



# ADVA Optical Networking Analyst Presentation

Q2 2017

# 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 2016.

## CONSOLIDATED PRO FORMA FINANCIAL RESULTS

ADVA Optical Networking 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 Optical Networking’s operating results from one financial period to another. ADVA Optical Networking 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 2017 in Review



- Q2 revenues at EUR 144.2 million, up from 141.8m in Q1, down from 157.2m in Q2 2016; within guidance provided on April 27, 2017 of between EUR 143m - EUR 153m
- Q2 pro forma operating income\* was EUR 9.2m or 6.4% of revenues, also within guidance between 5% and 8% of revenues
- Continued financial strength with cash and cash equivalents as well as net liquidity at EUR 80.8m and EUR 30.8m respectively
- Solid demand from all customer groups across all major product lines
- Weakness in demand from one of our major ICP customers
- Carrier and enterprise business in Europe continues to be strong
- First major customer win with Ensemble

\* Pro forma operating income is calculated prior to non-cash charges related to the stock option programs and amortization and impairment of goodwill and acquisition-related intangible assets.

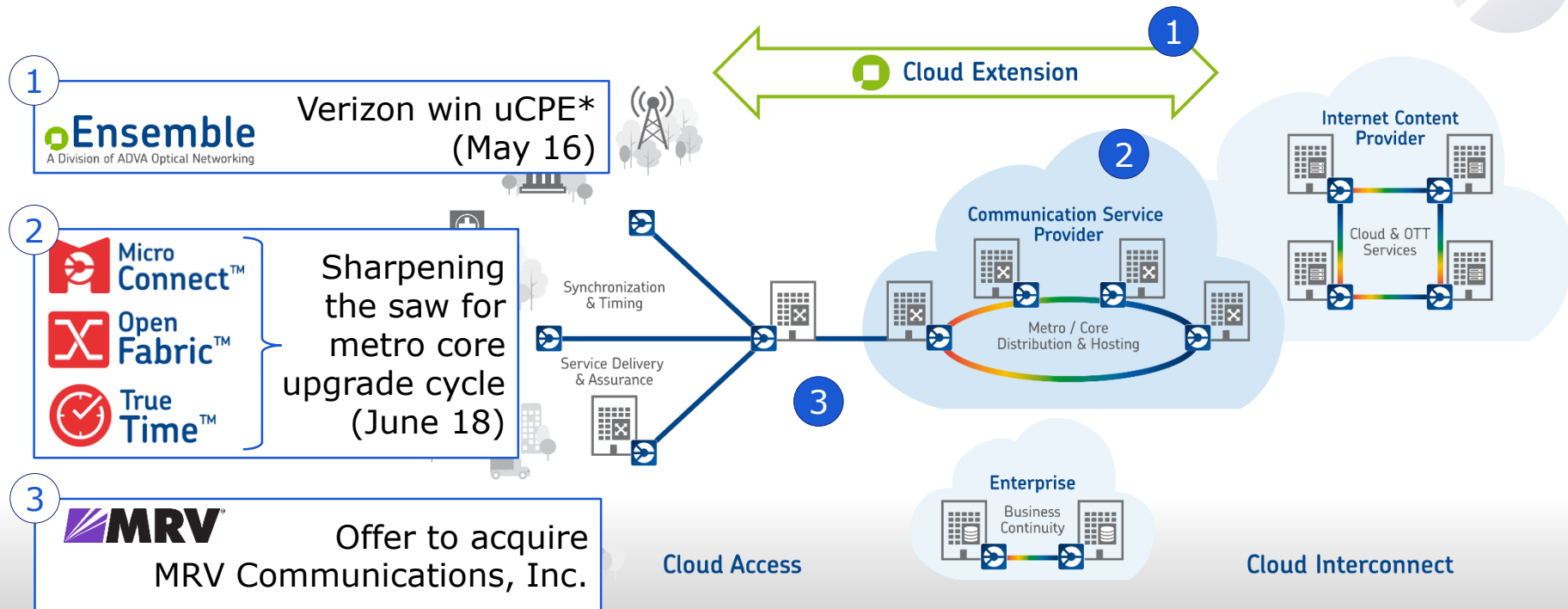
# Prospects for Q3 2017



- North America slowing due to weaker demand from our leading ICP
- Europe should continue to be stable going forward with strength in central Europe and continued weakness in the UK due to the impact of the weak GBP
- Cloud access momentum solid with interest in our security solutions
- Our Ensemble software architecture is gaining traction
- Offer to acquire MRV Communications, Inc. will support further growth and profitability

