



Financial analyst presentation

Q2 2019

Q2 2019 earnings call

July 25th, 2019



Disclaimer

FORWARD-LOOKING STATEMENTS

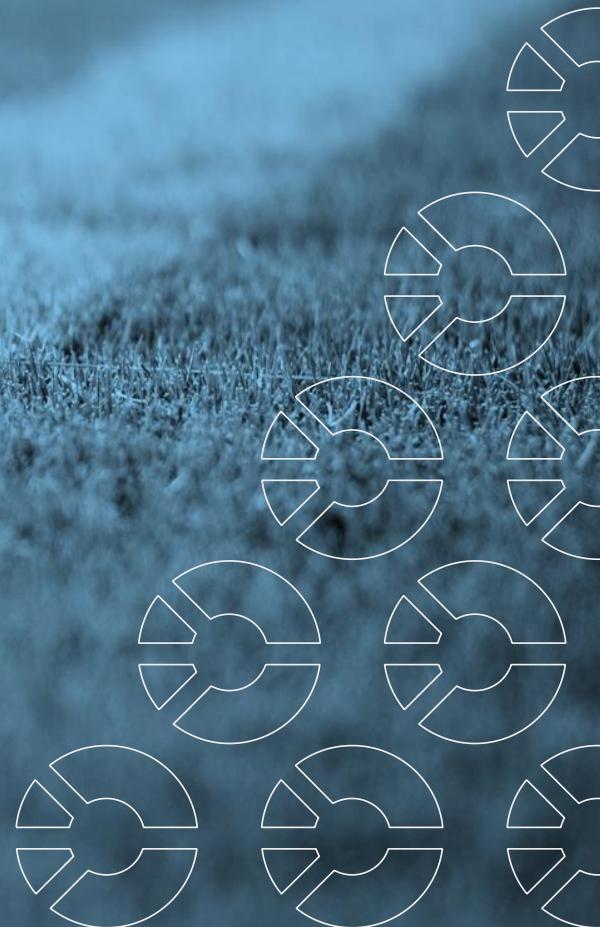
This presentation contains forward-looking statements with words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements involve a number of unknown 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 2018.

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 2019 in review

Quarterly performance

- Revenues and pro forma EBIT within guidance even though we had to push off revenue recognition of one large project

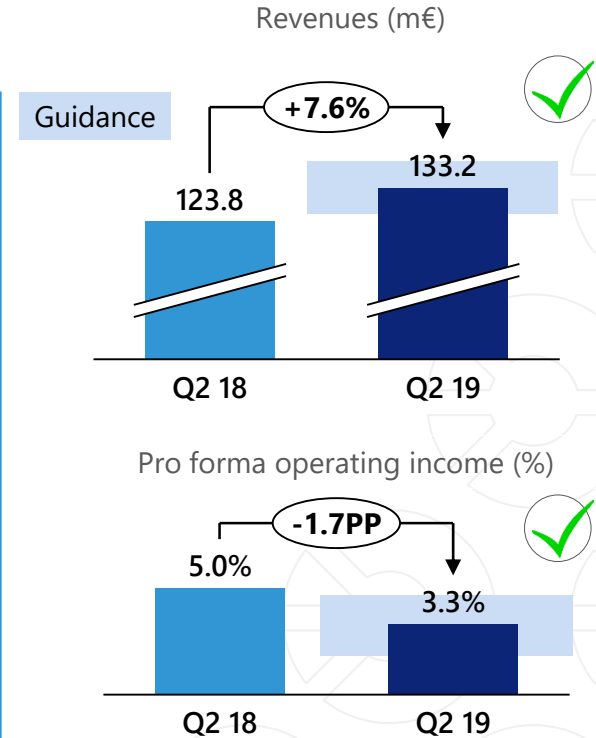
Good order entry but margins weaker

- Order entry was strong – significant backlog going into Q3
- US-Dollar strength, trade tensions with related costs and our product-customer-mix are putting pressure on margins

Positive momentum with new products

- Win rates with new products are very high allowing us to realize higher margins in our new market segments

* 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.



