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CIEN - Q4 2015 Ciena Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Ciena Corporation's fiscal fourth-quarter 2015 and year-end earnings conference call.

(Operator Instructions)

As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Gregg Lampf, Vice President of Investor Relations. Please go ahead.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thank you, Cat. Good morning, and welcome to Ciena's 2015 fourth-quarter and year-end review. With me today is Gary Smith, CEO and President; Jim Moylan, CFO; and Francois Locoh-Donou, COO.

This morning's press release is available on National Business Wire and Ciena.com. We also will post to the investor section of Ciena.com an accompanying investor presentation, including certain highlighted items from the quarter and the fiscal year being discussed today, as well as our historical results.

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In our prepared remarks today, Gary will discuss management's view on the market and our overall progress, and Jim will provide details on our Q4 and fiscal-year results, and provide guidance. We'll then open the call to questions from the sell-side analysts, taking one question per person with follow-ups as time allows.

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 are based on current expectations, forecasts and assumptions regarding the Company that 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.

Our 10-K is required to be filed with the SEC by December 30, and we 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.

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, available on Ciena.com. This call is being recorded, and will be available for replay from the investor section of our website.

Gary?

Gary Smith - *Ciena Corporation - CEO & President*

Thanks, Gregg, and good morning to everyone on the call.

With the strong results we posted this morning, Ciena clearly had a great quarter and another excellent full fiscal year across a number of metrics, including gross margin, operating margin, and cash generation. In fact, our financial performance in 2015 exceeds many of the long-term financial targets we set for ourselves some five years ago. Accordingly, it's time to set our next set of targets, and in a moment, Jim will provide a new next-stage milestone, in addition to our quarterly and annual guidance.

But first I want to offer some context around the strength of the Business and the platform we've created, so I'll focus my comments in two areas. First, I'll spend a few minutes on the considerable progress we've made in recent years; and second, I want to clearly outline the drivers we see for continued growth and financial success going forward.

Over the last several years, we've achieved what we said we would do, and in fact, more. From a financial perspective, we've doubled our revenues, with gross margin performance now consistently within our target range. We've driven down adjusted operating expense as a percentage of revenue from 48% to 34% last year. And the resulting improvement in operating leverage has enabled us to swing from a negative operating margin in 2011 to achieving 11% adjusted operating margin in FY15.

As you know, in this industry, quarterly performance is not always indicative of the underlying business trends, but looking at that annual performance over this five-year span, we are clearly showing steady, consistent progress that validates our business model and our ability to execute against it.

Turning to our progress from a market perspective, Ciena is now number one or two globally in every optical category we play in. In fact, Infonetics' recent global survey of customers, Ciena was named the top leader across many market segments, including optical, parts and data center interconnect, and across other disciplines like technology innovation and product reliability. In transport SDN and control plane, Ciena was number two globally.

We've also grown our packet business to include over 350 customers, and expanded our opportunity by entering the metro aggregation market with our newly released 8700 Packetwave platform. And we've significantly diversified our customer base, so that non-telco now represents about a third of total revenues versus less than a quarter of our Business some five years ago. This includes a strong leadership position with web-scale players.

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I'm happy to announce that our momentum continues, as we've added another top-five web-scale customer in Q4, meaning Ciena now directly serves four of the five largest web-scale companies in the world, and we are gaining share within those accounts. All of these market gains are a testament to our proven portfolio strategy and unique engagement model, and the underlying strength of our customer relationships.

Because of our consistent market progress, continued diversification, and steadily improving financial performance, we have a broad and far more balanced Business today, and one that is positioned to benefit from the next phase of network transformation. Just as Ciena is fundamentally a different Company today than it was five years ago, so is our industry. And our evolution over that period is strategically aligned and heavily invested in where the industry is going next.

The effect of consolidation in the industry is that there are fewer direct competitors in our space, while at the same time, we're selling to more kinds of customers and in a broader range of applications than ever before. With more types of applications and businesses relying on the network to deliver services and experiences on demand, we see multiple growth drivers for Ciena in 2016 and beyond, drivers that are both market-segment and product orientated.

