



Financial analyst presentation

Q3 2019

Q3 2019 earnings call

October 24th, 2019



Disclaimer

FORWARD-LOOKING STATEMENTS

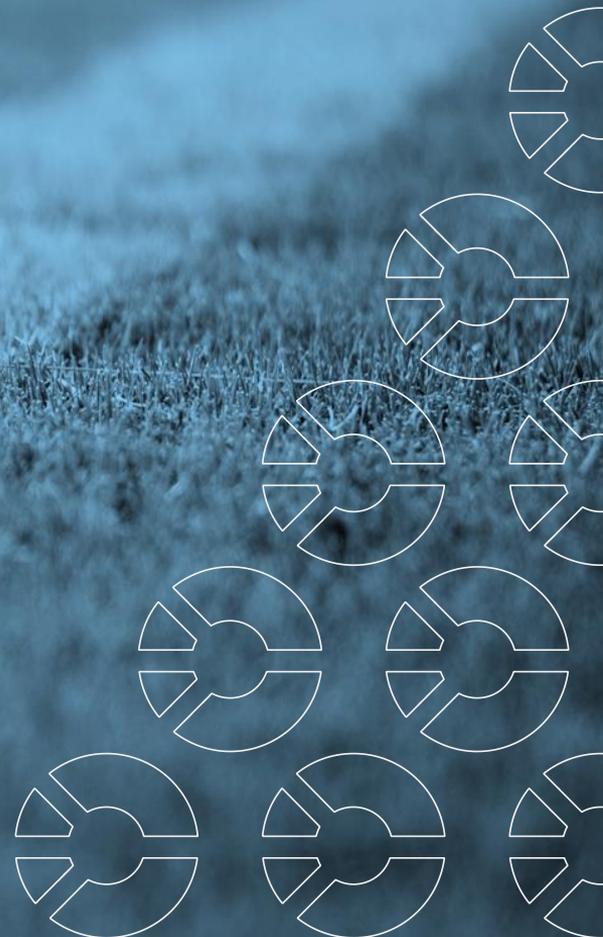
This presentation contains forward-looking statements with words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements involve a number of unknown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



Q3 2019 in review

Quarterly performance

- Revenues and pro forma EBIT at top end of guidance

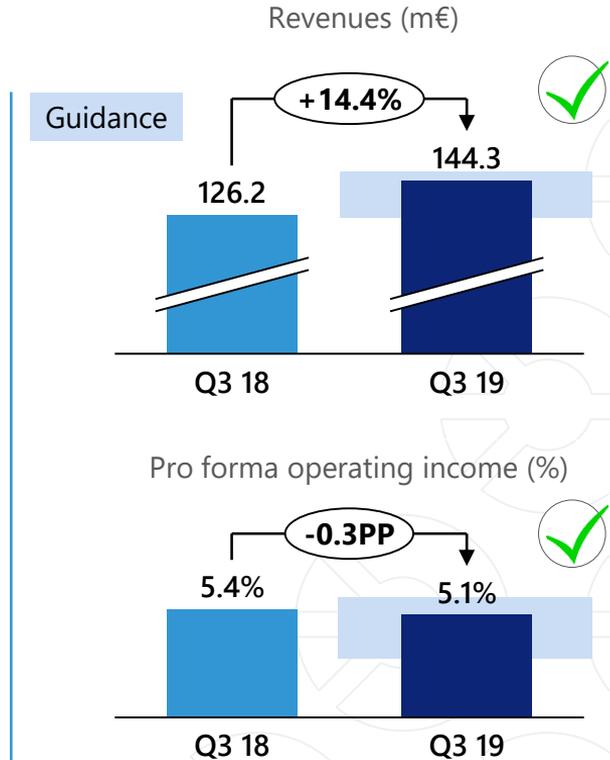
Solid demand, while margin pressure continues

- Revenues developed very well across the portfolio (+14.4% yoy)
- US-Dollar strength and trade tensions with related costs continue to put pressure on margins

Positive sales momentum with new products

- Win rates with new products continue to be 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.