Tight cost control measures in order to offset temporary weakness in revenues securing 2017 profitability

# Highlights



Connecting, extending and assuring the cloud

\*universal customer premise equipment

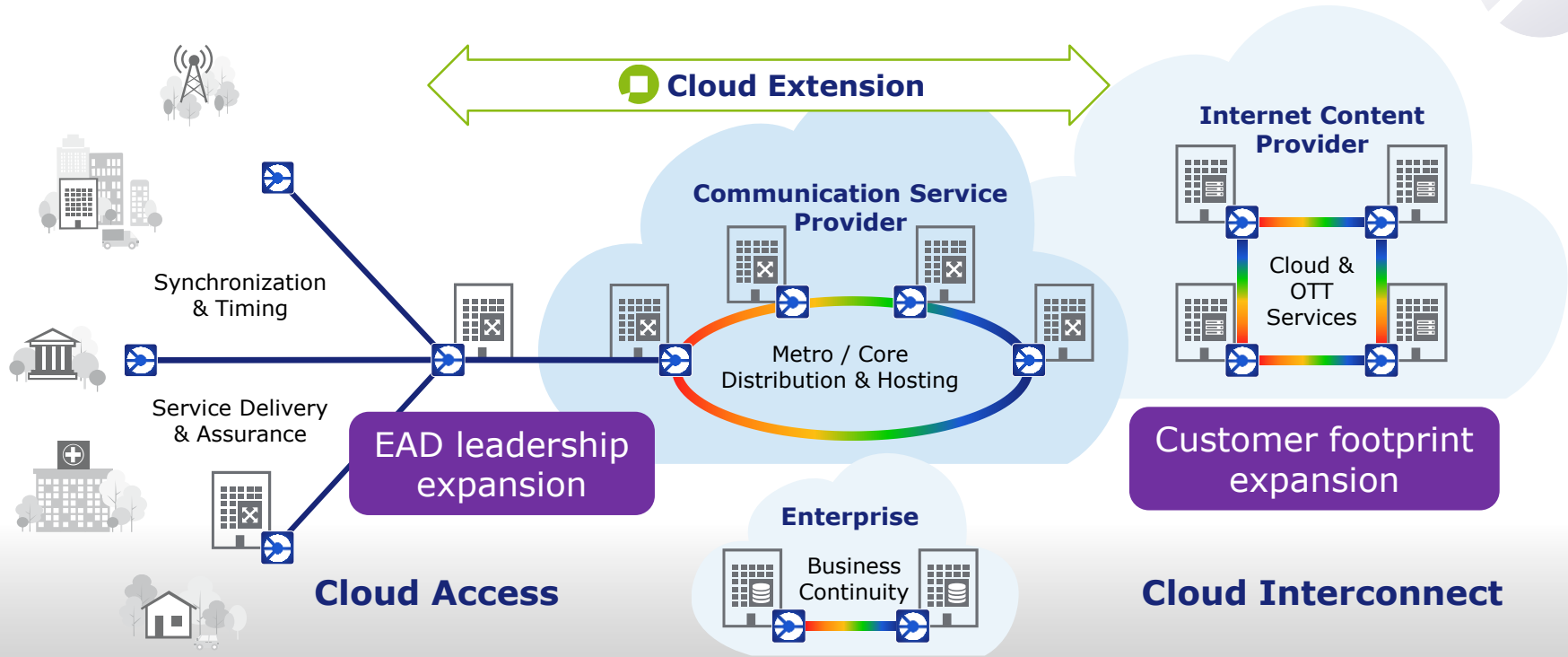
# Offer to Acquire MRV Communications, Inc.



