



# Ciena Corporation Q3 2016 Earnings Call

September 1, 2016  
8:30 a.m. EST

**make** [transformation] **possible**

# Forward-looking statements and non-GAAP measures

Information presented and related comments of presenters may contain forward-looking statements. Forward-looking statements include Ciena's business outlook for future periods as well as statements regarding Ciena's expectations, beliefs, intentions or strategies regarding the future and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words.

Ciena's actual results, performance or events may differ materially from these forward-looking statements made or implied due to a number of risks and uncertainties relating to Ciena's business, including: the effect of broader economic and market conditions on our customers and their business; changes in network spending or network strategy by large communication service providers; seasonality and the timing and size of customer orders, including our ability to recognize revenue relating to such sales; the level of competitive pressure we encounter; the product, customer and geographic mix of sales within the period; supply chain disruptions and the level of success relating to efforts to optimize Ciena's operations; changes in foreign currency exchange rates affecting revenue and operating expense; and the other risk factors disclosed in Ciena's Report on Form 10-Q, which Ciena filed with the Securities and Exchange Commission on June 8, 2016. Ciena assumes no obligation to update any forward-looking information included in this presentation.

All information, statements, and projections in this presentation and the related earnings call speak only as of the date of this presentation and related earnings call. Ciena assumes no obligation to update the information presented today, whether as a result of new information, future events or otherwise.

In addition, this presentation includes historical, and may include prospective, non-GAAP measures of Ciena's gross margin, operating expense, operating profit, net income, and net income per share. These measures are not intended to be a substitute for financial information presented in accordance with GAAP. A reconciliation of non-GAAP measures used in this presentation to Ciena's GAAP results for the relevant period can be found in the Appendix to this presentation.

With respect to Ciena's expectations under "Business Outlook" below, Ciena is not able to provide a quantitative reconciliation of the adjusted (non-GAAP) gross margin and adjusted (non-GAAP) operating expense guidance measures to the corresponding gross profit and gross profit percentage, and operating expense GAAP measures without unreasonable efforts. Ciena cannot provide meaningful estimates of the non-recurring charges and credits excluded from these non-GAAP measures due to the forward-looking nature of these estimates and their inherent variability and uncertainty. For the same reasons, Ciena is unable to address the probable significance of the unavailable information.

# Q3 Fiscal 2016 Financial Highlights

## Key Takeaways

1 **Revenue** of \$670.6 million

2 **Adjusted Gross Margin** of 46.8%\*

3 **Adjusted Operating Expense** of \$223.4 million\*

4 **Adjusted Operating Margin** of 13.5%\*

5 **Adjusted Net Income** of \$67.6 million, \$0.42 per share\*

\* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

# Q3 Fiscal 2016 Balance Sheet and Operating Metrics

Cash and Investments	\$1.27 billion
Cash Flow from Operations	\$77.1 million
DSO	79 Days
Inventory Turns	5.4
Headcount (as of July 31, 2016)	5,559

# Revenue by Segment

(Amounts in millions)

Revenue by Segment						
	Q3 FY 2016		Q2 FY 2016		Q3 FY 2015	
	Revenue	%**	Revenue	%**	Revenue	%**
<b>Networking Platforms</b>						
Converged Packet Optical	\$467.6	69.7	\$435.2	67.9	\$408.0	67.7
Packet Networking	63.7	9.5	68.5	10.7	57.2	9.5
Optical Transport	9.6	1.4	8.5	1.3	17.5	2.9
Total Networking Platforms	540.9	80.6	512.2	79.9	482.7	80.1
<b>Software and Software-Related Services</b>						
Software Platforms	12.6	1.9	11.8	1.9	11.2	1.9
Software-Related Services	19.0	2.8	18.7	2.9	15.3	2.5
Total Software and Software-Related Services	31.6	4.7	30.5	4.8	26.5	4.4
<b>Global Services</b>						
Maintenance Support and Training	56.0	8.4	57.1	8.9	59.9	9.9
Installation and Deployment	31.2	4.7	30.2	4.7	25.2	4.2
Consulting and Network Design	10.9	1.6	10.7	1.7	8.6	1.4
Total Global Services	98.1	14.7	98.0	15.3	93.7	15.5
<b>Total</b>	<b>\$670.6</b>	<b>100.0%</b>	<b>\$640.7</b>	<b>100.0%</b>	<b>\$602.9</b>	<b>100.0%</b>

