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Ciena Corporation
Q3 2017
Earnings Call

August 31, 2017
8:30 a.m. EST

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 7, 2017.

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 any forward-looking or other information included in this presentation or related earnings calls, 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. Additional information can also be found in our press release filed this morning and in our reports on Form 10-Q filed with the Securities and Exchange Commission.

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 2017 Financial Highlights

Key Takeaways

- 1 Revenue of \$728.7 million
- 2 Adjusted Gross Margin of 45.5%*
- 3 Adjusted Operating Expense of \$229.3 million*
- 4 Adjusted Operating Margin of 14.1%*
- 5 Adjusted Net Income of \$81.0 million, \$0.51 per share*

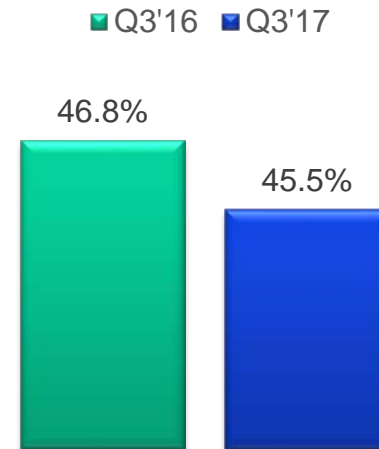
* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