Q3 underscores our momentum and confidence in the market

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

POLITICS: Trade tensions increase operational costs

Industry growth drivers fully intact – strategy and portfolio well aligned

Key achievements: Cloud interconnect



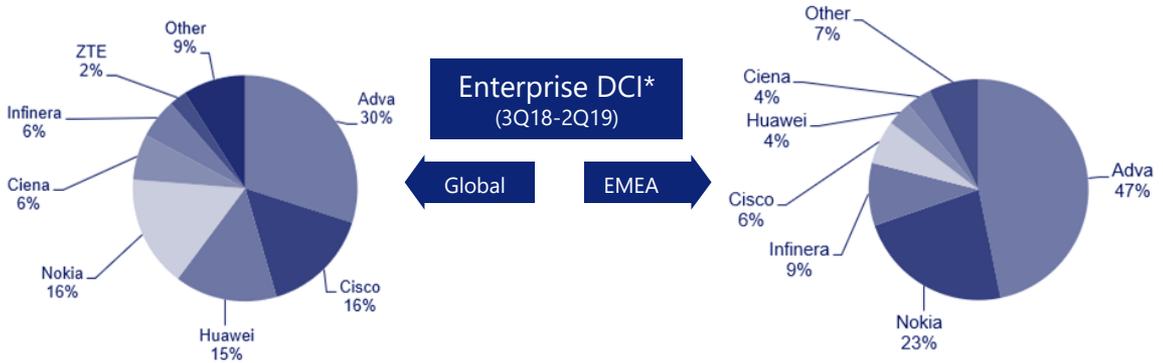
Cloud interconnect

Open optical transport

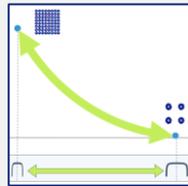
Confirmed market leadership in enterprise DCI*

TeraFlex™ shows market leading spectral efficiency in greenfield and brownfield scenarios

Leading open line system architecture



*Enterprise data center interconnect rolling four quarters; Source: Ovum, Market Share 2Q19 DCI, publ. 02 Sep 2019



Open terminal delivering best spectral efficiency: Ultra variable modulation with fractional QAM, tunable baud rate and shaping; lower speed interface support via MicroMux™

FSP 3000 TeraFlex™



Ramping for disaggregated network expansion

Key achievements: Cloud access

Cloud access

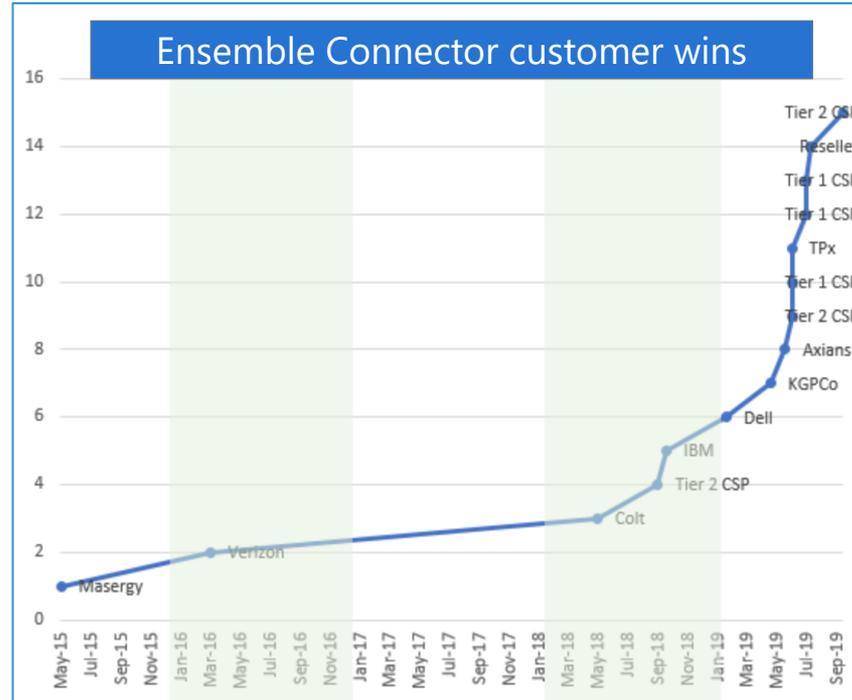


Packet edge with NFV

NFV/uCPE solutions are requested in majority of service provider RFPs*

Ensemble Connector is the market winner – right product at the right point in the cycle

Additional momentum with FSP 150 Pro-series for 5G and emerging edge compute applications (IoT)



Solid foundation for increasing software revenues

* NFV – network function virtualization; uCPE – universal customer premise equipment; RFP – request for proposal; IoT – internet of things

