAUDITED)

(in thousands of EUR)	<b>Sep. 30, 2020</b>	<b>Dec. 31, 2019</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	68,293	54,263
Trade accounts receivable	88,243	96,193
Contract assets	587	654
Inventories	92,953	105,355
Tax assets	2,522	1,857
Other current assets	9,151	10,918
<b>Total current assets</b>	<b>261,749</b>	<b>269,240</b>
<b>Non-current assets</b>		
Right-of-use assets	27,234	31,985
Property, plant and equipment	30,482	32,622
Goodwill	69,404	72,023
Capitalized development projects	100,690	96,169
Intangible assets acquired in business combinations	16,726	20,864
Other intangible assets	5,906	3,704
Deferred tax asset	5,947	6,336
Other non-current assets	2,506	3,419
<b>Total non-current assets</b>	<b>258,895</b>	<b>267,122</b>
<b>Total assets</b>	<b>520,644</b>	<b>536,362</b>

(in thousands of EUR)	<b>Sep. 30, 2020</b>	<b>Dec. 31, 2019</b>
<b>Equity and liabilities</b>		
<b>Current liabilities</b>		
Current lease liabilities	5,761	6,082
Current liabilities to banks	19,214	19,221
Trade accounts payable	57,153	73,398
Current provisions	25,571	14,379
Tax liabilities	536	1,686
Current contract liabilities	18,050	12,448
Refund liabilities	904	709
Other current liabilities	19,164	31,217
<b>Total current liabilities</b>	<b>146,353</b>	<b>159,140</b>
<b>Non-current liabilities</b>		
Non-current lease liabilities	23,797	28,348
Non-current liabilities to banks	54,530	61,758
Provisions for pensions and similar employee benefits	8,194	7,756
Other non-current provisions	1,665	1,380
Deferred tax liabilities	15,423	12,307
Non-current contract liabilities	10,885	7,070
Other non-current liabilities	2,862	2,811
<b>Total non-current liabilities</b>	<b>117,356</b>	<b>121,430</b>
<b>Total liabilities</b>	<b>263,709</b>	<b>280,570</b>
<b>Stockholders' equity entitled to the owners of the parent company</b>		
Share capital		
(Conditional capital EUR 4,846 thousand; prior year EUR 4,742 thousand)	50,354	50,182
Capital reserve	320,027	318,568
Accumulated deficit	-114,648	-121,693
Net income	7,065	7,045
Accumulated other comprehensive income	-5,863	1,690
<b>Total stockholders' equity</b>	<b>256,935</b>	<b>255,792</b>
<b>Total equity and liabilities</b>	<b>520,644</b>	<b>536,362</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 TO SEPTEMBER 30, 2020 (UNAUDITED)

(in thousands of EUR, except earnings per share and number of shares)	Q3 2020	Q3 2019	9M 2020	9M 2019
<b>Revenues</b>	<b>146,676</b>	<b>144,310</b>	<b>424,386</b>	<b>405,686</b>
Cost of goods sold	-95,311	-96,567	-281,931	-268,145
<b>Gross profit</b>	<b>51,365</b>	<b>47,743</b>	<b>142,455</b>	<b>137,541</b>
Selling and marketing expenses*	-14,603	-17,311	-46,797	-52,653
<i>Thereof net impairment results on financial assets</i>	146	102	1,240	99
General and administrative expenses	-9,697	-8,711	-26,741	-26,172
Research and development expenses	-18,131	-19,005	-55,777	-55,689
Other operating income	850	665	2,739	3,849
Other operating expenses	-16	-181	-1,491	-311
<b>Operating income</b>	<b>9,768</b>	<b>3,200</b>	<b>14,388</b>	<b>6,565</b>
Interest income	4	49	38	339
Interest expenses	-880	-694	-2,044	-2,070
Currency translation gains and losses, net	-1,156	782	-1,717	1,522
<b>Income before tax</b>	<b>7,736</b>	<b>3,337</b>	<b>10,665</b>	<b>6,356</b>
Income tax (expense) benefit, net	-1,065	-1,147	-3,600	-1,833
<b>Net income entitled to the owners of the parent company</b>	<b>6,671</b>	<b>2,190</b>	<b>7,065</b>	<b>4,523</b>
Earnings per share in EUR				
basic	0.13	0.04	0.14	0.09
diluted	0.13	0.04	0.14	0.09
Weighted average number of shares for calculation of earnings per share				
basic	50,295,550	50,078,859	50,220,520	50,028,853
diluted	50,539,415	50,545,928	50,464,385	50,495,922