# U.S. and International Revenue

(Amounts in millions)

## Revenue

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
United States	\$410.0	\$367.1	\$365.2	\$453.4	\$360.7
International	\$260.6	\$273.6	\$207.9	\$238.6	\$242.2
<b>Total</b>	<b>\$670.6</b>	<b>\$640.7</b>	<b>\$573.1</b>	<b>\$692.0</b>	<b>\$602.9</b>

## % of Total Revenue

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
United States	61.1%	57.3%	63.7%	65.5%	59.8%
International	38.9%	42.7%	36.3%	34.5%	40.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Revenue by Geographic Region

(Amounts in millions)

Revenue					
	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
North America	\$438.0	\$395.5	\$392.7	\$480.0	\$389.6
Europe, Middle East and Africa	\$104.3	\$96.2	\$80.7	\$94.0	\$93.2
Caribbean and Latin America	\$46.6	\$57.9	\$43.8	\$45.7	\$65.1
Asia Pacific	\$81.7	\$91.1	\$55.9	\$72.3	\$55.0
<b>Total</b>	<b>\$670.6</b>	<b>\$640.7</b>	<b>\$573.1</b>	<b>\$692.0</b>	<b>\$602.9</b>

% of Total Revenue					
	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
North America	65.3%	61.7%	68.5%	69.4%	64.6%
Europe, Middle East and Africa	15.5%	15.0%	14.1%	13.6%	15.5%
Caribbean and Latin America	7.0%	9.0%	7.6%	6.6%	10.8%
Asia Pacific	12.2%	14.3%	9.8%	10.4%	9.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Business Outlook<sup>1</sup>

## Q4'16

<b>Revenue</b>	\$700M to \$730M
<b>Adjusted Gross Margin</b>	Mid-40s percentage range
<b>Adjusted Operating Expense</b>	Approximately \$230M-\$235M

## Fiscal 2016

<b>Revenue Growth</b>	5% to 8%, approximately at mid-point
<b>Adjusted Gross Margin</b>	Mid-40s percent range
<b>Adjusted Operating Expense</b>	Approximately \$225M/quarter
<b>Adjusted Operating Margin %</b>	10% to 12%

## Next-stage financial milestone - 3 to 4 years

<b>Adjusted Operating Margin %</b>	15%
------------------------------------	-----

<sup>1</sup> Projections or outlook with respect to future operating results are only as of September 1, 2016 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.



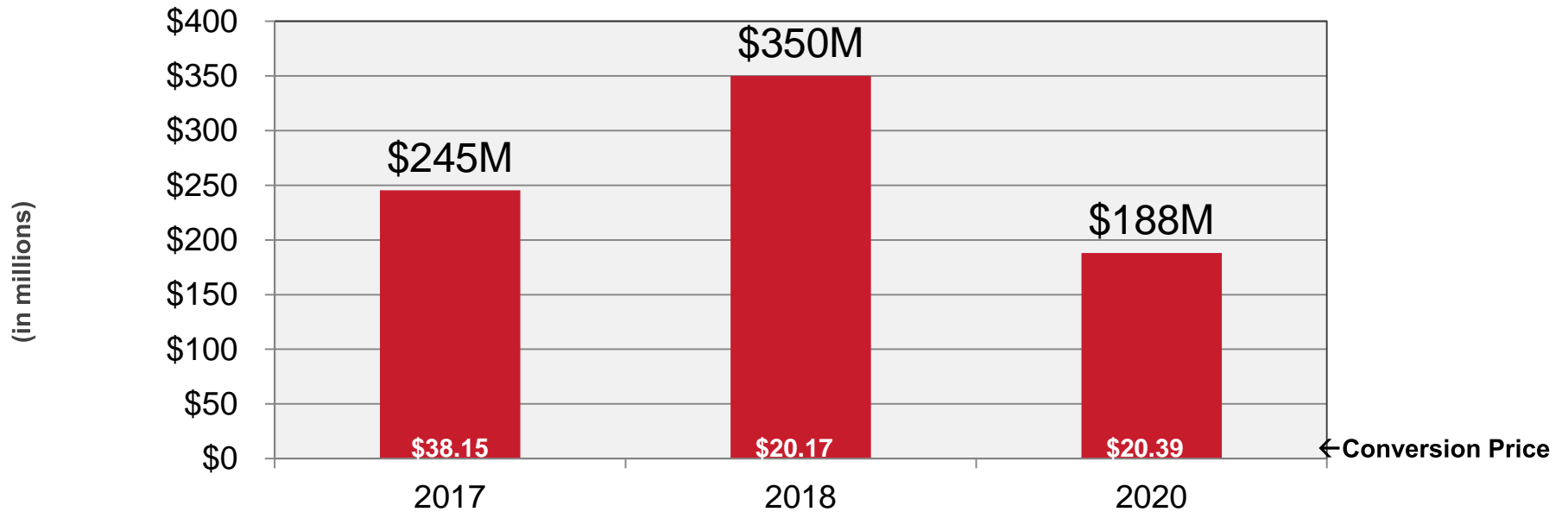
A night-time photograph of a city skyline with several illuminated skyscrapers. In the foreground, a road or highway is visible with long, horizontal light trails from moving vehicles, creating a sense of motion. The sky is a deep blue, and the overall scene is lit with the warm glow of city lights and the cool tones of twilight.