I'd like to briefly touch on those drivers, in no particular order. Firstly, data center interconnect represents an opportunity for increasing direct and indirect sales. We're building a strong DCI position with Waveserver, and we have some immediate validation of this brand new platform.

We only started shipping a couple of weeks ago. We will take revenue in Q1. We have four new customers, including, importantly, one top-five web-scale customer that I announced earlier. And we will continue to drive this solution across multiple customer segments globally, which we are uniquely positioned to do.

Second is metro transformation. As we have discussed, the importance of early design wins, no matter the application, and our early success in major metro architectural decisions, including a clean sweep in North American tier 1s, positions Ciena well for metro network expansion both domestically and internationally. While deployments are just beginning, in many cases the landing spots for the largest portions of the market are essentially already decided.

We also expect packet networking to be a big growth driver in 2016 and beyond. For example, with eight new customers in Q4, we now have 26 total customers for our 8700 platform. And over the course of the last 12 months, we've seen growing interest from tier 1 accounts globally. And in fact, we have five new tier 1 design wins in 2015.

Our distribution agreement with Ericsson continues to be a source of incremental revenue growth, and we are on plan with this relationship, particularly in geographies where we otherwise would not be present. And we have some great wins, including a new tier 1 in Europe and a new customer in the Middle East in Q4, and we have a building pipeline.

With our product groups continuing to deliver market-leading innovation, we have multiple new platforms and features coming to market that we believe further expand our addressable market. These developments are well aligned and will further evolve our OPn open architecture. Through OPn, we've advocated and embraced openness as the direction of the network, essentially breaking down silos in our portfolio, and cross-pollinating functionality through convergence, automation and virtualization.

And that really leads me to the last growth driver I'd like to highlight, Blue Planet. We've made clear that we believe Blue Planet will not be a significant revenue driver in 2016; but just as design wins are important in emerging platform markets, they are just as critical in software. We view 2016, therefore, as a foundational year for Blue Planet, a year for architectural-type wins in orchestration and virtualization to give us the platform we need to grow our software business with an open, multi-vendor approach. And I'm pleased to report that we're off to a great start.

As we expected, Ciena's trusted relationships with forward-thinking customers are opening new doors for Blue Planet, and in fact, the pipeline has more than doubled since the Cyan acquisition. We've added two new Blue Planet customers in Q4, both of which are tier 1s, one in North America and one internationally, bringing our total number of Blue Planet customers to eight. In addition, we are engaged and short-listed on additional tier 1 service provider opportunities with testing well under way, and we are successfully expanding engagements with existing Blue Planet customers.

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In addition, our continued development on the platform is further increasing Blue Planet's appeal. The platform's newly launched micro-service architecture aligns perfectly with industry momentum around Docker containers, and multiple service providers have clearly named micro-services as their preferred choice when deploying network virtualization technologies. So, in the longer term, we see Blue Planet as a strategic growth driver, enhancing revenue, gross margin, and the overall business value that we offer our customers

In closing, Ciena has performed extremely well over the last quarter, the last year, and the last five years. We've developed into a diversified, differentiated Business with a broad-based strategy and a set of strategic investments in next-gen metro, packet, and software. Our strategy and our operating model are working, and are proving both to be durable and sustainable, and our team is consistently executing against both at a very high level.

In short, we've delivered on exactly what we've promised, and this has directly resulted in strong value creation for our shareholders. From this position, we see additional opportunities to continue to grow and drive improving operating leverage from our Business, and we intend to leverage those opportunities in 2016 and beyond.

Jim?

Jim Moylan - *Ciena Corporation - CFO*

Thank you, Gary. Good morning, everyone.

You heard Gary comment on our progress over the last five years, as we work to achieve and to exceed our long-term targets. As a level set, I want to remind you what those targets were.

When we acquired Nortel's MEN business, we established a set of longer-term targets for our financial metrics, which, in combination, would achieve an adjusted operating margin between 7% and 10%. To achieve this goal, we targeted annual revenue growth to be faster than the market, adjusted gross margin in the low- to mid-40s percentage range, and adjusted operating expense as a percentage of revenue in the low- to mid-30%s.

