Ciena Corporation

Fiscal Second Quarter 2020 Financial Results Conference Call

June 4, 2020

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PRESENTATION

Operator

Welcome to the Ciena Fiscal Q2 2020 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentations, there'll be a question-and-answer session. To ask a question during the session, you will need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

I would now like to hand the conference over to Mr. Gregg Lampf, Vice President, Investor Relations. Please go ahead.

Gregg Lampf

Thank you, Sharon. Good morning, and welcome to Ciena's 2020 Fiscal Second Quarter Review. We are conducting today's call from various remote locations.

With me virtually today is Gary Smith, President and CEO, and Jim Moylan, CFO. Scott McFeely, our Senior Vice President of Global Products and Services, is also with us for the Q&A portion of today's call.

In addition to this call and the press release, we have posted to the Investor section of our website an accompanying Investor Presentation that reflects this discussion, as well as certain highlighted items from the quarter. Our comments today speak to our Fiscal Q2 2020 performance, developments in our business, and our view on current market dynamics, including with respect to COVID-19, as well as our outlook.

Today's discussion includes certain adjusted or non-GAAP measures of Ciena's results of operations. A detailed reconciliation of these non-GAAP measures to our GAAP results is included in today's press release.

Before turning the call over to Gary, I'll remind you that during this call we will be making certain forward-looking statements. Such statements, including our guidance and long-term financial targets, are based on current expectations, forecasts and assumptions regarding the Company and its markets, which include risks and uncertainties that could cause actual results to differ materially from the statements discussed today. These statements should be viewed in the context of the risk factors detailed in our most recent 10-Q filing, as well as our upcoming 10-Q filing, which is required to be filed with the SEC by June 11, and we do expect to file by that date. Ciena assumes no obligation to update the information discussed in this conference call, whether as a result of new information, future events or otherwise.

We will allow for as much Q&A as possible today, so we ask that you limit yourselves to one question and one follow-up.

With that, I'll turn the call over to Gary.

Gary Smith

Thanks, Gregg, and good morning, everyone.

Amidst the uncertainty resulting from the COVID-19 pandemic, nearly every industry and company has been challenged in some way, and obviously, Ciena is no different. However, our deliberate strategy over the last several years, centered around innovation, diversification and global scale, has yielded a resilient business, more capable of navigating challenging times. This served our business operations and financial results well during the second quarter.

Throughout the pandemic, our focus has been on ensuring the safety of our people: our employees, customers and communities. It is because of the extraordinary Ciena team and our partners that we have continued to enable connectivity around the globe, and helped customers advance their automation strategies to adapt to new realities.

Our significant investment and focus in three critical areas over the past couple of years have played a pivotal role in our ability to execute through this crisis. Firstly, we completed a significant IP transformation, providing our increasingly distributed and flexible workforce with the collaboration tools to make for a seamless transition to remote working. As we talk to you today, more than 96% of our employees are in fact working from home.

Secondly, we established a truly agile services delivery model that has allowed us to continue providing customer support despite restrictions around the movement of people.

Thirdly, we operationalized the supply chain that is deeply rooted in an ecosystem of leading manufacturers that have strong business continuity planning, and multiple manufacturing sites globally. These have enabled security of supply across our business.

I am incredibly proud of our team and their collective efforts to continue serving each other and our customers through this time. I'm also extremely proud of the volunteering and charitable actions of our global workforce to support their neighbors, communities, and frontline workers.

Within our Ciena Cares program, we increased our corporate charitable match to three times for employees' donations and volunteering. Our employees have also been volunteering in important and heartwarming ways, including putting our engineering knowhow to work to produce 3-D printed face shields and components for healthcare workers. I'd like to take this opportunity to express my gratitude for our employees, for their continued focus, strength and kindness.

As a result of all these efforts and continued execution of our strategy, we delivered outstanding financial performance in Q2. Revenue in the quarter was strong, at $894 million, and gross margin exceeded expectations, at almost 47%. We also delivered 18% adjusted operating margin in the quarter, with adjusted EPS of $0.76. It was also a great quarter for cash generation, and orders in the quarter were strong.

It is the core attributes of our strategy: innovation, diversification and global scale, that have put us in a position of strength, and that are helping drive this industry-leading financial performance by essentially enabling us to better support our customers.

Starting with innovation, we remain the leading enabler of connectivity. As we've learned through this global event, bandwidth is a critical resource, now more than ever. Ciena were first to market with both 100-gig and 400-gig, and now we are the world's first to game with 800-gig. In Q2, WaveLogic 5 Extreme became fully commercially available. We've now shipped product to more than a dozen customers, and the technology is operational and proven in some of the world's leading Tier 1 service providers. In fact, we've made public announcements with Internet2, Telia, Verizon, Comcast, Southern Cross, and most recently, Deutsche Telekom.

Importantly, we are also on the leading edge of driving automation. While not as immediate of an opportunity given the current focus on capacity needs, as network providers emerge from the crisis and begin to normalize, it is certain that network architectures will be more closely evaluated to adapt to new user behaviors. Essentially, we believe that over the medium to longer-term, the rise of remote everything will accelerate the drive towards cloud-based models and virtualization, which is the sweet spot for our Blue Planet software.