Network synchronization: TAM expansion

Radio access networks



Highly accurate phase and frequency synch for efficient use of spectrum

Digital cable networks



Timing distribution to remote-PHY devices in digital infrastructure deployments

Financial trading



Migration from NTP to PTP-based timing for increased time stamping accuracy

Data center infrastructure



Common and precise time basis for synchronization of distributed data bases

Power utilities



Higher accuracy and uncompromised reliability for mission critical applications

Broadcasting



Keeping cameras, mixers, recorders and monitors tightly synchronized

Oscilloquartz portfolio – further acceleration of growth

ADVA portfolio growth opportunities summarized

Cloud access

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



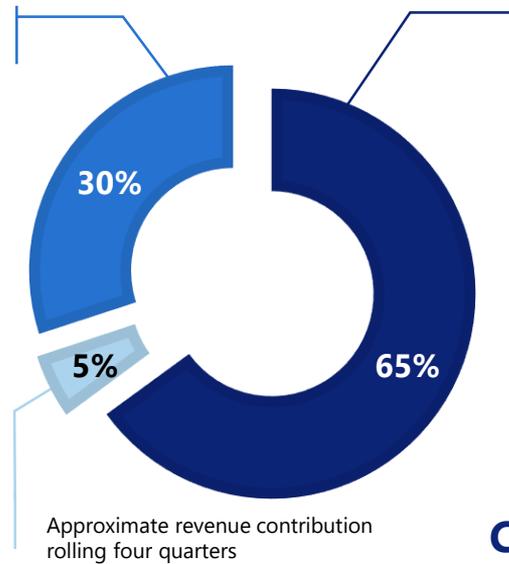
Packet edge with NFV

Network synchronization

- Use technology leadership to expand into other verticals



OSCILLOQUARTZ
An ADVA Company



Cloud interconnect

- Aggressively pursue more opportunities with new Teraflex™ terminal and open line system
- Leverage our enterprise DCI leadership



Open optical transport

Cross portfolio

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

Competitive technology tripod, enabling us to grow high single digits in 2019

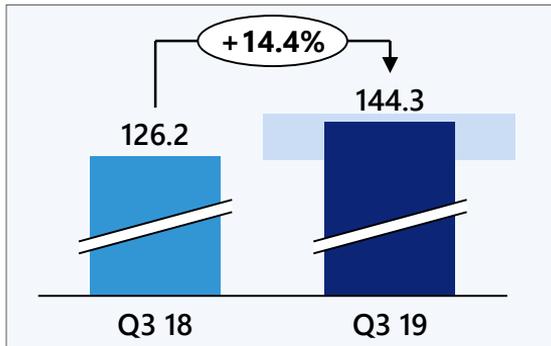
Financial performance

Ulrich Dopfer, CFO

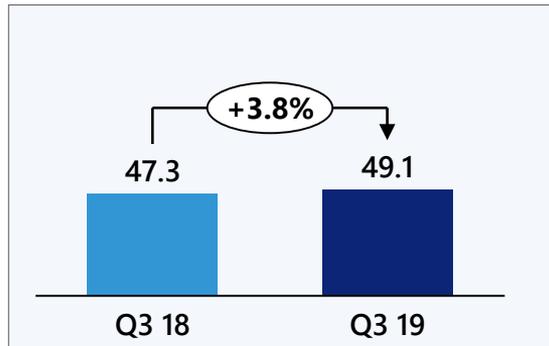


Q3 2019 key financials

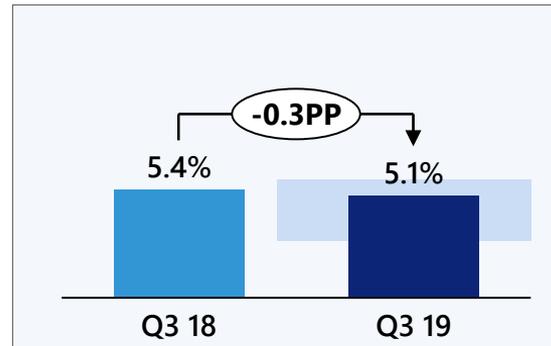
Revenues (m€)



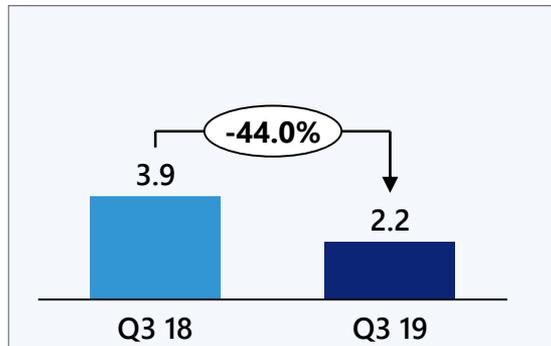
Gross profit (m€)