Five years later, we have achieved or exceeded these targets. 2015 was our best year yet. Our 2015 adjusted operating margin was 11%, 4.5 percentage points better than 2014, and above our long-term target. We achieved this with a 14% compound annual growth rate for revenue since 2010, 50% faster than market growth. We are now consistently posting gross margins in the mid-40%s, and OpEx as a percentage of revenue in 2015 was 34%.

Equally as important, we have moved from burning cash in 2010 to generating more than $250 million in cash from operations in 2015. Our strong cash generation reflects our higher profitability, and the increasing maturity of our international business, where we have built our brand significantly over the past several years. In a relatively short span of time, we have truly transformed our Business along every financial metric, and there is more to come.

For the full fiscal year, revenue came in at $2.44 billion. Adjusted gross margin was 44.7%, and adjusted operating expense was $828 million, reflecting continued commitment to sound OpEx management.

All told, with an adjusted operating margin of 11% for the year, and adjusted earnings per share of $1.31, FY15 was a very profitable year. By every measure, we delivered in 2015 what we said we would deliver. Our business model is providing excellent profitability and continued leverage. We have executed well, and we have strong momentum in our markets.

And our performance for the fourth fiscal quarter capped a strong 2015. Q4 revenue was a record $692 million.

Revenue from the former Cyan products and services came in higher than expected at $84 million. This was primarily due to a high-priority need by a North American customer for the Z-Series platform. While we continue to see strong Z-Series demand, we expect quarterly revenue for this platform to normalize around $30 million for the near term. With this revenue performance, Cyan was accretive to our fiscal fourth-quarter results.

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With such strong North American revenue, contribution from international customers was 34%, down from 40% in Q3; however, I would emphasize that we continue to be gaining momentum outside of the US, particularly in Asia-Pac, with particular strength in India and the submarine market.

We had another strong revenue quarter with web-scale customers who contributed between 5% and 10% of overall revenue. And once again, our top 100-gig customer in the quarter was a leading web-scale player. Q4's adjusted gross margin came in at 44.9%, continuing a trend of strong gross margin.

Operating expense in Q4 was $221 million, including $12 million associated with the addition of Cyan. As a result, we achieved $90 million in adjusted operating profit in Q4, for a 13% adjusted operating margin. And orders in Q4 were the strongest on record, meaningfully higher than our revenue. We increased our backlog to $1 billion at the year's end, even as we have significantly increased our in-quarter book-to-revenue business, which we define as revenue on orders which were received in that quarter.

We strengthened our balance sheet in Q4. We generated $85 million in cash from operations, and ended the quarter with just over $1 billion in cash and investments. Higher profitability and good balance sheet management are driving strong cash generation, which we will continue. Adjusted earnings per share in the quarter was $0.42.

I'll now turn to guidance -- first, for the year, 2016. All indications point to another strong year ahead for Ciena; and as Gary said, we're seeing great momentum across a broad range of growth initiatives.

Specifically, we believe we will grow revenue in the range of 8% to 9% in FY16. This compares to an addressable market growth rate across our businesses that we estimate will be in the mid-single digits for the year. All the growth drivers that Gary talked about are contributing to this result.

We expect adjusted gross margin for the year to be in the mid-40s percentage range, and we expect adjusted OpEx to average approximately $225 million per quarter over the fiscal year. Given that forecast, we expect adjusted operating margin for FY16 to be in the range of 11% to 12%.

Speaking now about our fiscal first quarter, we expect revenue in the range of $555 million to $590 million, consistent with the seasonal reductions in order volume and customer deployment activity that we typically experience during that quarter. We expect Q1's adjusted gross margin to be approximately 44%, and we expect adjusted operating expense to be approximately $220 million.

Just a word about our segment information: As software becomes an even more important component of our solutions offering, we are beginning to measure our performance on the basis of network platforms, software, and services. We have recently reorganized the management of our Business along these lines, including the formation of our Blue Planet division. To reflect these changes, beginning in Q1 we will start reporting our results across three new operating segments: Networking Platforms, Software and Software-Related Services, and Global Services.