Moving to diversification; Q2 was a great example of how the diversification of our business serves to help mitigate the potential impacts and ebbs and flows that may result from unforeseen events and uncertainty. As COVID-19 began to affect various geographies and customer segments in different ways and at different times, in Q2 our business benefited from our strong positions in both North America and EMEA, as well as Tier 1 service providers, MSOs and web-scale companies. All performed extremely well in the quarter, given our deep relationships and ability to provide the solutions and support that our customers need, even during these unique circumstances. In fact, non-telco revenue in Q2 comprised 42% of total revenue, with direct web-scale business representing 24%.

I would also reiterate that the diversification in our supply chain served us well in Q2. As expected, we experienced some disruptions from our suppliers, including component constraints, extended lead times and reduced or temporarily suspended operations. However, given our sophisticated ecosystem, designed to ensure continuity of supply, we navigated those challenges extremely well, and their impact was in line with our expectations. I would emphasize that we are continuing to manage through these challenges very successfully.

Finally, on global scale, we continue to possess the largest focused Optical R&D investment capacity in the industry, and this gives us the ability to deliver leading innovation with the best time to market. This, coupled with the largest world class specialized sales force that is intensely focused on delivering for customers and driving toward opportunities. With the vast majority of our employees working remotely, both of these teams were able to successfully execute on our plans in the quarter, creating a flywheel for faster-than-market growth and continued financial leverage.

With respect to the broader market, obviously the full impact of this pandemic on the global economy in any particular industry or company is still largely unknown. However, in our space, it is clear that the uncertainty is further accelerating the flight to quality in all of its dimensions. Our customers, more than ever, are seeking trusted partners that have the financial sustainability and reliable supply chain in the near and long-term, to continue driving innovation, and to deliver it to them on a global scale. Importantly, they are leaning into those partners with whom they have long-standing and trusted relationships, and that are increasingly deeply integrated into their business.

As we said last quarter, we entered the COVID-19 pandemic better positioned than most to manage through the challenges, and that absolutely remains the case. The challenges are largely related, at this stage, to the pandemic's adverse impact on the velocity of business in general. Specifically, with many of our large and long-standing, predominantly international, customers, operating conditions have complicated and extended the time required to deploy and activate new equipment and services.

As can be expected with some of our newer deals and customer wins, again primarily in international markets, conditions have made it more challenging to ramp-up and operationalize on original timelines. It is simply taking longer than normal to execute with certain customers, though we anticipate that it will shorten over time as conditions continue to improve. Notwithstanding these operational challenges, which we believe to be short-term orientated, the fundamental demand drivers of our business, including the increased network traffic, demand for bandwidth and the adoption of cloud architectures, remain very strong.

Against this backdrop, our innovation leadership and competitive advantages are frankly amplified. Specifically, our resiliency and agility position us to support our customers through the current challenges, and to accelerate their transformation journeys as we emerge from the COVID-19 pandemic. Our deep relationships with a diverse set of network operators, geographies and applications are testament to our status as the leading trusted advisor in the industry.

Our investment capacity and financial position will allow us to emerge even stronger than we were before. Our competitors simply do not have the scale, focus or balance sheet to compete, and we intend to use these advantages to continue differentiating ourselves and focusing on capturing further market share moving forward.

With those comments, I'll turn over to Jim. Jim?

James Moylan Jr.

Thank you, Gary. Good morning, everyone.

Q2 was yet another strong quarter for Ciena. As Gary mentioned, total Q2 revenue was $894 million, which reflects significant contributions from our North America and EMEA regions. Adjusted gross margin was 47%. This performance was the result of two factors. First, we are realizing the benefits of our multiyear efforts to improve operating leverage through continued cost reductions, vertical integration and operating efficiencies. This is resulting in an improvement, going forward, of approximately a hundred basis points from our previous baseline gross margin range. Therefore, we believe that our gross margin, when we return to a normalized environment, will be in the range of 43% to 45%, higher than the ranges than we've talked about before.

Second, the velocity challenges that Gary discussed, specifically related to ramping new business, are having a short-term positive effect on gross margin. Because engaging with new customers and displacing incumbents is more difficult in these times, our gross margins are currently not being negatively impacted as much as they have been previously by the cost of early-in-life projects. When we are able to reengage with these new customers and begin to displace incumbency again, we believe that we will go toward the 43% or 45% gross margin I spoke about earlier.

Adjusted operating expense in the quarter was $259 million. As with many other companies, op ex in the quarter were lower than expected, largely due to a significant reduction in travel expense.

With respect to profitability measures, in Q2, we delivered adjusted operating margin of 17.9%, adjusted net income of $117 million, and adjusted EPS of $0.76, significantly above our expectations, largely due to the higher gross margin. In addition, in Q2, cash from operations was strong, at $91 million. Adjusted EBITDA in the quarter was $183 million, and we generated free cash flow.

We ended the quarter with approximately $990 million in cash and investments. As Gary mentioned, our balance sheet is yet another differentiator that speaks to our long-term strength and resiliency, particularly in the current environment. This strong financial position enables us to continue to invest in innovation, to ensure a strong inventory position to serve customers and to support working capital needs.

In light of the uncertainty surrounding the COVID-19-related disruptions, we have temporarily suspended purchases of our common stock under our stock repurchase program. Prior to the suspension, we repurchased approximately 600,000 shares for $24 million during the quarter. That brought us to approximately $75 million of repurchases year-to-date.