Year-over-Year

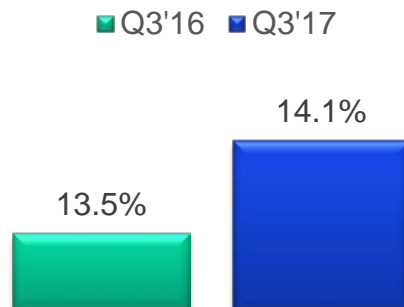
Revenue



Adj. Gross Margin*



Adj. Operating Margin*



Adj. EPS*

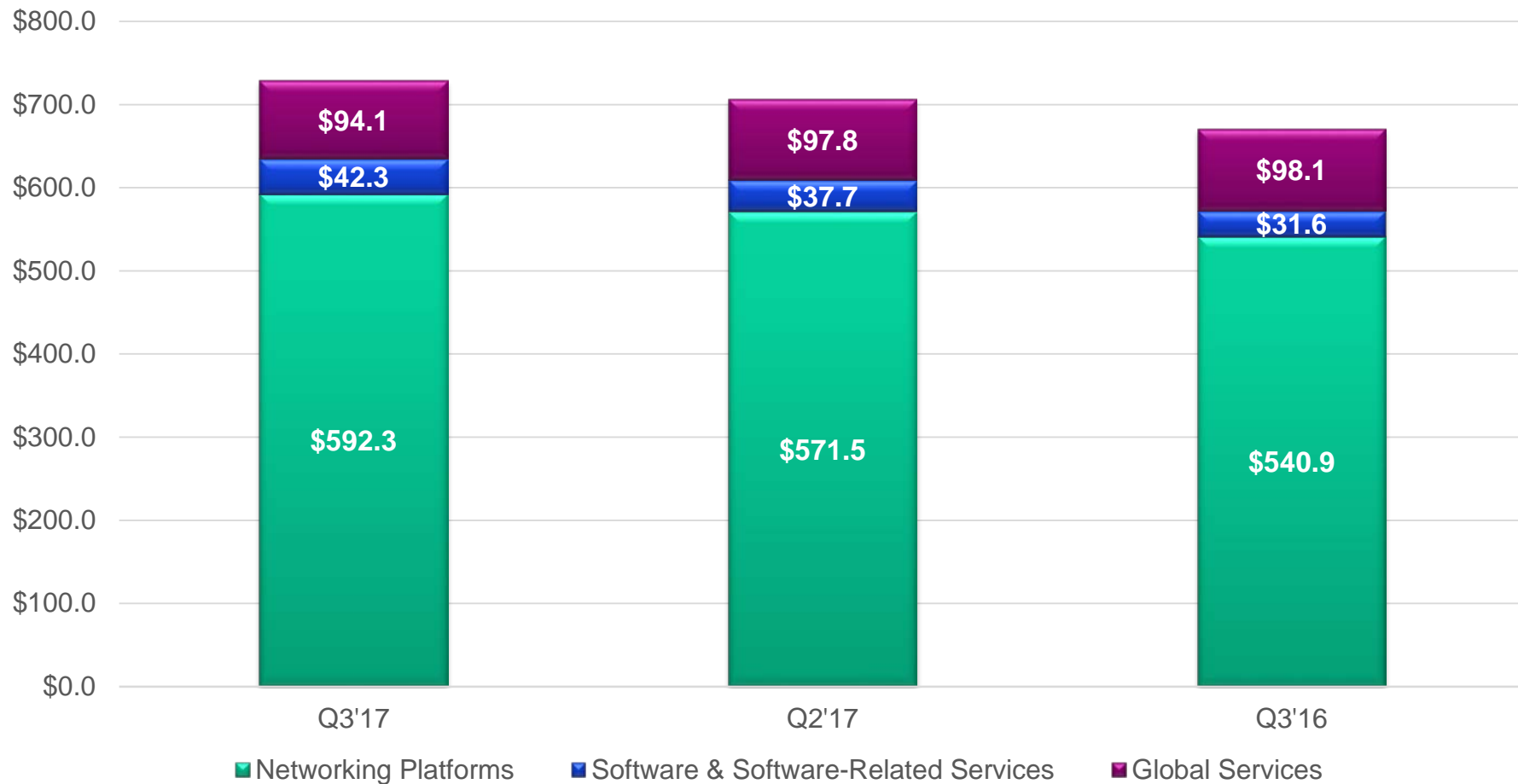


* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

Q3 Fiscal 2017 Balance Sheet and Operating Metrics

Cash and Investments	\$854.2 million
Cash Flow From Operations	\$50.6 million
DSO	81 Days
Inventory Turns	4.9
Headcount (as of July 31, 2017)	5,780

Revenue by Segment (in millions)



Revenue by Segment

(Amounts in millions)

Revenue by Segment

	Q3 FY 2017		Q2 FY 2017		Q1 FY 2017	
	Revenue	%*	Revenue	%*	Revenue	%*
Networking Platforms						
Converged Packet Optical	\$506.5	69.5	\$502.1	71.0	\$412.7	66.4
Packet Networking	82.1	11.3	66.4	9.4	72.2	11.6
Optical Transport	3.7	0.5	3.0	0.4	5.1	0.8
Total Networking Platforms	592.3	81.3	571.5	80.8	490.0	78.8
Software and Software-Related Services						
Software Platforms	18.4	2.5	13.1	1.9	17.0	2.7
Software-Related Services	23.9	3.3	24.6	3.5	22.3	3.6
Total Software and Software-Related Services	42.3	5.8	37.7	5.4	39.3	6.3
Global Services						
Maintenance Support and Training	57.9	7.9	58.2	8.2	55.0	8.9
Installation and Deployment	27.4	3.8	28.7	4.1	27.9	4.5
Consulting and Network Design	8.8	1.2	10.9	1.5	9.3	1.5
Total Global Services	94.1	12.9	97.8	13.8	92.2	14.9
Total	\$728.7	100.0%	\$707.0	100.0%	\$621.5	100.0%

* Denotes % of total revenue

U.S. and International Revenue

(Amounts in millions)