We will be providing supplemental information, including a recast of our past results, along the lines of these new segments on our Investor Relations page early in January to help you with this transition. And we will continue to give enough information about individual products, so that market participants can keep track of our progress along this dimension. This change is a natural evolution of our Business that is consistent with our open and converged architecture, and we expect that these changes will give you a better view, both of our performance and of how we are measuring our own progress as we move through time.

Looking now beyond 2016, having exceeded our longer-term profitability target, which we set earlier, it is now appropriate to set a new next-stage milestone for our continued financial progress. Specifically, we are targeting an adjusted operating margin of 15%, to be achieved within the next 3 to 4 years.

To achieve this milestone, we expect to continue on our path of gross margin expansion as a result of increasing software, packet networking, and total solution sales. We will elevate the overall business value Ciena offers to a wider range of customers. We also expect to continue to take market share, and also to grow revenue faster than operating expense.

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Of course, the exact contribution from each of these factors will vary quarter to quarter, and this progress will not be linear. But we are confident that, over time, the cumulative effect will result in improving operating leverage, increased cash generation, and a sustainably profitable Business.

Cat, we will now open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen.

(Operator Instructions)

Our first question comes from the line of Doug Clark with Goldman Sachs.

Doug Clark - *Goldman Sachs - Analyst*

Hi, thank you. Wondering if you can touch a little bit more on the details that are factoring into the first quarter and FY16 guidance? In particular, I understand the step down in Cyan revenues, but if you normalize for a full year of that, you're still looking at about low single-digit revenue growth. How does that balance out with oncoming Metro 100-gig projects, particularly at one large North American customer? Thanks.

Gary Smith - *Ciena Corporation - CEO & President*

I'm sorry, Doug. We lost you for part of that on the call. Do you mind just repeating that? I apologize.

Doug Clark - *Goldman Sachs - Analyst*

Sure. To be a little bit more succinct, just for FY16, excluding Cyan, revenue growth looks to be about low-single digits. Wondering how you can balance that with what seems to be fairly optimistic comments and strong Metro 100-gig positioning, and specifically timing and position of the large North American opportunity that should come on line.

Gary Smith - *Ciena Corporation - CEO & President*

I think we feel that the drivers are exactly intact, and as you say, things like DCI and the ramp in Metro, it's really just an issue of timing, and the slope of the ramp, if you will. We still think that we will continue to take market share and grow faster than the market, but I think some of the perspectives around the timing of that from a market perspective are not completely aligned. But I think we will continue to grow the Business with these drivers.

The dashboard, as Jim talked about, looks very positive. We've got very big backlog. The order flows are the best we've seen in the last quarter; and the pipeline, as well, continues to grow. But I think the point is that, even with those growth rates, we can deliver extremely good operating leverage into the Business in 2016.

Jim Moylan - *Ciena Corporation - CFO*

And just to emphasize, Doug, these big Metro rollouts are exactly on target as we have been expecting. Our expectations are based on what our customers are saying, which is consistent with what they've said for a while.

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Doug Clark - *Goldman Sachs - Analyst*

Got it. That's helpful.

And then just a quick follow-up is -- on the monetization of software -- I know for Cyan in particular, it had been a bit difficult to directly monetize that. And with you guys breaking that out going forward, strategically how do you anticipate going about that, given that it's always been a bit of a challenge for the industry?

Francois Locoh-Donou - *Ciena Corporation - COO*

Doug, it's Francois. I'll take that.

What we're seeing is a change, because in the past, the software was heavily bundled with basically networking platforms and hardware as part of a networking deployment. The change we're seeing with Blue Planet is it really enables a new and different set of services, and also transforms the operating model of service providers.

And so, the willingness to pay, from a customer perspective, is much stronger than what you would have with traditional network management platforms. And so, we're pretty -- in the engagement Gary mentioned, we've doubled the pipeline of engagement with customers on Blue Planet. And I'll tell you, in all of these engagements, what we're seeing is a good ability to monetize the software and what it enables for them.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thanks, Doug.