Turning to guidance; as we look ahead in our business, there remain important and unanswered questions about the length and breadth of the COVID-19 pandemic, and specifically its resulting impact on both broader macroeconomic, and industry-specific conditions. For Ciena, and for virtually all companies, this has obviously introduced a greater degree of uncertainty in the mid to longer-term than is typical. As of today, however, we do anticipate that the challenges related to slower business velocity due to COVID-19 restrictions are likely to weigh somewhat on our second half performance. I would caution that it is difficult to discern which current dynamics in our business are directly related to COVID-19, and where, in some cases like India, the pandemic may be exacerbating challenging business conditions that previously existed.

Demand for bandwidth is continuing to grow, and competitive dynamics are playing in our favor. However, COVID-19 is creating uncertainty. With that context in mind, as always, we will give you our best forward-looking view based on the information available to us today.

To start, in Q3, we expect to deliver revenue in a range of $955 million to $985 million, gross margin in a range of 44% to 46%, and operating expense in a range of $265 million to $270 million. As we exit the first half of the year, and despite the uncertainty around macroeconomic and sector-specific dynamics, we have sufficient visibility into the business to provide an update to the Fiscal Year '20 annual targets we provided last December.

Specifically, we now expect to generate annual revenue growth of 2% to 4% for the year. Given that we believe the market, ex-China, will be roughly flat in 2020, due mainly to the effects of COVID-19, our 2020 growth rate would still represent continued share gain and faster-than-market growth. In addition, we now expect to deliver adjusted gross margin in the 44% to 46% range in Fiscal Year '20. This includes the hundred basis point improvement I mentioned earlier, resulting from supply chain improvements, as well as the COVID-related dynamics we've previously discussed.

We expect Fiscal Year operating expense to average $265 million to $270 million per quarter. Based on these revised expectations, we are confident in our ability to achieve our profitability target this year. In fact, we now expect to achieve approximately 16% adjusted operating margin in Fiscal Year 2020.

In closing, our business is performing very well and we remain committed to, and capable of, serving our customers around the world during this time of crisis and beyond. As the industry leader, Ciena believes that people all over the world, more than ever, need connectivity to do their jobs and to stay connected with family and friends. Because we serve these needs, we believe that we will continue to deliver value to our customers and our shareholders over the long-term. Most importantly, I would also like to thank our employees for their continued commitment to Ciena, as well as our customers and our investors for their confidence in our ability to perform.

Sharon, we'll now take questions from the sell-side analysts.

Gregg Lampf

Before we get started, I understand that there's been some difficulty with the webcast, so I wanted to make sure the participant line is known to everyone in case that's easier for people. The participant line is 844-848-0674. Again, the participant line to dial in is 844-848-0674. We apologize for the inconvenience.

Sharon, go ahead.

Operator

At this time, I would like to remind everyone, if you would like to ask a question, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Your first question comes from George Notter with Jefferies. Please go ahead.

George Notter

Hi guys, thanks very much.

I guess I wanted to start by asking about the revenue guidance. Jim, you mentioned 2% to 4%. If I take the midpoint there, I take the midpoint of your guide for July, it implies the October quarter is not going to be as strong as it has been historically. It looks like we're pulling forward some revenue. Can you just talk about the dynamic there on the October quarter?

I guess I assume that some of this may be a byproduct of customers pulling forward bills in response to the coronavirus-related work-from-home related demand, but can you just talk about the dynamic there? Thanks.

James Moylan Jr.

Yes, first of all, to the last point on pulling forward, we definitely saw some orders pull forward, but our revenue in the quarter really didn't represent a lot of pull forward, George. It was a solid quarter. We did see effects that we expected to from the supply chain, but not a ton of pull forward revenue in the quarter.

If you go back historically, each of Q3 and Q4 sometimes have been our biggest revenue quarter, so movements up and down between those quarters are not unexpected. But I would say most importantly, we are in very extraordinary times. We have not been able to engage with customers, mainly international, that we had expected to be part of our second half revenue, and that's the main reason for the fact that we've taken our revenue growth rate down a little bit.

It's just impossible to get to their offices. Yes, you can engage with them telephonically, but in order to win new business, you have to be eye to eye with people. You have to sit across the table with them; you have to work with them, in an engineering sense. That just hasn't happened as much as we would like it to, again, mostly internationally. Therefore, our revenue is going to be in that range.

George Notter

Got it. Then just to be clear, you guys had talked about a $30 million logistics type issue that you're talking about here. Is that exactly what you got then, in the April quarter?

James Moylan Jr.

Yes.

George Notter

Then, what does that number look like for July and October?

James Moylan Jr.

That's exactly what we got in Q2. What'll happen in those numbers is that maybe we'll catch up on some of the stuff that we missed in Q2, but additional challenges will arise. I'd say that, for the year, the effect of the supply chain is in the tens of millions of dollars overall, but things will move in and out of the quarters as we go through this year.

George Notter

Thank you.

Operator

The next question comes from Rod Hall with Goldman Sachs.

Raffi Moroukian

Hi, this is Raffi on behalf of Rod. Thanks for taking my question.

Could you give us an update on demand trends by geographic region, particularly on what geographies drove the guide down? Then I have a follow-up.