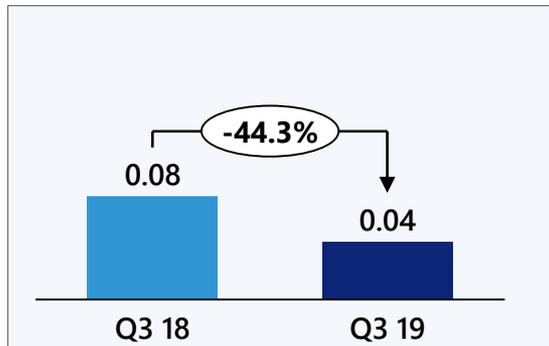
Pro forma operating income (%)



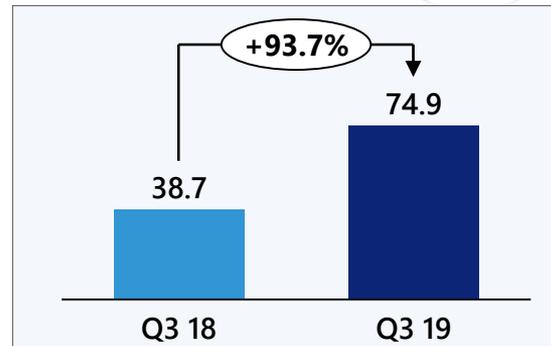
Net income (m€)



Diluted EPS (€)



Net debt (m€)*



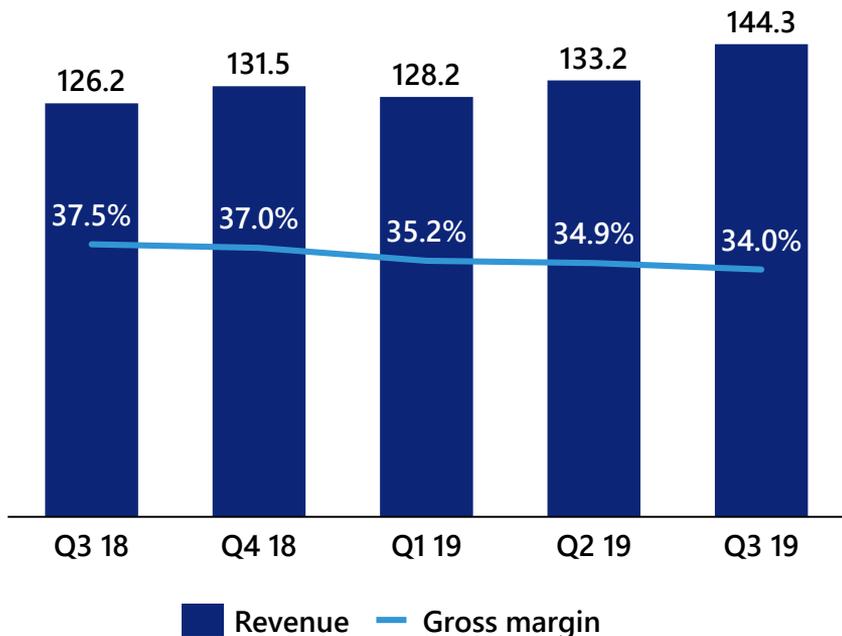
Guidance

*Note: Net debt Q3 2019 includes EUR 36.2 million lease liabilities due to first-time adoption of IFRS 16

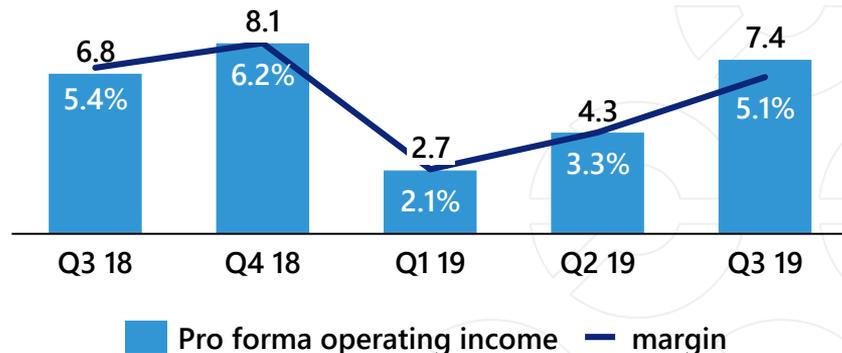
Quarterly IFRS revenue and pro forma profitability