Doug Clark - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Our next question comes from the line of Mark Sue with RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. Good morning, gentlemen. If I look at the backlog, which grew an impressive amount, $807 million to $1 billion, almost $200 million, that seems to bode well for the full year. However, the full year is off by about $150 million from where the consensus is. And you definitely had more things going on in 2016 than you did in 2015, so what is causing the base business deceleration?

Because if I look at last year, rewind the clock, you guided to around [7% to 9%], and you're now thinking the base business grows in the mid-single digits. I was just trying to rectify the growth impact log, all of the new things you have going on, and you're taking the growth of the industry down a little bit.

Gary Smith - *Ciena Corporation - CEO & President*

Yes, I think it's all to do with the slope of the ramp of these builds. I think there, as Jim said, some of the larger ones that we're dealing with are on track. It's just a bottoms-up view right now of the year.

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I think that some of the industry market timings as well are also probably got a little ahead of themselves. I think they'll probably revise for last year as well.

The other thing to remember is that we're also looking at this through the lens of our fiscal year, which ends at the end of October. That's the other thing I'd remind people, and the revenue recognition that we have to take from that. So, whilst all the signs in terms of order flow and the dashboard look good, and the pipeline and the ramp-outs are on track, when we translate that into our fiscal and the timing that we expect with that, this is the bottoms-up view that we get.

And we may be wrong on that. We've been reasonably accurate the last few years. We have a pretty good process around that. We're pretty close to a lot of our customers, as you'd expect, and that's why we built the model to be able to still deliver the operating leverage to the bottom line, even if we're right about this growth.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thank you, Mark.

Operator

Our next question comes from the line of Paul Silverstein with Cowen and Company.

Paul Silverstein - *Cowen and Company - Analyst*

Two related questions, if I may. Gary, with respect to your comments about timing, do you have visibility into the timing of that ramp? When you talk about that it's just a timing delay, or not necessarily delay based on your comments, but do you have visibility into this translating into meaningfully better growth in 2017, whether it be Verizon or Metro in general, the ramp of the Waveserver platform, et cetera?

And then with respect to -- Jim, did I hear you correctly? Was it 15% you cited from the next 3 to 4 years on the operating margin? And if that's the case, how much of that is aspirational? How much, at this point in time, do you have a view to in terms of the drivers and more substantive, concrete stuff?

Obviously, you've done a good job to date, but looking forward, how do you get there? What underlies that view? Thanks.

Gary Smith - *Ciena Corporation - CEO & President*

Paul, I'll take the first part of that; the two are obviously linked. I would say, overall, we have better visibility than we've had for a long time into the Business, and that's because we're beginning some of the deployments of these next-gen Metro's. We're very engaged with these tier 1 customers particularly, so we have pretty good visibility into the ramp-ups here. And we have a very bottoms-up process for putting the forecast together, and it's been pretty accurate over the last few years.

And to your point about 2017 and beyond, I think we do have better visibility in further years than we've had for a long time because these are long-term projects. So, I think when Jim talks about the financial context of this, it's obviously fed in from that better visibility.

Jim Moylan - *Ciena Corporation - CFO*

Yes, and on our longer-term targets, 15% is a target that we've set for ourselves. Because of the nature of network deployments and the way different parts of the network are built out at different times, we can't expect linear and sequential progress quarter after quarter after quarter. And even if you look back over our history, we've had years where we jumped in our performance, and then we had a smaller increase.

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So, I'd say that you have to be mindful that this is a long process that we're on to get better. We've done it. We said we were going to do it, and we did what we said we were going to do.

As I look forward, I believe that we will have to show improvement in gross margin to get to that 15%, and I think we can do that, as we've said. I think that packet platforms are going to provide margin enhancement. I believe that software, as it grows as a higher percentage of our revenue, will provide enhancement. And also, as we're selling our converged solutions, we are getting stickier inside of customers, and that helps. Perhaps there's a bit of improvement in the industry structure.

So, as I say, to get to 15%, we're going to have to show gross margin improvement, and we expect to do so. However, we also think that there's further improvement in our operating leverage. There's not 3 or 4 points improvement in operating expense as a percent of revenue, but there is further improvement we do believe. That's how we think we'll get there.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thank you, Paul.