Gary Smith

Yes, why don't I take that, Raffi? Overall, the demand characteristics have been strong. It's more an issue of the velocity element, particularly internationally. I think we're able to navigate through a lot of the stuff in North America, but we've seen weakness in India, as Jim said, particularly. They've had a very extreme lockdown. They were having some, I think, issues before then, from a rollout point of view, but I think that's exacerbated it.

I'd also point to places like Japan where a lot of deployments have really slowed down. I think particularly, certain parts of Asia-Pacific and certain parts of Europe, we're seeing this access to sites and the ability to travel across the border has really been impactful, and as Jim said, is probably going to weigh down on the second half. That's what we're seeing from a geographic point of view.

I mean, obviously not to be confused with sort of secular demand, I think they'd all like to deploy more bandwidth, and many of them are. Most of them are running hotter on their networks, because they can't get all the equipment in that they'd like. I'd characterize that as particularly within the international markets.

Raffi Moroukian

Thank you.

Your web-scale revenue was very strong in the quarter. Could you give us some more color there, what products drove that strength and how sustainable you think that is?

Gary Smith

Scott, do you want to take that?

Scott McFeely

Yes, sure, Gary. The web-scale, from an application perspective, we bill with them on their campus metro DCI, on their core backbone networks and on their submarine networks. It is largely in our Optical portfolio. A good approximation for it is what you see in our Waveserver product, but it's not just the Waveserver product. We also deal with them on photonic line systems as well, which should show up in our 6500 product family.

Gregg Lampf

Thank you. We'll take the next question, please?

Operator

The next question comes from Jeff Kvaal with Nomura. Please go ahead.

Jeffrey Kvaal

Yes, thank you very much.

I was hoping actually to dive into the web-scale bit a little bit more, if possible. It sounds, obviously it was another strong quarter, you had talked about rising visibility at web-scale in prior quarters. I'm wondering if you could help characterize where you are in web-scale, what has changed as the 600-gigabit products from rivals have ramped, and how you are feeling about visibility at the moment? Thank you.

Gary Smith

Jeff, I might take that. I think we're seeing pretty robust demand across most of the web-scale players, as Scott said, in a lot of their different applications, be it submarine, be it connecting datacenters. We particularly saw strength in Europe amongst the content players. We've got good visibility through them. Obviously we've got a very large market share in that space that we think we'll absolutely maintain that market share this year, if not frankly increase it a little bit.

Obviously we're engaging on 800-gig with them. We've got deep relationships with them, into their back office as well, and on their supply chain. We've got all of (audio interference) players now as customers, so it's a key segment, both directly and indirectly on our business as well. Obviously their business, to the point I'd make around most of this, all the Tier 1 carriers are obviously in pretty good financial strength around the world, and particularly, obviously, the content players. They're looking to continue to deploy bandwidth to support the increase in demand that they're seeing.

Jeffrey Kvaal

Okay.

Scott McFeely

I was just going to add, Jeff, that it's clear the world is going to be different going forward. We're going to be virtualized everything, remote everything, cloud everything. That's good for our web-scale customers' business model, it's good for our service providers as well. In particular, the web-scale businesses are those that are basically the cloud, so I think that's really good for us, for the long-term.

Jeffrey Kvaal

Okay, great, that makes sense. Let me clarify the deployment challenges that you may have, or operationalizing challenges that you may have, are generally not in the web-scale community. That's mostly in APAC or Tier 2 carriers?

Scott McFeely

Absolutely not in the web-scale category; it is international, and in particular, India and Asia-Pac.

Jeffrey Kvaal

Excellent. Thank you both.

Scott McFeely

Thanks, Jeff.

Operator

The next question comes from Simon Leopold with Raymond James.

Simon Leopold

Thank you for taking the question.

First of all, wanted to ask if maybe you could dig a little bit deeper on the top customers; it was certainly a good sign that you had just one 10% customer, but if you can maybe help us understand a little bit of the nature of that customer's business. Is it a telco, North American as usual, or has a web-scale come in?

Also, in the past, you've talked about several customers close to 10% but not quite there. Maybe if you can elaborate on how many are in sort of that high single-digit neighborhood. Then, I've got an easy follow-up. Thank you.

Gary Smith

Okay. Simon, let me take that. We have a number of customers in the sort of 7% to 9%. I would say that generally, very strong in North America, Tier 1 carriers, normal suspects. I would also highlight a couple of others, cable, MSO, particularly strong in the quarter, and looks like being strong for the year, again, predominantly North America. We had a couple of content players, as you can imagine, that were also—given the fact we had 24% directly from web-scale, we had two of them that were very close to 10% as well, so a big cluster around there. It just talks to the diversification of our customers.

If you were to summarize it, Simon, you'd say North America and Tier 1 carriers, including cable, and then obviously the content players.

Simon Leopold

Great, thank you.

Then just the follow-up is, just in terms of your supply chain risk, could you talk about the potential for—if factories were to shut down in Mexico, what would that mean to your business? This is a question I've gotten a lot, and it'd be helpful to understand that exposure. Thank you.

Gary Smith

Scott, do you want to take that?