- Customers
  - Expands customer base into traditional underserved market segments – regional service providers and carrier neutral provider
  - Diversifies revenue – reduces European revenue concentration
- Products
  - Further solidifies and strengthens our position in the EAD market
  - Increased cross-selling opportunities and support in the optical space
- Profitability
  - Significant synergy opportunities
  - Opportunity to gain economies of scale with key suppliers

Acquisition allows us to drive further growth and profitability

# Our Markets and Applications



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# Financial Performance



# MRV Communications – Offer Details



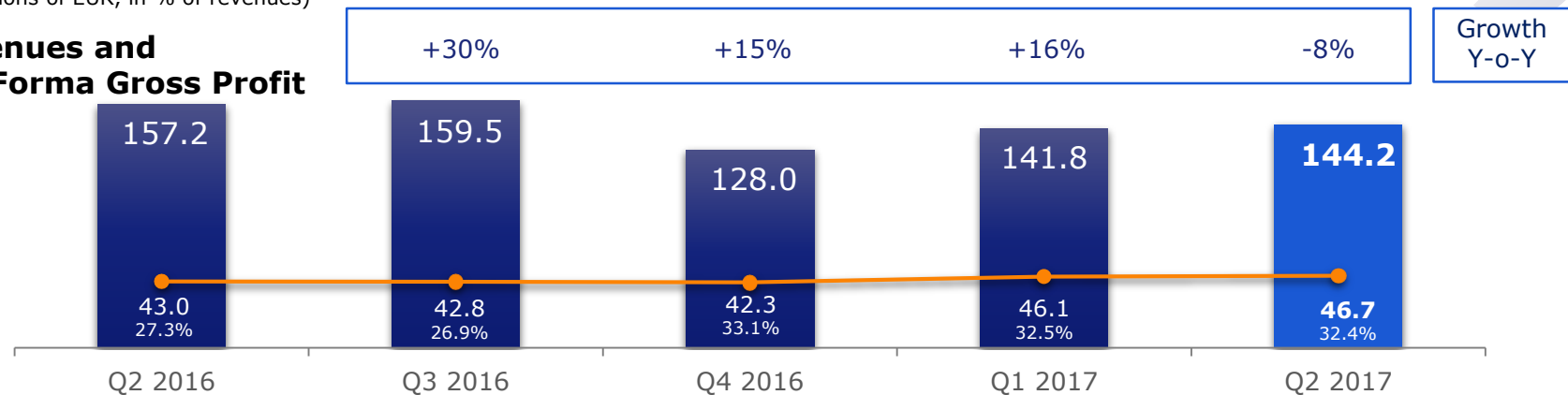
- July 2<sup>nd</sup> ADVA Optical Networking announced that it has entered into a definitive agreement to acquire MRV Communications, Inc.
- July 17<sup>th</sup> ADVA Optical Networking made a tender offer of USD 10.00 per share for all the outstanding common stock of MRV
- Offer equates to an aggregate purchase price of ~USD 69 million
- It has been approved and unanimously recommended by both the board of directors of ADVA Optical Networking and the board of directors of MRV Communications, Inc.
- Purchase price will mainly be financed by proceeds of bank financing.