Revenue

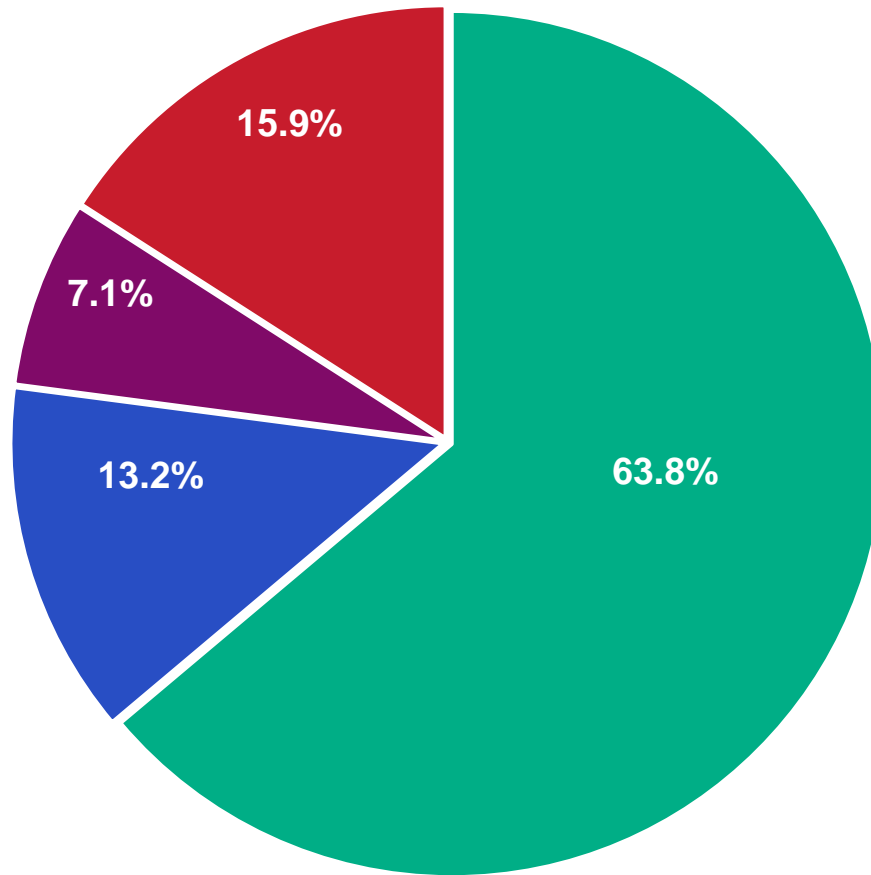
	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
United States	\$438.1	\$392.0	\$379.7	\$436.9	\$410.0
International	\$290.6	\$315.0	241.8	279.3	260.6
Total	\$728.7	\$707.0	\$621.5	\$716.2	\$670.6

% of Total Revenue

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
United States	60.1%	55.4%	61.1%	61.0%	61.1%
International	39.9%	44.6%	38.9%	39.0%	38.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region – Q3FY17

- North America
- Europe, Middle East and Africa
- Caribbean and Latin America
- Asia Pacific



Revenue by Geographic Region (Amounts in millions)

Revenue					
	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
North America	\$465.2	\$424.4	\$405.9	\$463.1	\$438.0
Europe, Middle East and Africa	96.1	105.8	91.5	112.5	104.3
Caribbean and Latin America	51.7	33.9	35.2	46.8	46.6
Asia Pacific	115.7	142.9	88.9	93.8	81.7
Total	\$728.7	\$707.0	\$621.5	\$716.2	\$670.6

Revenue					
	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
North America	63.8%	60.0%	65.3%	64.7%	65.3%
Europe, Middle East and Africa	13.2%	15.0%	14.7%	15.7%	15.5%
Caribbean and Latin America	7.1%	4.8%	5.7%	6.5%	7.0%
Asia Pacific	15.9%	20.2%	14.3%	13.1%	12.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Business Outlook¹

Q4'17	
Revenue	\$720M to \$750M
Adjusted Gross Margin	Mid-40s percentage range
Adjusted Operating Expense	Approximately \$240M
Fiscal 2017	
Adjusted Gross Margin	Mid-40s percent range
Adjusted Operating Expense	Average approximately \$235M/quarter
Adjusted Operating Margin %	11% to 13%
Next-stage financial milestone - about 3 years	
Adjusted Operating Margin %	15%

¹ Projections or outlook with respect to future operating results are only as of August 31, 2017, 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.



Convertible Debt Overview

Convertible Notes and Diluted Earnings Per Share (EPS) Analysis (GAAP)

Outstanding Convertible Notes	Par Value (in thousands)	Underlying Shares (in thousands)	Conversion Price	Additional Shares In Diluted EPS Calculation (in thousands)	Quarterly Interest Expense (in thousands)	Diluted EPS Methodology ⁽²⁾	Memo: Ciena's quarterly net income must be equal to or greater than the below amounts for the Underlying Shares to be included in Diluted EPS Calculation (in thousands)
3.75% Senior Convertible Notes due October 15, 2018 (Issued 8/2/2017) ⁽¹⁾	\$ 288,730	14,318	\$ 20.17	2,769 ⁽³⁾	N/A	Treasury Stock Method	N/A
3.75% Senior Convertible Notes due October 15, 2018 (Issued 10/18/2010) ⁽¹⁾	\$ 61,270	3,038	\$ 20.17	3,038	\$ 628	If-Converted Method	\$ 30,143
4.0% Convertible Senior Notes due December 15, 2020	\$ 187,500	9,198	\$ 20.39	9,198	\$ 3,410	If-Converted Method	\$ 54,562
Total	\$ 537,500	26,554		15,005	\$ 4,038		