# Convertible Debt Overview (*Pro Forma as of 8/5/2016*)

**make** [transformation] **possible**

# Convertible debt profile\*

(Pro Forma as of 8/5/2016)



**\$0.78B aggregate principal amount outstanding; \$538M has a conversion price of slightly above \$20**

Once Ciena stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion, or to exercise a redemption right, in an effort to cause a conversion.

**Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue and correspondingly, the interest expense is removed for the respective issue(s).**

*\*On August 5, 2016, Ciena repurchased approximately \$205 million in aggregate principal amount of its outstanding 0.875% Convertible Senior Notes due 2017 (the "2017 Notes") in a private transaction, for an aggregate cash purchase price of approximately \$205 million, inclusive of accrued interest. Following the transaction, \$245.3 million in aggregate principal amount of the 2017 Notes remain outstanding. The amount outstanding as of the end of the third quarter of fiscal 2016 was approximately \$450.5 million.*

*Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.*

# Highlighted Terms Per Issue<sup>1</sup>

(Pro Forma as of 8/5/2016)

	Par Value (in millions)	Underlying Shares (in thousands)	Conversion Price	Additional Redemption / Conversion Provisions	Total Interest Expense (in millions)		Net Income Threshold for Diluted EPS (in millions) <sup>2</sup>	
					Quarterly	Annual	Quarterly	Annual
<b>0.875% convertible senior notes, due June 15, 2017</b>	\$245.3	6,431	\$38.15	No	\$0.7	\$2.7	\$14.9	\$59.7
<b>3.75% convertible senior notes due October 15, 2018</b>	\$350	17,356	\$20.17	No	\$3.6	\$14.4	\$29.6	\$118.2
<b>4.0% convertible senior notes, due December 15, 2020</b>	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is $\geq$ \$26.51 for 20 of 30 consecutive trading days	\$3.3	\$13.3	\$55.2	\$220.9

<sup>1</sup>Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.

<sup>2</sup>The assumed amount of net income at which the shares underlying the convert would be included in EPS and interest expense on the note would be excluded.

Convertible Notes and Diluted EPS Analysis  
(Pro Forma as of 8/5/2016)

Quarterly Assumptions

Outstanding Notes	Par Value	Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense	Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding	The quarterly net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS
0.875% notes due 2017	245,326	537	150			687	6,431	138,881	\$ 14,931
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	138,881	\$ 29,558
4.0% notes due 2020	187,500	1,875	76	915	480	3,346	9,198	138,881	\$ 55,223
<b>Total</b>	<b>\$ 782,826</b>	<b>\$ 5,693</b>	<b>\$ 535</b>	<b>\$ 915</b>	<b>\$ 480</b>	<b>\$ 7,623</b>	<b>32,985</b>		

This spreadsheet is intended to assist people in developing their own assumptions. Ciena assumes no obligation to update the information presented herein, whether as a result of new information, future events or otherwise.