Q2 underscores our confidence in the market and our growth opportunities

Macro environment

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: Importance of pluggable transceivers increasing

POLITICS: Trade tensions increase operational costs, change competitive landscape

Industry growth drivers fully intact – strategy and portfolio well aligned

Key achievements: Cloud interconnect



Cloud interconnect

Open optical transport

TeraFlex™ excellent performance and customer feedback, on plan to scale this quarter

Leading open line system architecture

ALM* and MicroMux™ revenues growing nicely

- ADVA FSP 3000 TeraFlex™ breaks multiple industry records in live network trial
- BOnline harnesses ADVA FSP 3000 for scalable nationwide network
- POST Luxembourg deploys ADVA ALM for comprehensive fiber monitoring
- LU-CIX harnesses ADVA FSP 3000 for 400G backbone
- SANReN selects ADVA FSP 3000 with ALM fiber monitoring solution
- ADVA launches new FSP 3000 TeraFlex™ capabilities to dramatically boost network capacity
- HEP Telekomunikacije monitors nationwide fiber network with ADVA ALM

Best positioned for disaggregated network expansion

*ALM: advanced link monitoring

Key achievements: Cloud access

Cloud access



Packet edge with NFV

Excellent response to new 100G aggregator

New partnership with Dell EMC and Intel for uCPE*

Increasing momentum with DCSG* (TIP)

- Axians UK selects ADVA to deliver risk-free NFV solutions
- POST Luxembourg harnesses Ensemble Activator for rapid service provisioning
- ADVA and Dell EMC deliver open uCPE solution
- Colt uses ADVA technology to deliver low-latency end-to-end Ethernet security service
- Openreach leverages ADVA demarcation technology for nationwide small cell rollout
- ADVA delivers NFV platform for Intel® Select Solution for uCPE

Expanding hardware differentiation and software revenues

* uCPE: universal customer premise equipment; DCSG: disaggregated cell site gateway; TIP: Telecom Infra Project

Key achievements: Network synchronization



Network synchronization

Technology leadership with full end-to-end architecture;

Winning several deals every quarter;

Expansion into new verticals

- ADVA launches industry-first AI-powered service for monitoring of satellite-based timing
- Nokia and ADVA demo end-to-end 5G synchronization solution
- EANTC verifies IEEE 1588 PTP interoperability of ADVA's 5G sync and packet edge devices

Highly differentiated portfolio, growing 2x ADVA average

Growth strategy and portfolio update

Cloud access



Accelerate revenue contribution from edge cloud solutions and win new designs for NFV*-based service delivery

- Market leadership in physical packet edge (Ethernet access devices and aggregation)
- Innovation leadership in uCPE*

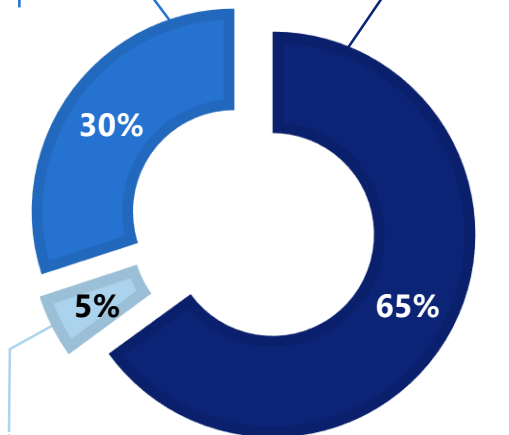
Network synchronization



Use technology leadership to expand into other verticals

- Key products validated by EANTC for interoperability in tests for new 5G timing requirements
- Win rate very high, now also in Latin America
- Revenue growth 2x of ADVA

Approximate revenue contribution rolling four quarters



Cloud interconnect



Aggressively pursue DCI opportunities with new TeraFlex™ terminal and open line system

- TeraFlex™ excellent performance and customer feedback, on plan to scale this quarter; new opportunities in carrier infrastructure
- ALM* and MicroMux™-plug expand application space, delivering growing revenue at higher margins

Cross portfolio

Win new footprint for flexible, programmable 5G infrastructure leveraging optical, packet edge and synchronization

High win rates with new generation products and stronger margins

* NFV: network function virtualization; uCPE: universal customer premise equipment; ALM: advanced link monitoring