Scott McFeely

Yes, Simon, Scott here. First of all, I must say that we're dealing with Tier 1 contract manufacturers that take their business continuity extremely seriously. We have five contract manufacturers around the world, two of them are in Mexico, and very recently in network. We haven't lost a single day and a CM in Mexico, or in Asia-Pac, to anything related to COVID. Having said that, we're actively working on pulling finished goods inventory through the supply chain as fast as we can to mitigate any potential impact.

Where we have seen impact, and some CMs around the world that aren't necessarily in Mexico, it tends to be closed for a very short period of time; cleaning, if they had an incident of an individual employee, industrial cleaning, then right back at it, and then back (inaudible). That hasn't been anything that impacted our CMs specifically, but I have seen others in the industry, that's how it's played out.

Simon Leopold

Thank you.

Operator

The next question comes from…

James Moylan Jr.

Hey, Simon, just back to your first question, the top customer was AT&T. That would be (inaudible) to the Q, so just wanted to give you that information.

Simon Leopold

Thank you very much, Jim, appreciate that.

Operator

The next question comes from…

Gregg Lampf

Thank you. Yes.

Operator

…Paul Silverstein with Cowen. Please go ahead.

Paul Silverstein

Hey, (inaudible).

Gregg Lampf

You have an echo there, Paul. Bad echo.

James Moylan Jr.

Yes, that's not going to work, Paul.

Gregg Lampf

Yes, we may need to go to the next. Paul, we'll try to get you back on. Sorry about that.

Paul Silverstein

Sorry. Can you hear me?

Gregg Lampf

Hello?

Operator

The next question comes from Michael Genovese with MKM. Please go ahead.

Michael Genovese

Great, thanks very much.

First of all, can you help—I mean, you said orders were strong. Is there any further quantification you can give of the orders in the quarter?

James Moylan Jr.

They were very, very strong, and our backlog grew pretty meaningfully during the quarter. What I'd say though is that many of our customers took the opportunity to place their orders on us for the full year, or for more than just the current quarter, because we encouraged them to do so, so that we would have visibility to their needs and we could make sure that our supply chain was capable of delivering them. It was a great quarter. One of the reasons why we have such strong visibility into Q3 is because of those orders, but some of those were orders ahead of the normal schedule.

Michael Genovese

Needless to say, book to bill was above one, clearly.

James Moylan Jr.

Oh, yes. Oh, absolutely. We built backlog by quite a bit.

Michael Genovese

Okay, great. Thanks for that.

Now, given the timing questions that are impacting the 4Q outlook, and then I guess there's probably uncertainty on how Fiscal '21 begins, because we just don't know yet, right, how COVID and all this is going to play out. But I guess my question though, is, as we think ahead with the higher bandwidth demand and the positive competitive situation, particularly, I think, Huawei being weaker now, my question is, shouldn't we, at the end of this, be at the higher end of 6% to 8%? Am I getting ahead of myself here? Do you not want to comment on that? I'm just thinking we should be at the higher end of 6% to 8% when we come out of this. I'd love to get your view on that.

James Moylan Jr.

It's going to be very hard for us to make any kind of—beyond these two quarters, Mike, just because it's such an uncertain period. I would say that the demand for bandwidth is going to continue to grow, but my God, it's been growing at 30% annually for a long, long time. Could it be higher than that? Yes, it could, but that's a pretty high growth rate.

I guess the bottom line of all of this, despite the uncertainty over the next several quarters, we feel very, very good about our position in this business. We're just not prepared to comment on next year right now, or our three-year guidance.

Michael Genovese

Thank you.

Gregg Lampf

Thanks, Mike.

Operator

The next question comes from Paul Silverstein with Cowen.

Paul Silverstein

Can you all hear me now?

Gary Smith

Much better. Thanks, Paul.

Gregg Lampf

Yes. Much better.

Paul Silverstein

My apologies. First question, with respect to the competitive landscape, Gary, because I've heard you say that you're actually expecting to either maintain or increase share of the web-scale. Interesting statement, because you've got Infinera coming in shortly, at some point, it sounds like in the next six to 12 months, with 800-gig, or at least their latest coherent DSP.

I know there's been a lot of concern in the investment community about that, but you don't seem to be overly concerned, from your web-scale comment. I assume it's more than just web-scale. Let me ask you the question: what are you seeing in the competitive landscape looking forward?

I want to also ask you about Huawei. We just had an optical company last week, along with the (inaudible) assets, a company that was very vocal in saying Huawei is absolutely being cut back. We saw some announcements in the wireless arena, same thing. That obviously should be to your benefit, to the previous question, but if you could address the competitive landscape in general? Then I've got a follow-up.

Gary Smith

Let me take it in the context, first of all, on the content players space, Paul. Listen, we have very long-term relationships with them, we're super-integrated into all of their back offices. They now have very large complex networks. We partner with them; it's multifaceted. It's in submarine, it's in international markets, so we have very broad and deep relationships with them now, and we have a lot of co-development work that goes on with them in terms of our platforms.

Obviously, we were first with a hundred, 400 with them, and we're the first with 800. We think we've got a significant technology lead on 800-gig, and the different variants that will be coming out with 800-gig as well. We'll absolutely be the industry leader on it, so we've got a significant time-to-market advantage, we've got broad and deep relationships that go back many years, and we've got number one market share. We're not complacent about any of that, but I think we're in a very, very strong position.