Tender offer of USD 10.00 per share – aggregate USD 69 million

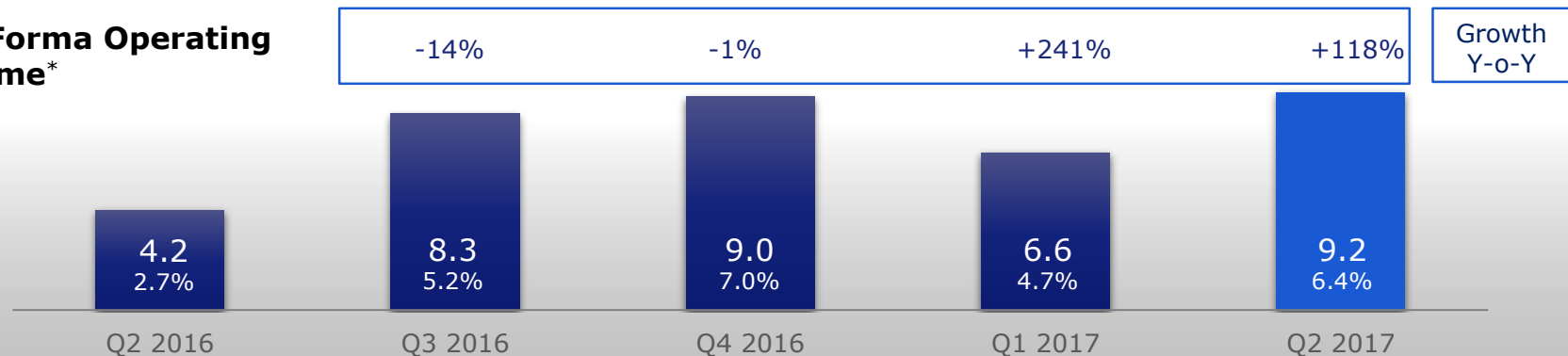
# Quarterly IFRS Revenues and Pro Forma Profitability

(in millions of EUR, in % of revenues)

## Revenues and Pro Forma Gross Profit



## Pro Forma Operating Income\*



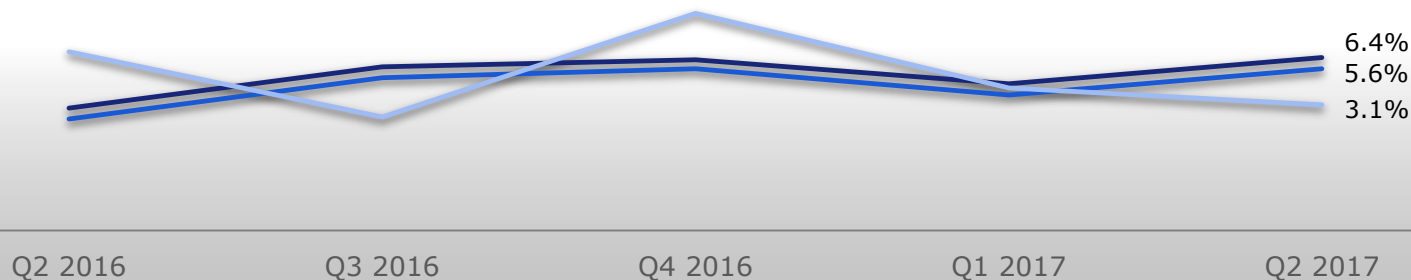
\* Pro forma operating income is calculated prior to non-cash charges related to the stock option programs and amortization and impairment of goodwill and acquisition-related intangible assets.

