



ciena

Ciena Corporation Q3 Fiscal 2015 Earnings Call

September 3, 2015
8:30 a.m. EST

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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 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 10, 2015. Ciena assumes no obligation to update any forward-looking information included in this press release.

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.

Q3 Fiscal 2015 Key Takeaways

1

Our business model is clearly working – with significant improvement in profits and cash generation in the third quarter.

2

We're in a highly differentiated competitive position: Only Ciena offers the highest-performing hardware platforms that are required *today*, and the best-performing software platform that will be essential *tomorrow* as the market continues its shift toward virtualization and SDN.

3

Underlying demand is strong and, combined with our market position, gives us confidence in our ability to grow the business and continue to improve profitability.

Q3 Fiscal 2015 Financial Highlights

Key Takeaways

1 **Revenue** – \$602.9 million

2 **Adjusted Gross Margin** – 45.3%*

3 **Adjusted Operating Expense** – \$202.1 million*

4 **Adjusted Operating Margin** – 11.8%*

5 **Adjusted Net Income** – \$50.7 million, \$0.37 per share*

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

Q3 Fiscal 2015 Balance Sheet and Operating Metrics

Cash and Investments	\$927.3 million
Cash Flow from Operations	\$117.5 million
DSO	79 Days
Inventory Turns	5.6
Headcount (as of July 31, 2015)	5,196

Q3 Fiscal 2015 Revenue by Segment

(Amounts in millions)

Revenue by Segment

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
Converged Packet Optical	\$ 408.0	\$ 432.9	\$ 336.6	\$ 383.3	\$ 382.0
Packet Networking	\$ 57.2	\$ 53.3	\$ 55.0	\$ 56.4	\$ 69.5
Optical Transport	\$ 17.5	\$ 16.5	\$ 22.3	\$ 26.5	\$ 31.0
Software and Services	\$ 120.2	\$ 118.9	\$ 115.3	\$ 124.8	\$ 121.1
Total	\$ 602.9	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6

% of Total Revenue

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
Converged Packet Optical	67.7%	69.6%	63.6%	64.9%	63.3%
Packet Networking	9.5%	8.6%	10.4%	9.5%	11.5%
Optical Transport	2.9%	2.7%	4.2%	4.5%	5.1%
Software and Services	19.9%	19.1%	21.8%	21.1%	20.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q3 Fiscal 2015 U.S. and International Revenue

(Amounts in millions)

Revenue

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
United States	\$ 360.7	\$ 367.6	\$ 297.7	\$ 308.5	\$ 368.1
International	\$ 242.2	\$ 254.0	\$ 231.5	\$ 282.5	\$ 235.5
Total	\$ 602.9	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6

% of Total Revenue

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
United States	59.8%	59.1%	56.3%	52.2%	61.0%
International	40.2%	40.9%	43.7%	47.8%	39.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q3 Fiscal 2015 Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
North America	\$ 389.6	\$ 397.2	\$ 331.5	\$ 340.5	\$ 403.3
Europe, Middle East and Africa	\$ 93.2	\$ 102.2	\$ 111.0	\$ 133.7	\$ 99.9
Caribbean and Latin America	\$ 65.1	\$ 47.9	\$ 42.8	\$ 51.8	\$ 67.2
Asia Pacific	\$ 55.0	\$ 74.3	\$ 43.9	\$ 65.0	\$ 33.2
Total	\$ 602.9	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6

% of Total Revenue

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
North America	64.6%	63.9%	62.6%	57.6%	66.8%
Europe, Middle East and Africa	15.5%	16.4%	21.0%	22.6%	16.6%
Caribbean and Latin America	10.8%	7.7%	8.1%	8.8%	11.1%
Asia Pacific	9.1%	12.0%	8.3%	11.0%	5.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Business Outlook¹

Q4 2015

Revenue	\$665M to \$700M (Cyan: \$40M to \$60M)
Adjusted Gross Margin	Approximately 44%
Adjusted Operating Expense	Approximately \$225M (Cyan: approx \$14M)

Fiscal 2015

Adjusted Operating Margin %	Above 10%
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¹Projections or outlook with respect to future operating results are only as of September 3, 2015, which is 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

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Convertible Debt Profile*



- 2015 Notes matured on March 13, 2015 with 96.3% settled in common stock
- \$1.04B 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).

*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 Issue¹

	Par Value (in millions)	Underlying Shares (in thousands)	Conversion Price	Additional Redemption / Conversion Provisions	Net Income Threshold for Diluted EPS (in millions)²
0.875% convertible senior notes, due June 15, 2017	\$500	13,108	\$38.15	No	\$13
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$26
4.0% convertible senior notes, due March 15, 2020	\$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	\$48

¹Each 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.