Ciena's outstanding convertible notes are considered anti-dilutive when the related interest expense on a per common share "if converted basis" exceeds Basic EPS for the period.

Over the term of the notes the amount of accretion of principal (included as a non-cash component of interest expense) and amortization of the debt discount will fluctuate by immaterial amounts.

This schedule reflects the quarterly net income required for the inclusion of the common shares underlying each issue in determining Diluted EPS, with each issue considered on a cumulative basis in order from most to least dilutive.

Net income or earnings per share assumptions regarding the convertible notes are for information purposes only and do not reflect Ciena's business outlook. Ciena makes no assumptions as to whether or when the Company could achieve the relevant metrics provided in this presentation.

Convertible Notes and Diluted EPS Analysis  
(Pro Forma as of 8/5/2016)

<b>Annual Assumptions</b>									
Outstanding Notes	Par Value	Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense	Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding	The annual net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS
0.875% notes due 2017	245,326	2,147	601			2,748	6,431	138,881	\$ 59,724
3.75% notes due 2018	350,000	13,125	1,236			14,361	17,356	138,881	\$ 118,233
4.0% notes due 2020	187,500	7,500	304	3,660	1,920	13,384	9,198	138,881	\$ 220,891
<b>Total</b>	<b>\$ 782,826</b>	<b>\$ 22,772</b>	<b>\$ 2,141</b>	<b>\$ 3,660</b>	<b>\$ 1,920</b>	<b>\$ 30,493</b>	<b>32,985</b>		

This spreadsheet is intended to assist people in developing their own assumptions. Ciena assumes no obligation to update the information presented herein, whether as a result of new information, future events or otherwise.

Ciena's outstanding convertible notes are considered anti-dilutive when the related interest expense on a per common share "if converted basis" exceeds Basic EPS for the period.

Over the term of the notes the amount of accretion of principal (included as a non-cash component of interest expense) and amortization of the debt discount will fluctuate by immaterial amounts.

This schedule reflects the annual net income required for the inclusion of the common shares underlying each issue in determining Diluted EPS, with each issue considered on a cumulative basis in order from most to least dilutive.

Net income or earnings per share assumptions regarding the convertible notes are for information purposes only and do not reflect Ciena's business outlook. Ciena makes no assumptions as to whether or when the Company could achieve the relevant metrics provided in this presentation.

A nighttime cityscape with illuminated skyscrapers and light trails from traffic. The foreground is dominated by a large, semi-transparent orange geometric pattern. The text 'Q3 Fiscal 2016 Appendix' is overlaid in white on the left side.

# Q3 Fiscal 2016 Appendix

**make** [transformation] **possible**

## Gross Profit Reconciliation

(Amounts in thousands)

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
GAAP gross profit	\$308,485	\$283,093	\$251,450	\$302,988	\$269,869
Share-based compensation-products	645	629	571	589	671
Share-based compensation-services	637	693	592	573	490
Amortization of intangible assets	4,328	4,315	3,438	3,438	2,200
Fair value adjustment of acquired inventory*	-	-	-	3,069	-
Total adjustments related to gross profit	5,610	5,637	4,601	7,669	3,361
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$314,095</b>	<b>\$288,730</b>	<b>\$256,051</b>	<b>\$310,657</b>	<b>\$273,230</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>46.8%</b>	<b>45.1%</b>	<b>44.7%</b>	<b>44.9%</b>	<b>45.3%</b>

\*Fair value adjustment of acquired inventory - an infrequent charge required by acquisition accounting rules resulting from the required revaluation of inventory acquired from Cyan to estimated fair value. This revaluation resulted in a net increase in inventory carrying value and an increase in cost of goods sold for the periods indicated.