(1) On August 2, 2017, a portion of our 3.75% Senior Convertible Notes due October 15, 2018 (Issued 10/18/2010) (the "Original 2018 Notes") were exchanged by the holders thereof for 3.75% Senior Convertible Notes due October 15, 2018 (Issued 8/2/2017) (the "New 2018 Notes"). The New 2018 Notes give Ciena the option, at its election, to settle conversions of such notes for cash, shares of its common stock, or a combination of cash and shares. Except with respect to the additional cash settlement options upon conversion, the New 2018 Notes have substantially the same terms as the Original 2018 Notes.

(2) **Description of Diluted EPS Methodologies:**

Treasury Stock Method - Convertible debt instruments that may be settled entirely or partly in cash (such as the New 2018 Notes) may, in certain circumstances where the borrower has the ability and intent to settle in cash, be accounted for utilizing the Treasury Stock Method. Under this method, the underlying shares issuable upon conversion of the notes (the "Underlying Shares") are excluded from the calculation of diluted EPS, except to the extent that the Conversion Value (as defined on the following slide) of the notes exceeds their par value. No adjustment is made to the EPS numerator for interest expense recorded. It is Ciena's current intent, as of the date of this presentation, that upon conversion of the New 2018 Notes, the principal amount of these notes will be settled in cash, and therefore Ciena intends to use the Treasury Stock Method with respect to these notes in its diluted EPS calculation. See the following slide for an illustration of this method at varying stock prices and the "Additional EPS Shares" that would be included in calculating diluted EPS.

If-Converted Method - Convertible debt instruments that must be settled in shares (such as the Original 2018 Notes and the 4.0% Convertible Senior Notes due December 15, 2020) are accounted for under the If-Converted Method. Under this method, diluted EPS is computed assuming the conversion of the notes at the beginning of the reporting period. Ciena adds back to the EPS numerator the recorded interest expense applicable to the notes for the relevant reporting period, and adds the Underlying Shares to the denominator to compute EPS under this method; provided that such adjustments do not increase diluted EPS. If such adjustments increase diluted EPS, then diluted EPS is computed with the interest expense as recorded and without any Additional EPS Shares for the Underlying Shares of such notes.

(3) Computed for illustrative purposes using the Treasury Stock Method based on Ciena's \$25.00 average price per share during its fiscal third quarter. See the following slide for an illustration of the a calculation of Additional EPS Shares at varying stock prices.

NOTE: Net income, earnings per share and stock price assumptions in these materials are for illustrative purposes only and for the sole purpose of further explaining how diluted EPS is calculated in regard to Ciena's convertible notes. Such metrics do not reflect Ciena's business outlook. Ciena makes no assumptions as to whether or when it could achieve the relevant metrics provided in this presentation.

Illustrative Treasury Stock Method for New 2018 Notes

The following table (in thousands, except Stock Price Per Share) illustrates the treatment of Ciena's New 2018 Notes in calculating diluted EPS in the future based on various hypothetical stock prices and using the Treasury Stock Method. The range of stock prices listed in the table are for illustrative purposes only. Additional EPS Shares would be issuable at Ciena stock prices above \$35 per share with the calculation of such Additional EPS Shares to be determined using the same formula below. The actual number of shares of common stock, if any, issuable by Ciena upon conversion of any notes, will be governed by the terms of the indenture applicable to such notes.

Average Stock Price Per Share A	Underlying Shares B	Conversion Value C = (A * B)	Par Value D	Conversion Value in Excess of Par Value E = (C - D)	Additional Shares in Diluted EPS Calculation (Additional EPS Shares) E ÷ A
Below \$20.17	14,318	N/A	N/A	N/A	-
21	14,318	\$ 300,678	288,730	\$ 11,948	569
22	14,318	314,996	288,730	26,266	1,194
23	14,318	329,314	288,730	40,584	1,765
24	14,318	343,632	288,730	54,902	2,288
25	14,318	357,950	288,730	69,220	2,769
26	14,318	372,268	288,730	83,538	3,213
27	14,318	386,586	288,730	97,856	3,624
28	14,318	400,904	288,730	112,174	4,006
29	14,318	415,222	288,730	126,492	4,362
30	14,318	429,540	288,730	140,810	4,694
31	14,318	443,858	288,730	155,128	5,004
32	14,318	458,176	288,730	169,446	5,295
33	14,318	472,494	288,730	183,764	5,569
34	14,318	486,812	288,730	198,082	5,826
\$ 35	14,318	\$ 501,130	288,730	\$ 212,400	6,069