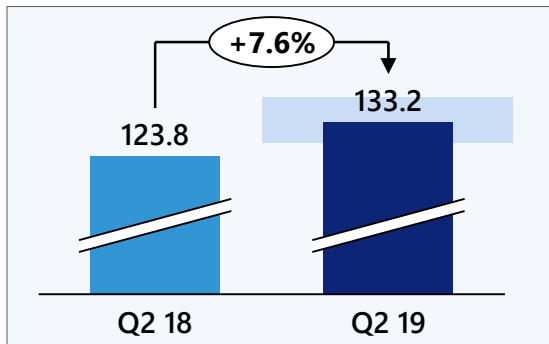
Financial performance

Ulrich Dopfer, CFO

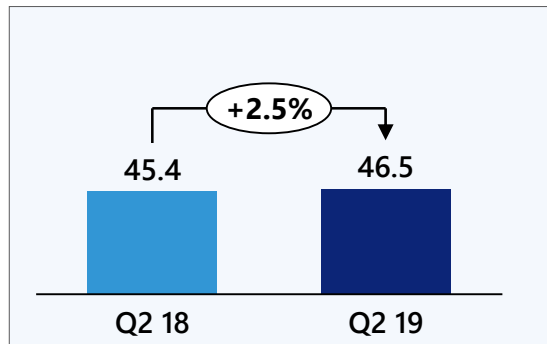


Q2 2019 key financials

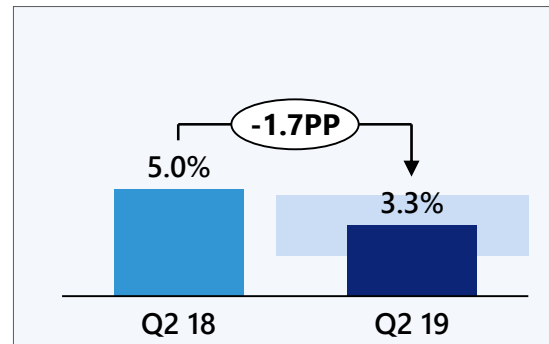
Revenues (m€)



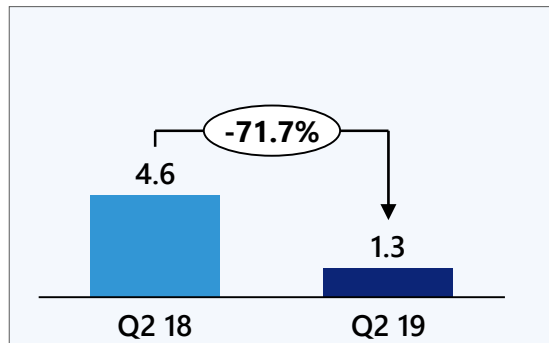
Gross profit (m€)



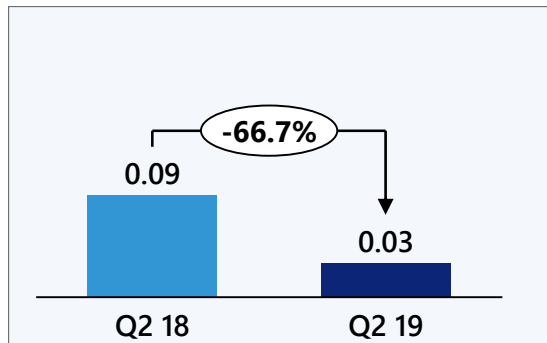
Pro forma operating income (%)



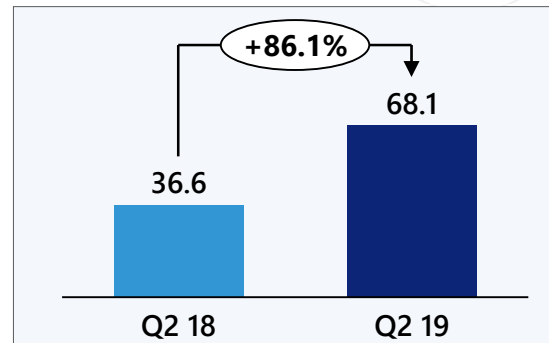
Net income (m€)



Diluted EPS (€)