As regards to Huawei, obviously the geopolitical elements that are in place there have been in place for quite a while. I would say two things. One, yes, I think it's a very good long-term opportunity for Ciena, and we're incredibly well-placed about that. They've got such a large market share in telecom infrastructure generally, and particularly in Europe. I think really, irrespective of all those other concerns it's just really a rebalancing that, frankly, is long overdue.

Now, I think that momentum is absolutely there, but I'd say two other cautions to it. One, these are large strategic decisions, and number two, its infrastructure after those decisions are made, it takes time to ramp up. One example of that that I would give to you is Deutsche Telekom, which we won a couple of years ago. That's taken time to begin to ramp up. I think it is a very positive dynamic for us, I'd just caution for folks around the amount of time that those infrastructure wins take to ramp up.

Particularly I think, with COVID, it's been challenging on the new business side to ramp-up these new customers, which we've seen, and particularly internationally. I think that's going to weigh on us for a little bit as well. It's absolutely a very positive dynamic for us in the medium to long-term.

Paul Silverstein

That's a good lead-in to my follow-up, which is the site access that you all referenced. I just want to clarify to be sure, when you talk about site access having impacted, managed, measured by revenue or orders, is that purely in Europe, or would that also apply to the weakness you saw in Japan or you've seen that globally? To what extent is it sell-side access as opposed to demand weakness?

Gary Smith

It's not really… I don't think of it as demand weakness. Two manifestations of it, Paul; one is with existing large customers where, sometimes, we're not even installing it to the customer, but it's the customer's ability to digest and to get that deployment out, has been impacted. It has slowed. It is predominantly international. We're seeing some of it in North America but not as much. We've seen it in Europe, and the biggest effect, I think overall, is in Asia-Pacific. In India, in Japan, and some other geographies in Asia, it's just been very challenging.

Really, it's not so much demand, it's more about digestion, Paul, and the ability to get that stuff out there.

Paul Silverstein

I appreciate the response. Thanks, guys.

Gary Smith

Thanks, Paul.

Gregg Lampf

Thanks, Paul.

Operator

The next question comes from Tal Liani with Bank of America.

Tal Liani

Hi guys. I have two questions on the business. Converged Packet is still underperforming, why, and when are we going to see growth?

Then, on 800-gig, is it targeted mostly to web-scale; that's where you think this deployment is going to be, or are we going to see also telcos?

Gary Smith

Scott, do you want to take that?

Scott McFeely

Yes, hey, it's Scott. On the first one, you said Converged Packet. I think you mean the packet networking private portfolio, and you said—yes, you would've been recurrent to the revenue number. I would say that, on the long-term targets, we still expect the packet networking business to grow faster than our aggregate growth rates, and the actual order book for the first half of the year, or year-on-year growth gives us the confidence that that is the case. We still very much are comfortable with the sort of growth targets we have put out there on the packet piece.

On the 800-gig question, I come back to just reminding folks that WaveLogic 5 Extreme is actually an optical engine that addresses multiple applications, in a sense sort of a doubling of the performance of an optical network from what you would've been able to get in the past. In that context, it is going to be applicable to all the segments that we serve.

The 800-gig application specifically is addressing where you have high cross-sections of bandwidth in the currently constrained reach environment, a few hundred kilometers type environment. Those types of deployments are dominated by the web-scale, with the data center interconnect, but not 100% exclusively.

Tal Liani

Got it. If you don't mind…

James Moylan Jr.

I'd also mention, Scott, and you might've mentioned this, but we had very, very strong orders in the Packet segment in Q2. That's another reason why we're…

Tal Liani

Yes.

James Moylan Jr.

…confident and strong in Q2, and strong year-over-year for the first half as well.

Tal Liani

If I can sneak in one more question, you spoke about difficulties in the operations in India. Can you expand on this?

Gary Smith

Yes, Tal…

James Moylan Jr.

India… Go ahead, sorry.

Gary Smith

Go ahead, Jim.

James Moylan Jr.

(Cross-talking).

Tal Liani

Don't argue. Okay, one of you is fine.

James Moylan Jr.

This is a virtual call, Tal, as you know, so…

Tal Liani

I know, I know.

James Moylan Jr.

We're not able to look at each other and point at each other as we do in person. As you know, India was shut down. I mean, the whole country was shut down. Basically people could leave their homes once a week or something to go get food, so there was—other than the normal sort of engagement with the customer in terms of telephone and email and the occasional Zoom call, we were not able to engage with their engineering staff and continue their plans to build out their networks.

As we've said, we don't think this is a demand issue. We believe that our big customers in India, in fact all of our customers but particularly our big ones, Jio and Bharti, are still intent on building out the entire subcontinent with a network, and we're in good position not continue to win a lot of that business. They had sort of paused last year, you'll recall, those two customers, because they had spent a ton of money and they were in a digestive phase already. I think the COVID-19 shutdown only exacerbated that situation.

We think it will continue. We are reengaging with them; we got some orders in the quarter that were a little bit earlier than we thought we might get and we think it'll come back, but it's going to be a little slow.

Tal Liani

Great. Thank you.

Operator

The next question comes from Jim…

James Moylan Jr.

Thanks, Tal.

Operator

…Suva with Citigroup Investment.

Jim Suva

Thank you.