# IFRS Profitability



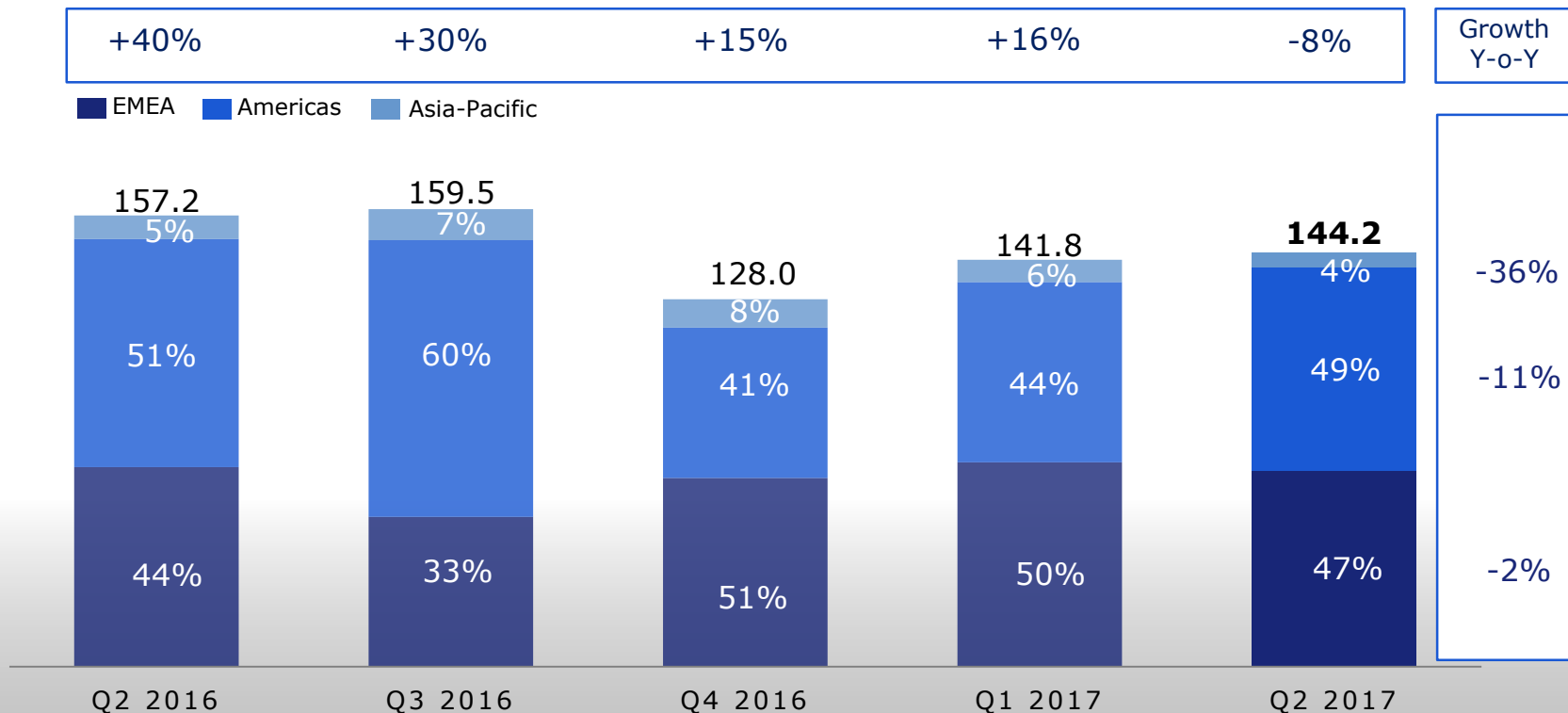
EUR Million	2016			2017	
	Q2	Q3	Q4	Q1	Q2
<u>Pro Forma Operating Income</u>	4.2 (2.7%)	8.3 (5.2%)	9.0 (7.0%)	6.6 (4.7%)	9.2 (6.4%)
<u>Operating Income</u>	3.1 (2.0%)	7.2 (4.5%)	8.1 (6.3%)	5.5 (3.9%)	8.1 (5.6%)
<u>Net Income</u>	9.8 (6.2%)	3.3 (2.0%)	13.6 (10.6%)	6.2 (4.4%)	4.5 (3.1%)
Diluted EPS in EUR	0.20	0.07	0.27	0.12	0.09

Margins, in % of Revenues



# Quarterly Revenues Per Region

(in millions of EUR, in % of revenues)