Operator

Our next question comes from the line of Tal Liani with Banc of America Merrill Lynch.

Tal Liani - *BofA Merrill Lynch - Analyst*

Yes, hi. Good morning. I have a question. I'm going back to the same topic for the first few questions.

Revenue growth -- if I look at your numbers, revenue growth was 13%, or almost 14% in 2013, then 10% last year. And this year, if I remove Cyan, it's 3%; so, there was severe deceleration in growth rate. And when I try to back out the numbers after Cyan, back out the numbers for the core business for this year, we're getting again, as everyone said, low-single digits.

So, the question I have is why? What are the -- not why, because you tried to answer the why. What are the drivers in the industry that could ramp growth rate, reaccelerate growth rate next year and surprise you? And why is the industry slowing down that much in the last three years, or four years.

If I take your numbers as is, the industry is slowing down to almost no growth -- the core business slowing down to almost no growth for four years. So, what are the drivers that could turn it around and drive up the growth rate again to double digits or anything higher than what we are seeing this year and next year? Thanks.

Jim Moylan - *Ciena Corporation - CFO*

I'll start that, Dmitry, and I'll say that I do think you have to be a little careful -- I'm sorry, Tal.

Tal Liani - *BofA Merrill Lynch - Analyst*

That's okay.

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Jim Moylan - *Ciena Corporation - CFO*

I think you have to be careful about drawing conclusions around things that are happening. You'll recall that FX was a pretty significant piece of our revenue change in this past year. And I just think there are always going to be ebbs and flows in the way that network operators build out their networks.

There's some big things that are coming that we know; we've all talked about. We believe that they are on track to what was originally forecasted. I think that possibly some people, including the industry analysts, might have gotten ahead of themselves.

But I just think that we're going to continue to grow. And as we look out ahead and some of these big projects come on track, our growth will resume.

The other thing I'd point to is, we had record orders in Q4. We have a backlog over $1 billion, which is right where our previous record was. So, we feel really good about the strength of our Business, and there's going to be changes in the growth rate from quarter to quarter and even from year to year.

Tal Liani - *BofA Merrill Lynch - Analyst*

So, maybe I'll ask the question in a different way. About geographies -- we focused in the last year about North America, and projects in North America. Where do you think -- or what do you think is happening outside of North America when it comes to demand? And what are the types of projects that could drive up demand and drive up growth rates?

Gary Smith - *Ciena Corporation - CEO & President*

I think in particular geographies, places like Brazil, India, where we're very well positioned -- obviously, Brazil has economic challenges that are weighing down a little. India, I think we could be surprised on the upside there. We have a good set of pipeline and installed base in there.

Submarine space also I think is doing well in APAC. I think we've also penetrated some new tier 1s, both with Ericsson and directly ourselves that I think will bear fruit. And certainly, towards the end of the year, looking at what we're seeing in terms of activity, I think Europe as well could show improvement, certainly in the second half of the -- Tal.

So, if you express this around, as you started the question, what could improve this rate, those are the drivers. Obviously, it's our assessment early into the year.

Tal Liani - *BofA Merrill Lynch - Analyst*

Got it. Thank you.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thanks, Tal.

Operator

Our next question comes from the line of Simon Leopold with Raymond James.

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Simon Leopold - *Raymond James & Associates, Inc. - Analyst*

Thank you. Appreciate getting it in before the last one.

Quick clarification first for Jim: You indicated the Cyan business normalizing around $30 million. And my question is: Did you mean for the January quarter or as a run rate for the fiscal year? Just want to clarify what you meant by that.

Jim Moylan - *Ciena Corporation - CFO*

It's both basically. Run rate for the fiscal year was what I was really referring to. There's going to be quarterly variation in the (multiple speakers) --

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Simon Leopold - *Raymond James & Associates, Inc. - Analyst*

Okay. Just wanted to make sure we all understood that.

And then, in terms of trying to drill down a little bit more deeply on some of these trends, it maybe sounds to me that there are some timing issues as at least one factor in terms of mixing the January guide and the full year. One of your competitors did highlight submarine projects slower. And I know you don't do the wet works; you do a lot of terrestrial work.