(in millions of EUR, in % of revenues)

Revenue & gross margin



Pro forma operating income & margin

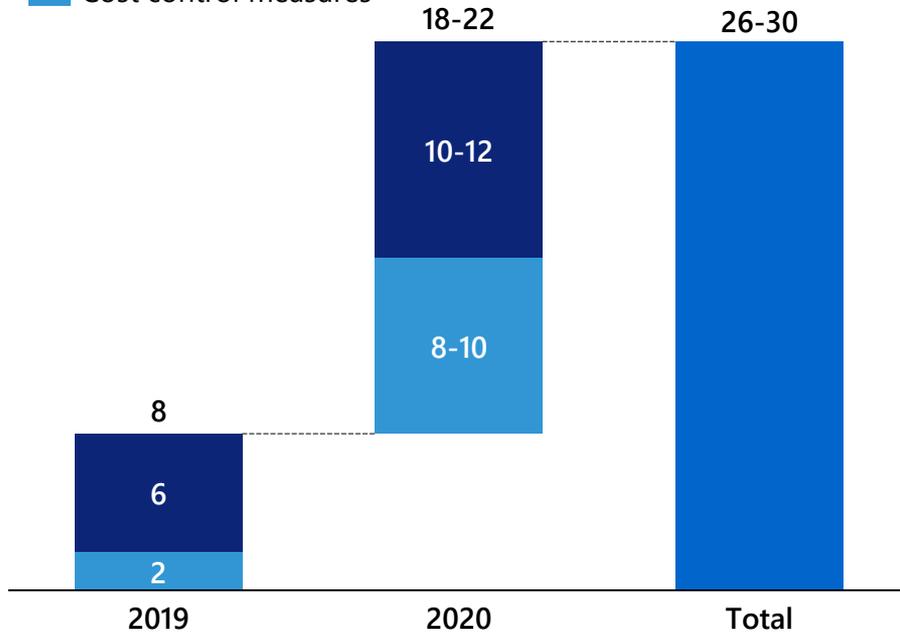


* Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

Improvement measures

(in millions of EUR)

- Tariff saving initiatives
- Cost control measures



Relocation of production

- Relocation out of China
- Short-term one-off costs resulting in future benefits



Pro-active stock purchases and prefabrication

- Reduce import duties through transferring materials and components to US locations
- Working capital increase due to proactive stock purchases