Net debt (m€)*



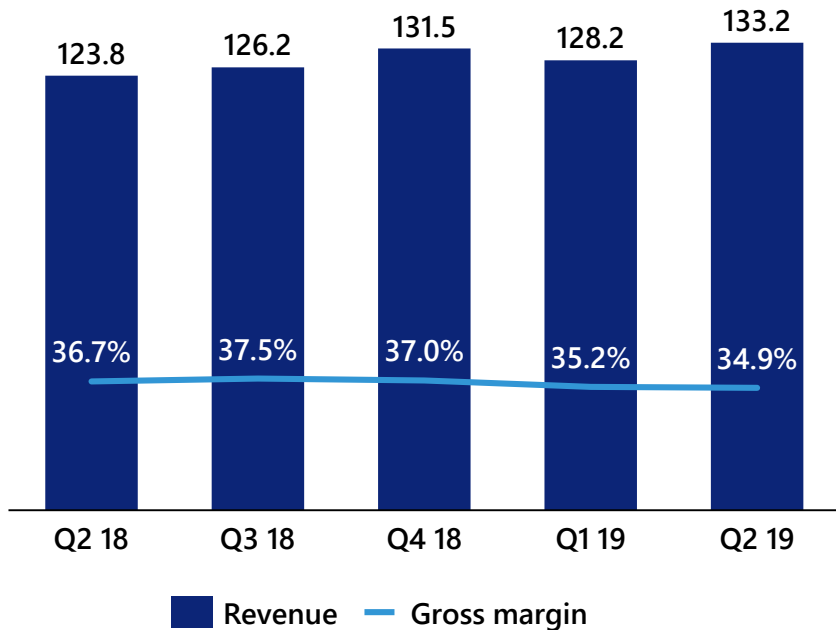
Guidance

*Note: Net debt Q2 2019 includes EUR 36.2 million lease liabilities due to first-time adoption of IFRS 16

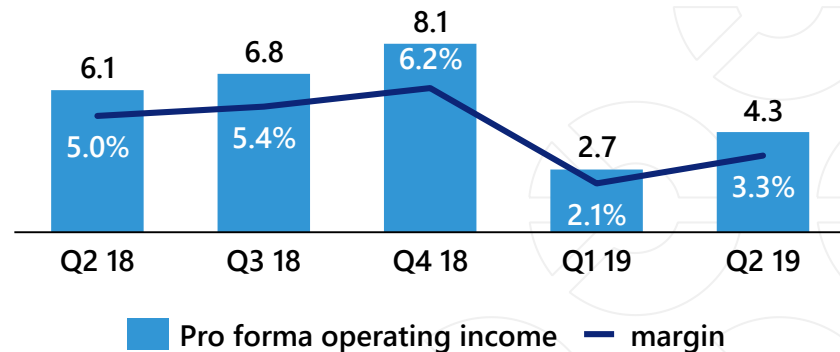
Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & gross margin