Q3 Fiscal 2017 Appendix



Gross Profit Reconciliation

(Amounts in thousands)

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
GAAP gross profit	\$328,076	\$318,240	\$273,785	\$318,548	\$308,485
Share-based compensation-products	709	708	561	612	645
Share-based compensation-services	619	679	628	557	637
Amortization of intangible assets	2,417	3,623	4,313	4,320	4,328
Total adjustments related to gross profit	3,745	5,010	5,502	5,489	5,610
Adjusted (non-GAAP) gross profit	\$331,821	\$323,250	\$279,287	\$324,037	\$314,095
Adjusted (non-GAAP) gross margin	45.5%	45.7%	44.9%	45.2%	46.8%

Operating Expense Reconciliation (Amounts in thousands)

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
GAAP operating expense	\$246,077	\$260,420	\$254,681	\$258,875	\$251,461
Share-based compensation-research and development	3,139	3,653	3,209	3,172	3,479
Share-based compensation-sales and marketing	3,242	3,513	2,873	2,890	3,590
Share-based compensation-general and administrative	4,321	3,417	5,453	2,961	4,284
Acquisition and integration costs	-	-	-	-	1,029
Amortization of intangible assets	3,837	10,980	14,551	14,551	14,529
Restructuring Costs	2,203	4,276	2,395	2,876	1,138
Total adjustments related to operating expense	16,742	25,839	28,481	\$26,450	\$28,049
Adjusted (non-GAAP) operating expense	\$229,335	\$234,581	\$226,200	\$232,425	\$223,412

Income from Operations Reconciliation (Amounts in thousands)

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
GAAP income from operations	\$81,999	\$57,820	\$19,104	\$59,673	\$57,024
Total adjustments related to gross profit	3,745	5,010	5,502	5,489	5,610
Total adjustments related to operating expense	16,742	25,839	28,481	26,450	28,049
Adjusted (non-GAAP) income from operations	\$102,486	\$88,669	\$53,087	\$91,612	\$90,683
Adjusted (non-GAAP) operating margin	14.1%	12.5%	8.5%	12.8%	13.5%

Net Income Reconciliation (Amounts in thousands)

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
GAAP net income	\$60,010	\$38,026	\$3,861	\$36,587	\$33,546
Total adjustments related to gross profit	3,745	5,010	5,502	5,489	5,610
Total adjustments related to operating expense	16,742	25,839	28,481	26,450	28,049
(Gain)/Loss on extinguishment of debt	-	-	41	376	(44)
Non-cash interest expense	535	526	513	500	480
Modification of debt	-	2,924	-	-	-
Adjusted (non-GAAP) net income	\$81,032	\$72,325	\$38,398	\$69,402	\$67,641
Weighted average basic common shares outstanding	142,464	141,743	140,682	139,741	138,881
Weighted average dilutive potential common shares outstanding ₁	172,112	174,471	165,104	174,496	178,547

Net Income per Common Share

	Q3 FY 2017	Q2 FY 2017	Q1 FY 2017	Q4 FY 2016	Q3 FY 2016
GAAP diluted net income per common share	\$ 0.39	\$ 0.25	\$ 0.03	\$ 0.25	\$ 0.23
Adjusted (Non-GAAP) diluted net income per common share₂	\$ 0.51	\$ 0.45	\$ 0.26	\$ 0.44	\$ 0.42

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 2017 includes 1.4 million shares underlying certain stock options and restricted stock units, 1.7 million shares underlying Ciena's 0.875% convertible senior notes, which were paid at maturity during the third quarter of fiscal 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 2017 includes 1.3 million shares underlying certain stock options and restricted stock units, 4.9 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 2017 includes 1.5 million shares underlying certain stock options and restricted stock units, 5.6 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017 and 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 .

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 2016 includes 1.6 million shares underlying certain stock options and restricted stock units, 6.6 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 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.

2. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2017 requires adding back interest expense of approximately \$0.2 million associated with Ciena's 0.875% convertible senior notes, which were paid at maturity during the third quarter of fiscal 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.*

The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2017 requires adding back interest expense of approximately \$0.5 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.

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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.

Thank You