## Operating Expense Reconciliation (Amounts in thousands)

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
GAAP operating expense	\$251,461	\$254,860	\$240,211	\$293,570	\$225,418
Share-based compensation-research and development	3,479	3,791	3,428	3,850	2,114
Share-based compensation-sales and marketing	3,590	3,923	4,735	4,468	3,571
Share-based compensation-general and administrative	4,284	4,968	5,129	5,860	3,516
Share-based compensation-acquisition and integration*	-	697	-	7,588	-
Acquisition and integration costs, excluding share-based compensation	1,029	1,588	1,299	14,496	2,435
Amortization of intangible assets	14,529	15,566	16,862	36,454	11,019
Restructuring costs	1,138	535	384	366	192
Settlement of patent litigation**	-	1,200	-	-	500
Total adjustments related to operating expense	28,049	\$32,268	\$31,837	\$73,082	\$23,347
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$223,412</b>	<b>\$222,592</b>	<b>\$208,374</b>	<b>\$220,488</b>	<b>\$202,071</b>

## Income from Operations Reconciliation (Amounts in thousands)

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
GAAP income from operations	\$57,024	\$28,233	\$11,239	\$9,418	\$44,451
Total adjustments related to gross profit	5,610	5,637	4,601	7,669	3,361
Total adjustments related to operating expense	28,049	32,268	31,837	73,082	23,347
<b>Adjusted (non-GAAP) income from operations</b>	<b>\$90,683</b>	<b>66,138</b>	<b>\$47,677</b>	<b>\$90,169</b>	<b>\$71,159</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>13.5%</b>	<b>10.3%</b>	<b>8.3%</b>	<b>13.0%</b>	<b>11.8%</b>

\*Share-based compensation-acquisition and integration associated with the Cyan acquisition.

\*\*Settlement of patent litigation – included in general and administrative expense during the second quarter of fiscal 2016 and the third quarter of fiscal 2015.



## Net Income (Loss) Reconciliation (Amounts in thousands)

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
GAAP net income (loss)	\$33,546	\$13,997	(\$11,546)	(\$13,832)	\$23,625
Total adjustments related to gross profit	5,610	5,637	4,601	7,669	3,361
Total adjustments related to operating expense	28,049	32,268	31,837	73,082	23,347
Gain on extinguishment of debt	(44)	-	(106)	-	-
Non-cash interest expense	480	460	441	362	397
<b>Adjusted (non-GAAP) net income</b>	<b>\$67,641</b>	<b>\$52,362</b>	<b>\$25,227</b>	<b>\$67,281</b>	<b>\$50,730</b>
Weighted average basic common shares outstanding	138,881	137,950	136,675	134,097	118,413
Weighted average dilutive potential common shares outstanding <sup>1</sup>	178,547	178,026	151,408	177,054	159,787

## Net Income (Loss) per Common Share

	Q3 FY 2016	Q2 FY 2016	Q1 FY 2016	Q4 FY 2015	Q3 FY 2015
GAAP diluted net income (loss) per common share	\$ 0.23	\$ 0.10	\$ (0.08)	\$ (0.10)	\$ 0.19
<b>Adjusted (Non-GAAP) diluted net income per common share<sup>2</sup></b>	<b>\$ 0.42</b>	<b>\$ 0.34</b>	<b>\$ 0.18</b>	<b>\$ 0.42</b>	<b>\$ 0.37</b>

# Reconciliation Endnotes

1. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2016 includes 0.9 million shares underlying certain stock options and restricted stock units, 12.2 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*

*Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2016 includes 0.9 million shares underlying certain stock options and restricted stock units, 12.6 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*

*Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2016 includes 1.8 million shares underlying certain stock options and restricted stock units and 12.9 million shares underlying Ciena's 0.875% convertible senior notes.*

*Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2015 includes 2.7 million shares underlying certain stock options and restricted stock units, 13.0 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018, 0.7 million shares underlying the 8.0% convertible senior notes, due December 15, 2019 assumed from the Cyan acquisition and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*

*Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2015 includes 1.7 million shares underlying certain stock options and restricted stock units, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*

2. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2016 requires adding back interest expense of approximately \$1.3 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.9 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

*The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2016 requires adding back interest expense of approximately \$1.3 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.9 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

*The calculation of Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2016 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

*The calculation of Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2015 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018, approximately \$0.1 million associated with Ciena's 8.0% convertible senior notes, due December 15, 2019 assumed from the Cyan acquisition and approximately \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

*The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2015 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*



Thank You

**make** [transformation] **possible**