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(in thousands of EUR)	Q3 2020	Q3 2019	9M 2020	9M 2019
<b>Cash flow from operating activities</b>				
Income before tax	7,736	3,337	10,665	6,356
Adjustments to reconcile income before tax to net cash provided by operating activities				
Non-cash adjustments				
Amortization of non-current assets	15,569	16,178	48,307	45,919
Loss from disposal of property, plant and equipment and intangible assets	-340	136	71	220
Stock compensation expenses	262	292	939	1,188
Other non-cash expenses	240	270	751	631
Foreign currency exchange differences	256	78	-1,747	-1,120
Changes in assets and liabilities				
Decrease (increase) in trade accounts receivable	4,477	-8,226	8,017	-10,072
Decrease (increase) in inventories	-269	-9,893	12,402	-12,295
Decrease (increase) in other assets	371	-215	2,646	-1,968
Increase (decrease) in trade accounts payable	-358	7,974	-16,245	5,164
Increase (decrease) in provisions	175	882	11,411	7,809
Increase (decrease) in other liabilities	-1,974	-1,556	-1,301	-3,237
Income tax paid	-1,080	-242	-1,735	-1,250
<b>Net cash provided by operating activities</b>	<b>25,065</b>	<b>9,015</b>	<b>74,181</b>	<b>37,345</b>
<b>Cash flow from investing activities</b>				
Investments in property, plant and equipment	-3,185	-4,247	-9,038	-11,751
Investments in intangible assets	-10,674	-10,760	-36,796	-33,499
Interest received	0	49	34	139
<b>Net cash used for investing activities</b>	<b>-13,859</b>	<b>-14,958</b>	<b>-45,800</b>	<b>-45,111</b>
<b>Cash flow from financing activities</b>				
Proceeds from capital increase and exercise of stock options	667	1,016	692	1,172
Decrease of lease liabilities	-1,686	-1,170	-5,180	-3,143
Payments received from liabilities to banks	-5,000	-	5,000	-
Cash repayment of liabilities to banks	-3,125	-3,125	-12,375	-12,375
Interest paid	-662	-742	-1,823	-2,136
<b>Net cash used in financing activities</b>	<b>-9,806</b>	<b>-4,021</b>	<b>-13,686</b>	<b>-16,482</b>
Net effect of foreign currency translation on cash and cash equivalents	-693	85	-665	-8
<b>Net change in cash and cash equivalents</b>	<b>707</b>	<b>-9,879</b>	<b>14,030</b>	<b>-24,256</b>
Cash and cash equivalents at the beginning of the period	67,586	48,275	54,263	62,652
<b>Cash and cash equivalents at the end of the period</b>	<b>68,293</b>	<b>38,396</b>	<b>68,293</b>	<b>38,396</b>

## FINANCIAL CALENDAR

CIC Market Solutions Forum	November 12, 2020 virtual conference
Deutsches Eigenkapitalforum 2020	November 16-18, 2020 virtual conference
14th Annual Needham Virtual Security, Networking, & Communications Conference	November 16-18, 2020 virtual conference
Cowen 7th Annual Networking Summit	December 14-15, 2020 virtual conference
2021 Needham Growth Conference	January 11-15, 2021 virtual conference
20th German Corporate Conference	January 18-20, 2021 Frankfurt, Germany
Publication of Annual Report 2020	February 25, 2021 Martinsried/ Munich, Germany
All dates may be affected by restrictions put in place in response to Covid-19, and so none can be guaranteed.	

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements using 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 are based on the beliefs of the management board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond ADVA’s control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the management board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. With the global spread of the Covid-19 pandemic, the risk of sustaining the supply chain increased. There are three scenarios that can lead into an inability to supply: the possible closure of one of our production and / or distribution sites due to an occurring virus infection, a supply chain constraint with one or more of our contract manufacturers, or a governmental ordered lockdown within our important production sites. Furthermore, we monitor risks due to a recession driven decline in demand, as well as an increased risk of default. All other risks and uncertainties remain unchanged and are explained in the “risk and opportunity report” section of the Group Management Report 2019.

## GLOSSARY

**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.

**Net debt** is calculated by subtracting cash and cash equivalents from total **financial debt** comprising of current and non-current financial liabilities and current and non-current lease liabilities.

**Working capital** is defined as trade accounts receivable plus inventories minus trade accounts payable.

The **Net Promoter Score** is obtained by asking customers a single question on a 0 to 10 rating scale: "How likely is it that you would recommend our company to a friend or colleague?" Based on their responses, customers are categorized into one of three groups: promoters (9-10 rating), passives (7-8 rating), and detractors (0-6 rating). The percentage of detractors is then subtracted from the percentage of promoters to obtain a Net Promoter Score.

The **leverage** shows the liabilities to banks in relation to the EBITDA of the last 12 months. EBITDA is calculated as if the accounting approach had been unchanged, i.e. without taking IFRS 16 into account. The leverage is thus determined explicitly without taking into account the accounting effects in accordance with IFRS 16.

The **return on capital employed** (ROCE) is the operating result for the current period divided by the capital employed. The **capital employed** is the difference between the average balance sheet total and the average current liabilities of the period, calculated as the arithmetic average of the quarterly balance sheet date values.

# IMPRESSUM

## Corporate headquarters

ADVA Optical Networking SE  
Campus Martinsried  
Fraunhoferstrasse 9a  
82152 Martinsried/Munich  
Germany

t +49 89 89 06 65 0

## Registered head office

Maerzenquelle 1-3  
98617 Meiningen-Dreissigacker  
Germany

t +49 3693 450 0

## ADVA on the web

More information about ADVA, including solutions, technologies and products, can be found on the company's website at [www.adva.com](http://www.adva.com).

PDF files of this quarterly report, as well as previous quarterly and annual reports, presentations and general investor information, are also located on the company's website and can be downloaded in both English and German. Quarterly conference calls are conducted on the day of earnings announcements. Related PDF, audio and transcript files are available for download in the investor relations section of the company's website [www.adva.com](http://www.adva.com).

## Investor communication

To receive an investor packet, request other information, ask specific questions, or be placed on the distribution list, please contact:

Stephan Rettenberger  
SVP Marketing & Investor Relations  
Campus Martinsried  
Fraunhoferstrasse 9a  
82152 Martinsried/Munich  
Germany

t + 49 89 89 06 65 901

[investor-relations@adva.com](mailto:investor-relations@adva.com)