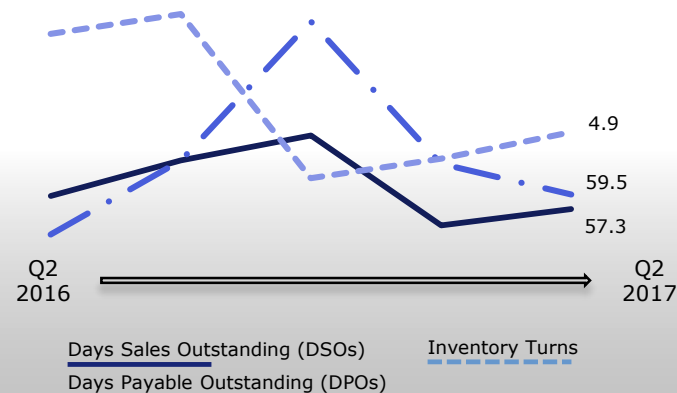
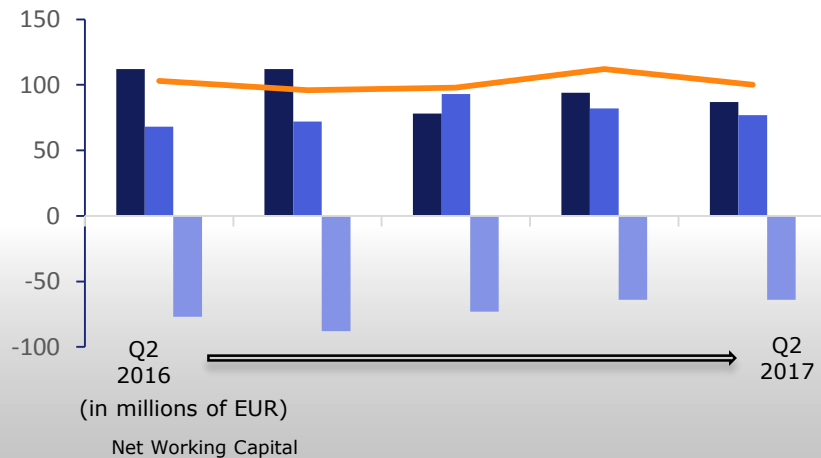


Note: Potential differences due to rounding

# IFRS Balance Sheet



Assets	Mar. 31 2017	Jun. 30 2017	Equity & liabilities	Mar. 31 2017	Jun. 30 2017
Cash & cash equivalents	69.7	80.8	Accounts payable	64.0	64.4
Accounts receivable	94.1	87.4	Financial liabilities	54.7	50.0
Inventories	81.7	77.3	Other liabilities	100.6	103.5
Other assets	218.3	217.4	Equity	244.5	245.0
Total	463.8	462.9	Total	463.8	462.9
Net Liquidity	15.0	30.8			



# IFRS Consolidated Cash Flow Statement



EUR million	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Net cash provided by operating activities	22.4	15.7	21.2	5.6	29.6
Net cash used for investing activities	-11.4	-15.5	-16.6	-15.8	-14.0
Net cash provided by (used for) financing activities	-1.9	-1.7	-1.7	-5.0	-4.2
Net effect of foreign currency translation	0	0.2	0.7	0.0	-0.3
Net change in cash and cash equivalents	9.1	-1.3	3.6	-15.2	11.1
<b>Cash and cash equivalents</b>					
at beginning of period	73.4	82.5	81.2	84.9	69.7
<b>at end of period</b>	<b>82.5</b>	<b>81.2</b>	<b>84.9</b>	<b>69.7</b>	<b>80.8</b>
<b>Free cash flow*</b>	<b>19.0</b>	<b>11.8</b>	<b>16.4</b>	<b>0.4</b>	<b>27.0</b>

\* Free cash flow = Net cash provided by operating activities

./. capital expenditures for property, plant and equipment, finance leases and intangible assets not related to development activities.

Note: Potential differences due to rounding

# Guidance Q3 2017

## Excluding potential Acquisitions



- Revenues between EUR 120 million and EUR 130 million
- Pro forma operating margin between 2% and 5% of revenues\*
- ADVA Optical Networking will continue to perform detailed quarterly reviews of the expected business development in respect of all intangible assets, including capitalized research and development expenses; in case of highly adverse business prospects, these reviews may result in non-cash impairment charges.

\* Excluding any potential impairment charges.



# Summary



- North America slowing
  - Weaker demand from our leading ICP
- Europe is maintaining strength
  - Metro core cycle healthy
- Offer to acquire MRV Communications, Inc.
  - Expands customer footprint
  - Further solidifies and strengthens our position in the EAD\* market
  - Significant synergy opportunities

\*Ethernet access devices

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# Thank You

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