²The 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

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	500,000	1,094	294			1,388	13,108	118,413	\$ 12,718
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	118,413	\$ 26,173
4.0% notes due 2020	187,500	1,875	76	901	397	3,249	9,198	118,413	\$ 48,214
Total	\$ 1,037,500	\$ 6,250	\$ 679	\$ 901	\$ 397	\$ 8,227	39,662		

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.



Q3 Fiscal 2015 Appendix

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Gross Profit Reconciliation

(Amounts in thousands)

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
GAAP gross profit	\$ 269,869	\$ 272,411	\$ 230,295	\$ 220,837	\$ 263,973
Share-based compensation-products	671	653	487	547	737
Share-based compensation-services	490	574	519	496	572
Amortization of intangible assets	2,200	2,201	2,200	2,201	2,201
Total adjustments related to gross profit	3,361	3,428	3,206	3,244	3,510
Adjusted (non-GAAP) gross profit	\$ 273,230	\$ 275,839	\$ 233,501	\$ 224,081	\$ 267,483
Adjusted (non-GAAP) gross margin	45.3%	44.4%	44.1%	37.9%	44.3%

Operating Expense Reconciliation (Amounts in thousands)

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
GAAP operating expense	\$ 225,418	\$ 229,997	\$ 226,130	\$ 222,652	\$ 226,971
Share-based compensation-research and development	2,114	2,534	2,167	1,960	2,368
Share-based compensation-sales and marketing	3,571	3,841	3,659	2,759	3,890
Share-based compensation-general and administrative	3,516	3,723	3,919	3,025	3,376
Acquisition and integration costs	2,435	1,020	-	-	-
Amortization of intangible assets	11,019	11,019	11,019	11,019	11,019
Restructuring costs	192	(17)	8,085	171	63
Settlement of patent litigation	500	-	-	-	-
Total adjustments related to operating expense	23,347	22,120	28,849	18,934	20,716
Adjusted (non-GAAP) operating expense	\$ 202,071	\$ 207,877	\$ 197,281	\$ 203,718	\$ 206,255

Income (Loss) from Operations Reconciliation (Amounts in thousands)

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
GAAP income (loss) from operations	\$ 44,451	\$ 42,414	\$ 4,165	\$ (1,815)	\$ 37,002
Total adjustments related to gross profit	3,361	3,428	3,206	3,244	3,510
Total adjustments related to operating expense	23,347	22,120	28,849	18,934	20,716
Adjusted (non-GAAP) income from operations	\$71,159	\$67,962	\$36,220	\$20,363	\$ 61,228
Adjusted (non-GAAP) operating margin	11.8%	10.9%	6.8%	3.4%	10.1%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
GAAP net income (loss)	\$ 23,625	\$ 20,653	\$ (18,779)	\$ (30,703)	\$ 16,160
Total adjustments related to gross profit	3,361	3,428	3,206	3,244	3,510
Total adjustments related to operating expense	23,347	22,120	28,849	18,934	20,716
Non-cash expense associated with the conversion of convertible notes	-	768	-	-	-
Non-cash interest expense	397	371	361	351	327
Change in fair-value of embedded redemption feature	-	-	-	-	190
Adjusted (non-GAAP) net income (loss)	\$50,730	\$47,340	\$13,637	\$(8,174)	\$ 40,903
Weighted average basic common shares outstanding	118,413	113,555	107,773	106,931	106,236
Weighted average dilutive potential common shares outstanding	159,787 ¹	158,917 ³	121,896 ⁵	106,931	156,561 ⁷

Net Income (Loss) per Common Share

	Q3 FY2015	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014
GAAP diluted net income (loss) per common share	\$ 0.19	\$ 0.17	\$ (0.17)	\$ (0.29)	\$ 0.15
Adjusted (Non-GAAP) diluted net income (loss) per common share	\$ 0.37²	\$ 0.35⁴	\$ 0.12⁶	\$ (0.08)	\$ 0.32⁸

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 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 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.*
3. *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 2015 includes 1.4 million shares underlying certain stock options and restricted stock units, 4.3 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 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.*
4. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2015 requires adding back interest expense of approximately \$1.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, 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.*
5. *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 2015 includes 1.0 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
6. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the first 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 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
7. *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 2014 includes 1.5 million shares underlying certain stock options and restricted stock units, 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 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.*
8. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the fiscal third quarter of 2014 requires adding back interest expense of approximately approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, 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

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