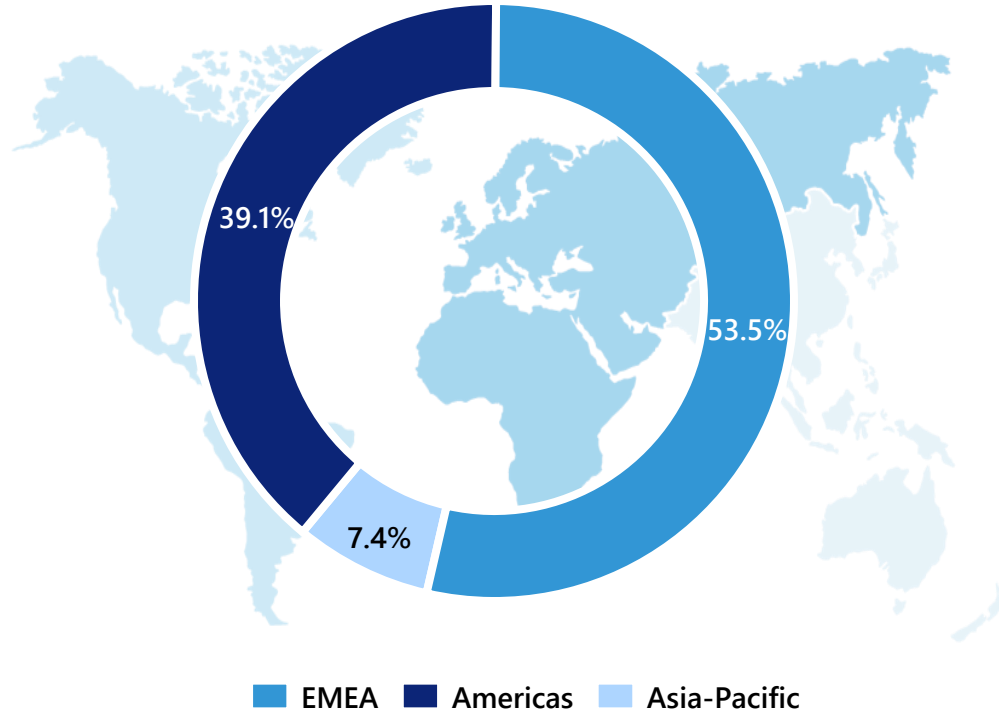


Pro forma operating income & margin



* 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 revenues per region



vs. Q2 2018

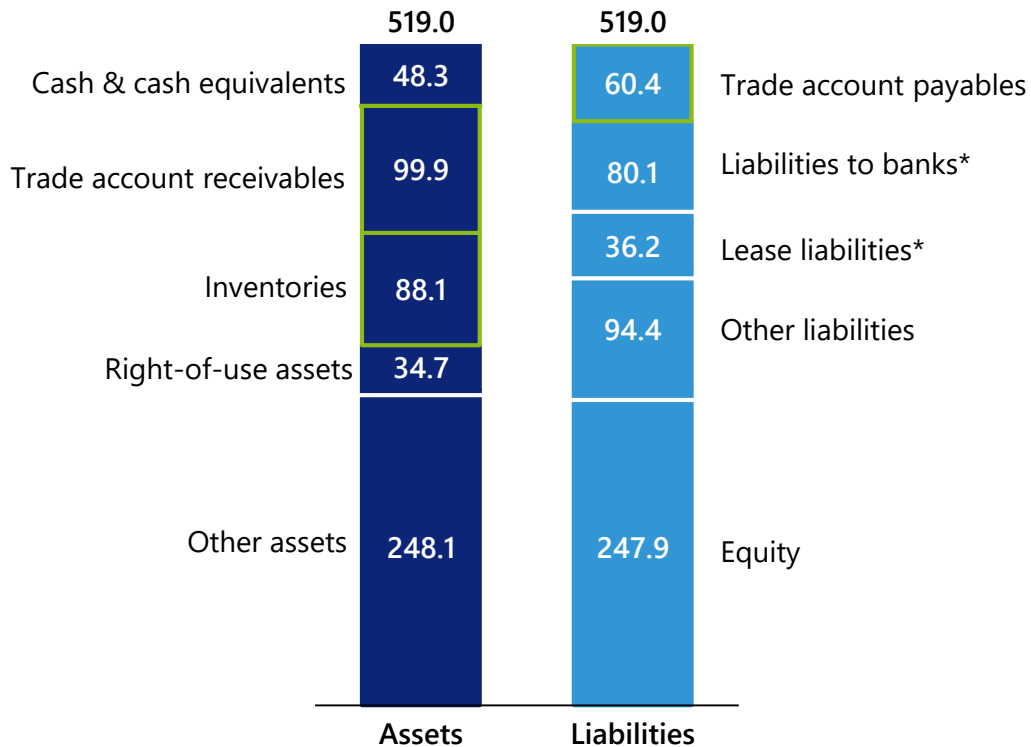
↑ EMEA
+ 24.7%

↑ Americas
+ 0.4%

↓ Asia-Pacific
- 33.3%

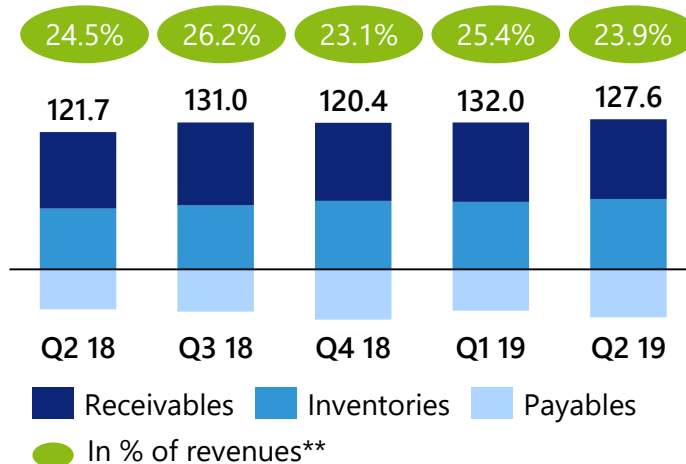
Healthy balance sheet ratios

(In millions of EUR)



