



Ciena Corporation Q1 2016 Earnings Call

March 3, 2016
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-K, which Ciena filed with the Securities and Exchange Commission on December 21, 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.

Q1 Fiscal 2016 Financial Highlights

Key Takeaways

1

Revenue of \$573.1 million

2

Adjusted Gross Margin of 44.7%*

3

Adjusted Operating Expense of \$208.4 million*

4

Adjusted Operating Margin of 8.3%*

5

Adjusted Net Income of \$25.2 million, \$0.18 per share*

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

Q1 Fiscal 2016 Balance Sheet and Operating Metrics

Cash and Investments	\$995.4 million
Cash Flow from Operations	\$15.0 million
DSO	75 Days
Inventory Turns	5.1
Headcount (as of January 31, 2016)	5,363

Revenue by Segment

(Amounts in millions)

Revenue by Segment

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
Networking Platforms	\$ 449.5	\$ 564.7	\$ 482.6	\$ 502.7	\$ 413.9
Software and Software-Related Services	\$ 25.4	\$ 26.3	\$ 26.6	\$ 23.9	\$ 23.5
Global Services	\$ 98.2	\$ 101.0	\$ 93.7	\$ 95.0	\$ 91.8
Total	\$ 573.1	\$ 692.0	\$ 602.9	\$ 621.6	\$ 529.2

% of Total Revenue

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
Networking Platforms	78.4%	81.6%	80.1%	80.9%	78.2%
Software and Software-Related Services	4.4%	3.8%	4.4%	3.8%	4.4%
Global Services	17.2%	14.6%	15.5%	15.3%	17.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

U.S. and International Revenue

(Amounts in millions)

Revenue

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
United States	\$ 365.2	\$ 453.4	\$ 360.7	\$ 367.6	\$ 297.7
International	\$ 207.9	\$ 238.6	\$ 242.2	\$ 254.0	\$ 231.5
Total	\$ 573.1	\$ 692.0	\$ 602.9	\$ 621.6	\$ 529.2

% of Total Revenue

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
United States	63.7%	65.5%	59.8%	59.1%	56.3%
International	36.3%	34.5%	40.2%	40.9%	43.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
North America	\$ 392.7	\$ 480.0	\$ 389.6	\$ 397.2	\$ 331.5
Europe, Middle East and Africa	\$ 80.7	\$ 94.0	\$ 93.2	\$ 102.2	\$ 111.0
Caribbean and Latin America	\$ 43.8	\$ 45.7	\$ 65.1	\$ 47.9	\$ 42.8
Asia Pacific	\$ 55.9	\$ 72.3	\$ 55.0	\$ 74.3	\$ 43.9
Total	\$ 573.1	\$ 692.0	\$ 602.9	\$ 621.6	\$ 529.2

% of Total Revenue

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
North America	68.5%	69.4%	64.6%	63.9%	62.6%
Europe, Middle East and Africa	14.1%	13.6%	15.5%	16.4%	21.0%
Caribbean and Latin America	7.6%	6.6%	10.8%	7.7%	8.1%
Asia Pacific	9.8%	10.4%	9.1%	12.0%	8.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Business Outlook¹

Q2'16

Revenue	\$615M to \$645M
Adjusted Gross Margin	Mid-40s percentage range
Adjusted Operating Expense	Approximately \$225M

Fiscal 2016

Revenue Growth	5% to 8%
Adjusted Gross Margin	Mid-40s percent range
Adjusted Operating Expense	Approximately \$225M/quarter
Adjusted Operating Margin %	10% to 12%