Could you put this in context? Was this an issue that's affecting your guidance? And what portion of your Business is typically related to submarine? And then I've got a follow-up.

Jim Moylan - *Ciena Corporation - CFO*

We've said that submarine has been $150 million, $200 million a year in orders, and we are growing our revenue. It's not quite in that range yet, but it will be shortly.

Remember, we're on the upgrade side of the market, Simon; at least that's where we started. We were not involved in laying the new cables. So, what cable layers are talking about is not necessarily correlating to our results. But we see a good year in submarine.

And the other thing is, we hope to become involved in the new cable business. That's going to -- that's a new model where the submarine operators will want to build a new cable, choosing best-in-class cable companies, and put the equipment on the cables using best-in-class equipment companies. Overall, we've got roughly a 40% share of that submarine market. Again, mostly -- that's all on the upgrade side. But we hope that, as I said, as we move into the new build category, we'll be able to take market share there as well.

Simon Leopold - *Raymond James & Associates, Inc. - Analyst*

And maybe let me follow up with a related factor, I think. You did talk about Waveserver coming to market. Presumably, these products have much lower selling prices than the 6500 platform.

So, in the past, you've sold Data Center Interconnect solution via other products. So, to what degree is slowing growth related to what I'll term as selling price compression, but really it's a different platform, more optimized, but could you talk to that as a factor? Does that question make sense?

Francois Locoh-Donou - *Ciena Corporation - COO*

Yes, it does. I'll take that one.

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The Waveserver has an average selling price per unit, if you will, because it's a smaller platform, has a lower price than a 6500. That being said, the key driver for growth is the amount of capacity that the Data Center Interconnect applications are consuming. And that amount of capacity is growing very fast, which means the number of units you're going to be selling in terms of Waveservers in that market is going to be substantially higher. And we're already seeing that with the engagements we have.

Waveserver, as Gary said, just started shipping the platforms. We already have 16 trials ongoing. We have four customers. And the appeal we're seeing for the platforms across a broad range of customers, the web-scale players, of course, but media companies and also traditional carriers. So, we expect that to be a growth driver going forward.

Simon Leopold - *Raymond James & Associates, Inc. - Analyst*

Thank you.

Operator

Our next question comes from the line of Vijay Bhagavath with Deutsche Bank.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Yes, hi; good morning, Jim. A question for you.

Jim Moylan - *Ciena Corporation - CFO*

Hello, Vijay.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Yes, hi. A question for you on revenue diversification: You have highlighted several times the Business is nicely diversifying into Web 2.0, non-telco, et cetera, and still we see these sharp skews, and you do attribute it to seasonality.

Would you think it's the core packet optical business seeing weakness at some of your major telcos, perhaps a handful of telcos that's really creating these sharp skews and weakness from quarter to quarter? And would it be mostly the 100-gig long-haul business perhaps at some of these telcos that's causing the weakness like we saw in the guidance? Thank you.

Jim Moylan - *Ciena Corporation - CFO*

Well, the first thing I'd say is that the numbers that we have put out show growth, and we've continued to grow through the varying stages of network buildouts, and I think we'll continue to grow. There are going to be ebbs and flows of CapEx spending by our customers as they move from Metro to long haul, et cetera. And so, we're going to see that result, or that phenomenon in our results.

But I'd just point out that we are growing. We expect to continue to grow. We believe that we are taking market share. And if you just, for example, look at the growth rate from Q1 of 2015 to Q1 of 2016, it's about 8%, which is consistent with our forecast for the year.

So, I think we're doing extremely well. We just had the record year in our history, and we're going to have another good year -- probably another record year in 2016, if you believe our guidance.

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Vijay Bhagavath - *Deutsche Bank - Analyst*

Thanks for that. Quick follow-on is on 200 gig -- are any of your bigger service providers starting to put in 200-gig optical? Thanks.

Francois Locoh-Donou - *Ciena Corporation - COO*

Yes, they have, and we're seeing a pick up both in the web-scale ICP market and in the more traditional telco market.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Our next question comes from the line of Rod Hall with JPMorgan.