On the international, specifically Asia-Pac and India challenges concerning coronavirus, am I correct at concluding that it isn't share loss at all, it's just the logistical challenges of not being able to meet and get the new design-ins, and so when it comes back, it should come back quite strong? It sounds like nothing about share loss, like incumbency or being not closer to them, it's just everybody can't get into the selling process. Is that correct?

James Moylan Jr.

Yes.

Gary Smith

Yes. That's a fair characterization, Jim. It is definitely not share loss. In fact, we've got a number of wins on the new business side that we have challenges ramping up that we were expecting to ramp-up in Europe. We've had a number of wins there, people like Telia, etc. that have been challenging on the ramp-up. It's absolutely not market share.

In fact, as we fast-forward for the year, Jim talked about the overall market probably being flat because of COVID. We're talking about growing there, so therefore we are going to take, and continue to take, market share. I don't think there's any question about that. It's kind of to be expected, it's just the logistics of velocity, of being able to get to sites, have access, fly across borders. All those are just slowing down, and that's sort of weighing on the second half.

But as Jim said, relative to other people, we actually have good visibility into those kinds of dynamics. Who knows how long this will last in terms of the COVID piece play out, we think it still will weigh on it, but the overall secular demand is extremely robust in pretty much all geographies.

Scott McFeely

The other dimension, Jim, out of this velocity theme is not only on the logistics side that Gary talked about, but where we are, the new attacker in an account where we may have won the logo and are trying to get through the certification process. Well, that requires people getting in labs, and when the world is working from home, that slows things down. There's a new product introduction pace, into our customers domains, that probably hinders us more where we're trying to grow market share, like in APJ, than where we have incumbencies.

Jim Suva

Then my follow-up is, does incumbency of Ciena having such a good first-mover's advantage in 100-gig and 400-gig, does that help out even more so with 800-gig when you then layer on the coronavirus additional challenges, or is it similar to the other technological rollouts as far as the competitive landscape of opening up for RFPs, for rolling out for 800-gig?

Gary Smith

Jim, I would say…

Scott McFeely

Where I…

Gary Smith

…we've had a very strong competitive advantage, because we've got the largest market share, but really, that's about relationships and trusted relationships that we have with most of the major Tier 1s around the world and all the content players. We have that at scale. Not only do we have the best technology, but they've trusted us for a number of years and they are very confident about our roadmap and the fact that we have the global scale to continue to innovate and support them. Frankly, it's a situation where the strong get stronger, and we are the incumbent player in most of the major carriers around the world.

Whilst it's a challenge for us, as Scott said, in terms of getting new stuff out there, like anybody else, we are much better positioned than any of the competition to be able to do that, because of our incumbency and track record, and deep integration into the back office of many of these carriers.

Scott McFeely

Yes, that last point, Gary…

Jim Suva

Thanks so much. Sorry.

Scott McFeely

…is an important one, because we—as you may have known, we've released the WaveLogic 5 technology on both our 6500 and our Waveserver platform, and the fact that it's on those platforms that our existing customers know and love just reduces the hill that they have to climb to integrate it into their operation and their back office, etc. As you know, those platforms are well-distributed around the world.

Jim Suva

Thank you so much.

Gregg Lampf

Thanks, Jim.

Operator

The next question comes from John Marchetti with Stifel.

John Marchetti

Thanks very much.

Gary, I'm curious, with some of the strength that you saw in the quarter with the web-scale guys, particularly at 100-gig and 400-gig, if you think that pushes out at all the adoption of 800-gig by those customers, understanding they're seeing the same traffic growth demands, and in some cases even seeing that increase. But if they're sort of ordering what they need today and buying the 100-gig and 400-gig because that's what they already have qualified, do you think that this maybe slows at least the early stages of adoption of 800-gig?

Gary Smith

Yes, that's a good question, John. I'll go then, and Scott can probably provide more color to it. But I don't think so. What we've seen to-date with their reaction, really to the COVID piece, they had pretty strong plans anyway to rollout this year on 100-gig and 400-gig anyway, typically 400-gig. But we saw a step-function in demand and reacted to it, and obviously right now, it's 400-gig, but we are very encouraged by what we're seeing in terms of the engagement on 800-gig.

Scott, do you want to give a little more color on that?

Scott McFeely

Yes, I think just to reiterate that, Gary, I mean, we've shifted already to-date, and it hasn't been commercially available for that long. We're north of a dozen customers across multiple application sets. Where it seems to have the most origin and immediate demand is anybody that has significant bandwidth growth and has fiber constraints, and that's where it proves out. Whether they're going to run that as an 800-gig application or in some multiples of 100-gig, that's where we're seeing the demand. But it's across all the applications, submarine, terrestrial, the metro and long-haul networks, and in DCI networks.

Gary Smith

To be clear…

John Marchetti

Then maybe just as a… Oh, sorry, go ahead, Gary.

Gary Smith

…John, (cross-talking). Yes, we are…

John Marchetti

Right.

Gary Smith

We are talking about the content players, yes.

John Marchetti

I think that's a follow-up. I mean, you had talked about the expectations for flat market growth. Last quarter, we talked about 7% to 10% growth for this market. Has that outlook changed for the year? I'm assuming the more flattish outlook is more on the telco side. I'm curious what your outlook is on the web-scale side, and if you've seen any change, with all this going on, really on the competitive front, relative to ZR? Thank you.