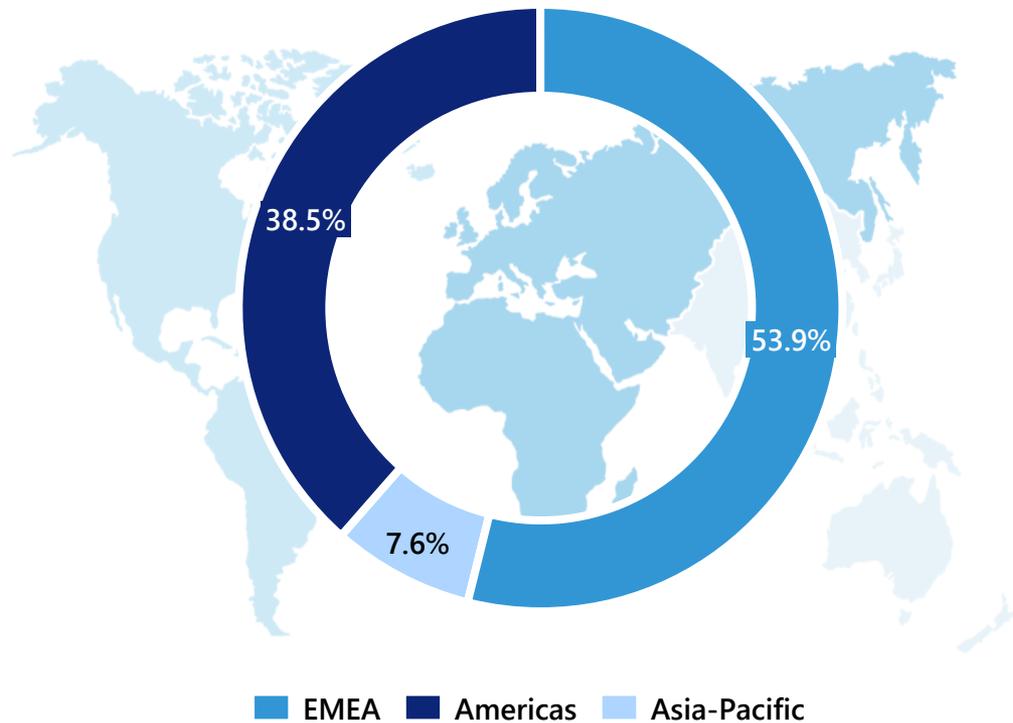


Tight control of operating costs

- Selective headcount reduction
- Streamline footprint
- Consolidation of R&D expenses