Next-stage financial milestone - 3 to 4 years

Adjusted Operating Margin %	15%
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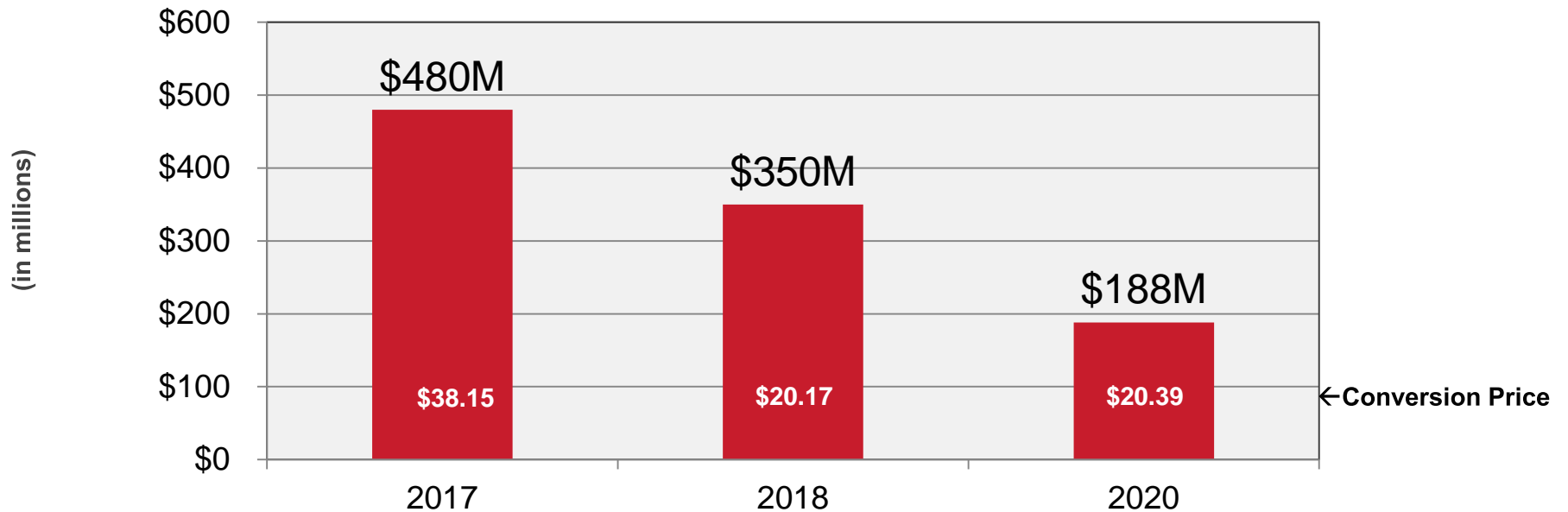
¹ Projections or outlook with respect to future operating results are only as of March 3, 2016 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

A night-time photograph of a city skyline with illuminated skyscrapers. In the foreground, a road is shown with light trails from traffic, overlaid with a large, semi-transparent orange geometric pattern of overlapping triangles.

Convertible Debt Overview

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Convertible debt profile*



\$1.02B 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	\$480	12,583	\$38.15	No	\$15
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$30
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	\$55

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

Outstanding Notes	Par Value	Quarterly Assumptions							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	
		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		
0.875% notes due 2017	479,985	1,050	276			1,326	12,583	136,675	\$	14,594
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	136,675	\$	29,927
4.0% notes due 2020	187,500	1,875	76	907	441	3,299	9,198	136,675	\$	55,495
Total	\$ 1,017,485	\$ 6,206	\$ 661	\$ 907	\$ 441	\$ 8,215	39,137			

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.

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 'Q1 Fiscal 2016 Appendix' is overlaid in white.

Q1 Fiscal 2016 Appendix

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Gross Profit Reconciliation (Amounts in thousands)

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
GAAP gross profit	\$ 251,450	\$ 302,988	\$ 269,869	\$ 272,411	\$ 230,295
Share-based compensation-products	571	589	671	653	487
Share-based compensation-services	592	573	490	574	519
Amortization of intangible assets	3,438	3,438	2,200	2,201	2,200
Fair value adjustment of acquired inventory	-	3,069*	-	-	-
Total adjustments related to gross profit	4,601	7,669	3,361	3,428	3,206
Adjusted (non-GAAP) gross profit	\$ 256,051	\$ 310,657	\$ 273,230	\$ 275,839	\$ 233,501
Adjusted (non-GAAP) gross margin	44.7%	44.9%	45.3%	44.4%	44.1%