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

Working capital development



Equity ratio

47.8%

Leverage***
LTM

1.2x

ROCE
YTD

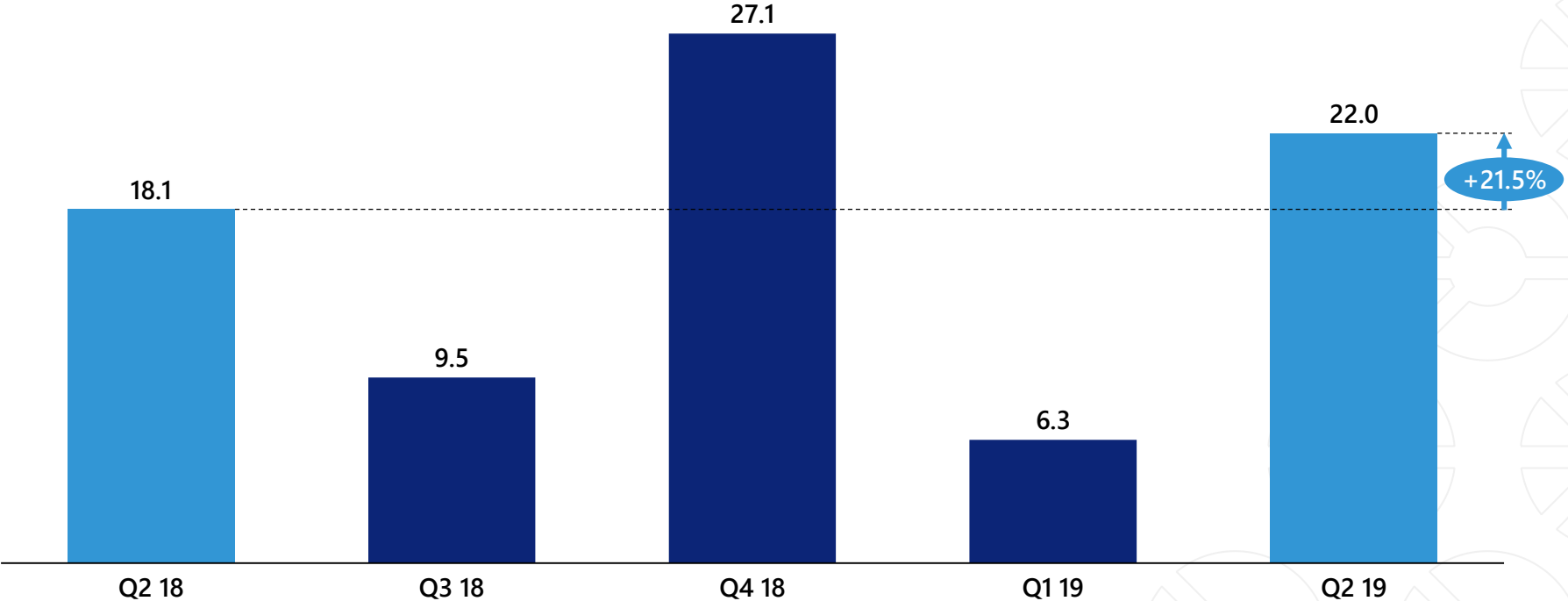
1.9%

** 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 Q3 2019

Revenues between EUR 135.0 million and EUR 145.0 million.

Pro forma operating income margin between 3.0% and 6.0% of revenues.

- Digitization is changing the networks and bringing the investment focus to us; our three core competencies are strategically relevant to the transformation of networks and we have a high win rate with our new products contributing higher margins
- Our positive revenue development continues, and we have a strong order book going into Q3
- In order to respond to current margin pressure, we are taking additional measures to reduce our cost base
- We remain committed to the positive outlook for the current fiscal year



Thank you

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