Improvement measures to generate total cost savings up to EUR 30m

Quarterly revenues per region



vs. Q3 2018

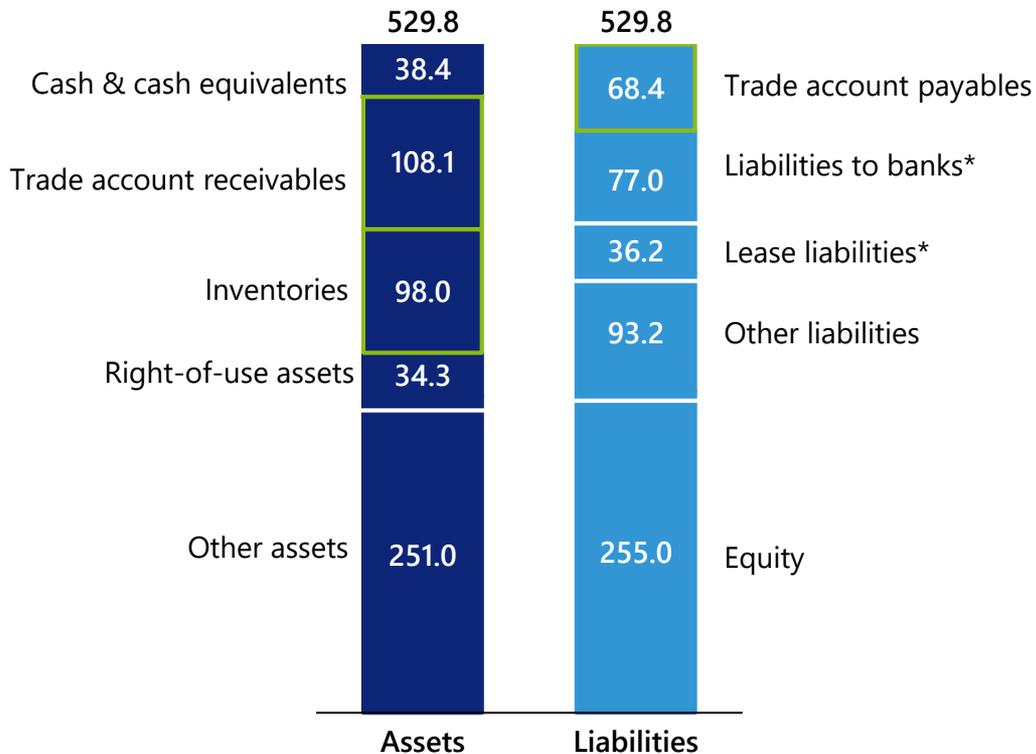
↑ EMEA
+ 27.9%

↑ Americas
+ 18.3%

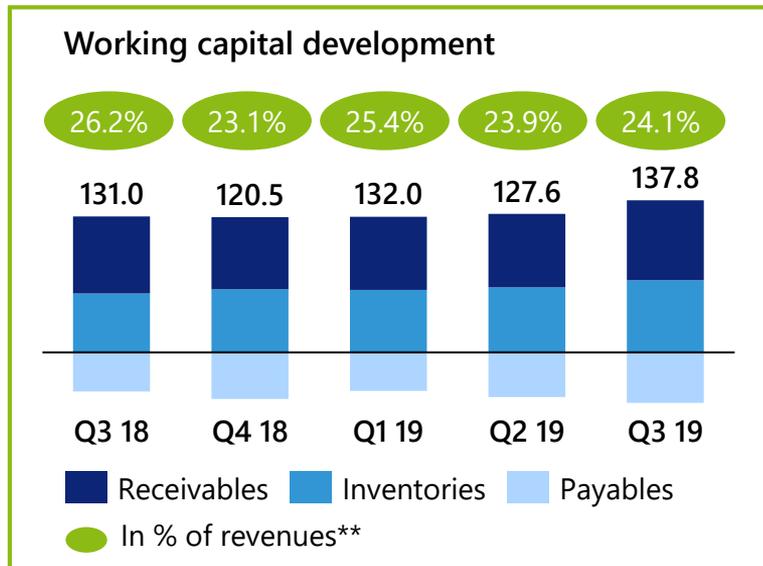
↓ Asia-Pacific
- 40.6%

Healthy balance sheet ratios

(In millions of EUR)



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

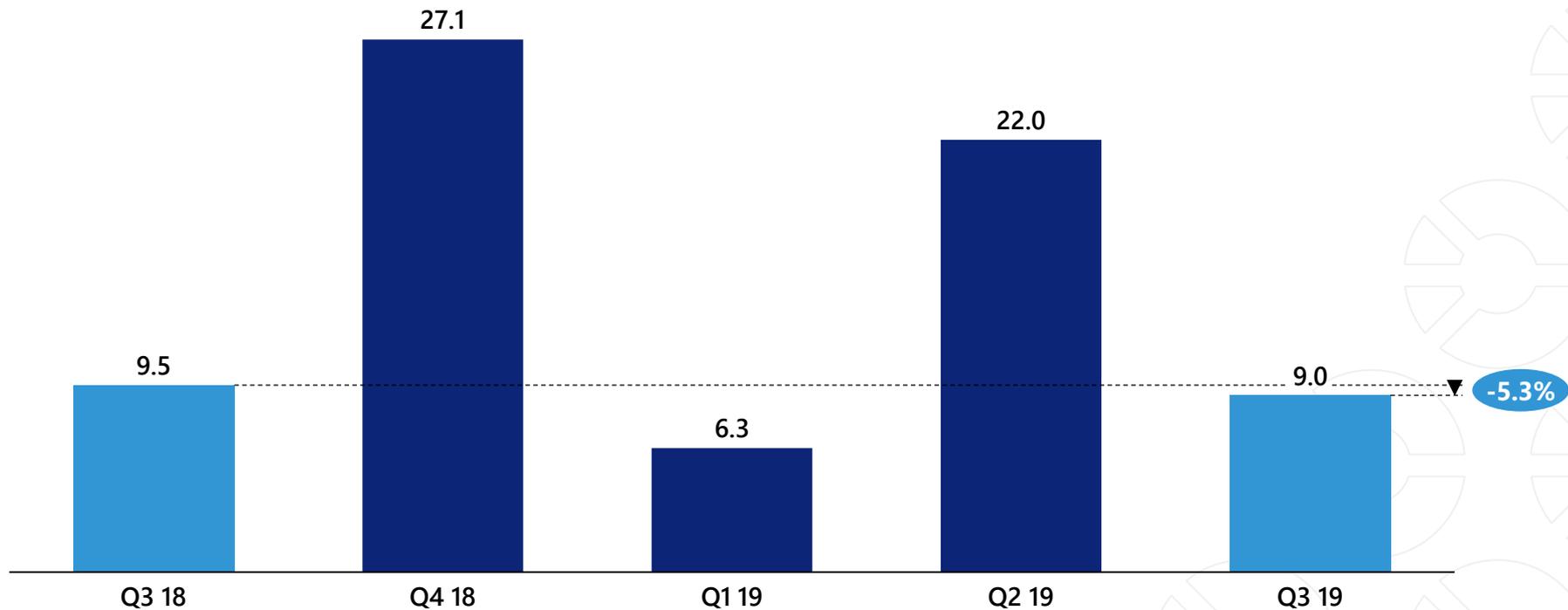


** Calculated on a quarterly basis

*** 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 Q4 2019

Revenues between
EUR 142 million and EUR 152 million

Pro forma operating income margin
between 5.0% and 7.0% of revenues

- While changes in the global economy currently impact our profitability, revenues continue to develop in a positive manner;
- Growth and profitability are our key objectives, and we took initiatives in this quarter to keep our business on track;
- Our three core competencies are strategically relevant to the transformation of networks. A transformation based on openness, virtualization, security and precision timing. This creates new growth opportunities;

We remain committed to the positive outlook for the current fiscal year



Thank you

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