*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)

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
GAAP operating expense	\$ 240,211	\$ 293,570	\$ 225,418	\$ 229,997	\$ 226,130
Share-based compensation-research and development	3,428	3,850	2,114	2,534	2,167
Share-based compensation-sales and marketing	4,735	4,468	3,571	3,841	3,659
Share-based compensation-general and administrative	5,129	5,860	3,516	3,723	3,919
Share-based compensation-acquisition and integration	-	7,588*	-	-	-
Acquisition and integration costs, excluding share-based compensation	1,299	14,496	2,435	1,020	-
Amortization of intangible assets	16,862	36,454	11,019	11,019	11,019
Restructuring costs	384	366	192	(17)	8,085
Settlement of patent litigation	-	-	500**	-	-
Total adjustments related to operating expense	\$ 31,837	\$ 73,082	\$ 23,347	\$ 22,120	\$ 28,849
Adjusted (non-GAAP) operating expense	\$ 208,374	\$ 220,488	\$ 202,071	\$ 207,877	\$ 197,281

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

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
GAAP income from operations	\$ 11,239	\$ 9,418	\$ 44,451	\$ 42,414	\$ 4,165
Total adjustments related to gross profit	4,601	7,669	3,361	3,428	3,206
Total adjustments related to operating expense	31,837	73,082	23,347	22,120	28,849
Adjusted (non-GAAP) income from operations	\$ 47,677	\$ 90,169	\$ 71,159	\$ 67,962	\$ 36,220
Adjusted (non-GAAP) operating margin	8.3%	13.0%	11.8%	10.9%	6.8%

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

**Settlement of patent litigation - included in general and administrative expense during the third quarter of fiscal 2015 is a \$0.5 million patent litigation settlement.

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
GAAP net income (loss)	\$ (11,546)	\$ (13,832)	\$ 23,625	\$ 20,653	\$ (18,779)
Total adjustments related to gross profit	4,601	7,669	3,361	3,428	3,206
Total adjustments related to operating expense	31,837	73,082	23,347	22,120	28,849
Non-cash (gain) expense associated with the conversion of convertible notes	(106)*	-	-	768**	-
Non-cash interest expense	441	362	397	371	361
Adjusted (non-GAAP) net income	\$ 25,227	\$ 67,281	\$ 50,730	\$ 47,340	\$ 13,637
Weighted average basic common shares outstanding	136,675	134,097	118,413	113,555	107,773
Weighted average dilutive potential common shares outstanding	151,408 ¹	177,054 ³	159,787 ⁵	158,917 ⁷	121,896 ⁹

Net Income (Loss) per Common Share

	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015	Q1 FY2015
GAAP diluted net income (loss) per common share	\$ (0.08)	\$ (0.10)	\$ 0.19	\$ 0.17	\$ (0.17)
Adjusted (Non-GAAP) diluted net income per common share	\$ 0.18²	\$ 0.42⁴	\$ 0.37⁶	\$ 0.35⁸	\$ 0.12¹⁰

*Non-cash gain associated with the conversion of convertible notes - an infrequent gain related to the repurchase and early extinguishment of a portion of Ciena's 0.875% senior convertible notes due June 15, 2017 during the first quarter of fiscal 2016.

**Non-cash expense associated with the conversion of convertible notes - a non-cash expense related to certain private exchange offers conducted with several holders of Ciena's 4.0% senior convertible notes due March 15, 2015 prior to maturity of such notes.

Reconciliation Endnotes

1. *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.*

2. *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.*

3. *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.*

4. *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.*

5. *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.*

6. *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.*

7. *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, notes (which were paid at maturity during the second quarter of fiscal 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 second quarter of fiscal 2015 requires adding back interest expense of approximately \$1.1 million associated with Ciena's 4.0% convertible senior notes, (which were paid at maturity during the second quarter of fiscal 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.*

9. *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.*

10. *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.*



Thank You

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