Gary Smith

That's a very good question on market share growth. I'll let Scott take the ZR piece, but I'll take the share piece. Overall, for the Optical space, excluding China, we think it's going to be pretty flat as an overall market. Now, within that, we think that with GCM, I think, as you said, the expectation for the year was about 7% to 10%. I think the latest stuff that I saw from it is probably 5% to 10%. We absolutely expect that space to grow, within the overall context of the Optical market. I do think you're going to see growth there, and we are going to grow at least at that kind of rate, which is what's forecasted for our guidance for the year.

Scott, do you want to take the ZR piece?

Scott McFeely

Yes, ZR, as you know, specifically, is an industry standard around interoperability that really targets an application space that's very short-reach transmission, call it 80 kilometers or less single span, with a very simple network in between it from a photonic perspective. That really talks to, really, campus or metro DCI. We've said, I think consistently for the last little while, that we expect in the fullness of time, that market opportunity to that application set will be somewhere around the $500 million mark against the backdrop of the total Optical market of, depending on who you listen to, $13 billion or $14 billion.

Our perspective of the overall market size opportunity hasn't changed. What I do see is, probably the timing of that moving a little bit to the right. I think it's going to be a 2021 event, maybe a little bit later in 2021 than people even anticipate it. We will have, as you know, I know we're going to have product off of our WaveLogic 5 Nano development activity, a lot of product that addresses that ZR application space at the end of this calendar year.

John Marchetti

Thank you.

Gregg Lampf

Thanks, John.

Operator

The next question comes from Samik Chatterjee with JP Morgan.

Samik Chatterjee

Hey guys, thanks for taking my question.

I just wanted to start off by asking in terms of the North American telcos and your outlook there; multiple times on the call you mentioned that the challenges are more kind of international here. In the meantime, you've seen large customers like Verizon raise their cap ex even during the COVID pandemic happening. Is some of that dedicated to bandwidth expansion, and what's your, now, current expectation for growth would be large, North American telcos, if you can help us with that?

James Moylan Jr.

Yes, thanks, Samik. Go ahead, Gary.

Gary Smith

Jim, do you want to go?

James Moylan Jr.

I'll be brief, and then you can follow-up, Gary. Generally speaking, we are the most incumbent in the North American. We have old and established relationships and very, very solid market share. Yes, they will probably be spending more over the coming quarters. Orders from them were particularly strong in the first half of this year, and our expectation, frankly, is that, for the North American telecoms, that they will be somewhat better than we expected for this full year. The weakness, as we've said a couple of times, is on the international side.

Gary?

Gary Smith

Yes, I would just add that you've obviously got the normal suspects there, the large carriers, but I would also emphasize again, very strong performance on the cable side. We expect for the year—obviously we've had new wins at places like Centrelink that we're ramping up, Charter, etc. We expect to have a very strong year in North America.

Samik Chatterjee

If I can just follow-up more in terms of op ex, but in terms of op ex planning; obviously some of the change here in op ex in the quarter was more temporarily and travel-related, but when you're thinking about next year in terms of all the different factors about increasing bandwidth needs and market share gains, how are you thinking about op ex, particularly going into next year? Are you looking to keep some structural reduction on your op ex, or are you more likely to increase headcount and gear up for higher demand?

James Moylan Jr.

Rather than talk about next year in particular, I'll say this, Samik. It is our goal every year, as we go into our planning process, to reduce op ex as a percent of revenue, and therefore add to our profitability. We've done it every year, frankly, for the last 10, and I think we'll continue to do that going forward.

We're going to continue to invest, and that's really critical for us to maintain our lead across the functions. Whether that's R&D or sales or the support functions. That's what I'd say.

Gregg Lampf

Operator, we'll take one last question, and just so everyone knows, we will try to get the transcript up on the website as soon as possible. Again, we apologize for any of the problems on the webcast.

Operator

We have a question from Meta Marshall with Morgan Stanley.

Meta Marshall

Great, thanks.

Just drilling down one last time on 800-gig and just whether—you mentioned, clearly, most of the restrictions are international, but are you seeing labs to do the 800-gig testing by your customers, still open and progressing, or were they far enough through the testing process that the trajectory of 800-gig doesn't change?

Then maybe just second question, I know you mentioned the op ex savings from travel, but if you could just call out what is a quarterly travel budget traditionally for you guys? Thanks.

Scott McFeely

Yes, Meta, it's Scott, I'll take the 800-gig one and then I'll let Jim talk to the second piece on travel.

On the 800-gig, we have engagements with customers across the globe that are at various stages of maturity on their optical technology. Some have been testing this technology for quite some time, some of them—we're bidding in new commercial RFPs and everything in-between. I'll say this, if I take a summary of it, our plans and forecasts for 800-gig for the year haven't really changed from what they were three or four months ago.

James Moylan Jr.

On the T&E, in a typical quarter, our T&E, our op ex T&E is $10 million to $12 million, and we're running at less than half that now.

Meta Marshall

Okay, great. Thanks guys.

Operator

At this time…

Gregg Lampf

Thank you, everyone, for joining.

Thanks, Sharon. Again, thank you, everyone, for joining. We apologize we couldn't get to everybody's questions. We look forward to catching up with everyone over the next following couple of days. Thanks for joining, thanks for the interest. Stay well.

Operator

This concludes today's conference call. You may now disconnect.