Rod Hall - *JPMorgan - Analyst*

Yes, hi, guys. Thanks for taking the question.

I just want to go back to this growth point, because I think that what I'm hearing so far is that the people's calculation on the growth is actually incorrect, and I just want to double check that. So, it looks to me like there's just over $84 million worth of signed revenue in the FY15 year, and then you're talking about, Jim, $120 million in FY16.

So, I calculate underlying growth just over 3% in FY15, and then accelerating to just over 7% in FY16. So, first thing I want to do is just double check that math, and make sure that is correct, so that, in fact, you guys miss your growth target in 2015 but then it's accelerating significantly in 2016. And then I've got a follow-up.

Jim Moylan - *Ciena Corporation - CFO*

That math is definitely on target. I think you can play around with that a little bit and get in that range.

The other thing I want everybody to focus on again is that, in 2015, we were affected by between 2 and 3 percentage points by FX changes. So, I think we just need to make sure that we're calibrating what's happening in our growth rate precisely.

Rod Hall - *JPMorgan - Analyst*

Right. And then the follow-up, Jim, is just on the visibility. This is an industry that is plagued by low levels of visibility. To what extent do you guys think you're being conservative on this 2016 guidance? Because it does feel like Metro is going to accelerate meaningfully in 2016.

Jim Moylan - *Ciena Corporation - CFO*

Fundamentally, I'd say that we do -- we had a record year for orders and a record quarter for orders. We believe that we're winning more than we're losing. And as a consequence, we think that we're -- as I said, we're going to have a great year, and we have great visibility into this year.

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Now, we can be wrong. We are dependent upon what our customers do. We are bringing several new products to market. The Waveserver, in particular, the 8700 came out last year, and the growth in those products is difficult to project.

We're in a lot of different markets with new customers, and we might be wrong about what they're saying. But I would just say that we feel good that we have a reasonable forecast for the year.

I do say this: We are very focused on growing our revenue, but we are even more focused on growing our profitability. So, that's the thing we're going to drive.

Rod Hall - *JPMorgan - Analyst*

Great. Okay, thanks, Jim.

Operator

Our next question comes from the line of Michael Genovese with MKM Partners.

Michael Genovese - *MKM Partners - Analyst*

Thanks very much for the question. I wanted to ask, first of all, about the record orders in fourth quarter. When you look at the composition of those orders, can you talk about -- are you seeing any changes in terms of higher percentage of Metro or higher percentage of Data Center Interconnect or any trends such as that?

And also, is it correct to think about the average time from order to revenue still being in the 3- to 4-quarter range? Is that the way that you think about it? Is that the way that we should think about it?

Jim Moylan - *Ciena Corporation - CFO*

I'm going to start on that question, Mike, and then I'll let Gary or Francois deal with it.

First of all, it's not actually true that it takes three or four quarters to get orders into revenue. In fact, our Business has greatly increased its velocity as we've taken our lead times down from eight weeks to four weeks or better. And as a consequence, what we call our BTR, which is revenue which is for on orders which are booked in the quarter, has come up to a very significant part of the revenue in a given quarter, in the range of 50%. So, a lot of orders don't stay very long in backlog.

As far as the composition of orders, there's not really a significant change in the composition. It is true, though, that some of that is on maintenance -- longer-term maintenance orders. That's part of the increase, which is an annuity or a pretty -- a very predictable revenue stream, and that our hardware backlog is as high as it's ever been as we exit the fourth quarter.

Francois Locoh-Donou - *Ciena Corporation - COO*

Mike, the only color I'd add to what Jim said is the more significant shift is towards higher-capacity platforms and higher-capacity blades, so there's a significant shift to 100 gig and 200 gig. In 2015, we still had a number of 40-gig customers in implementation, so it's shifting toward higher-capacity blades.

And the same is true in the packet networking space where we have 1-gig platforms and we're seeing things shift towards 10-gig platforms and 100-gig platforms like the 8700. So, that's the overall trend is just higher-capacity implementations across all market segments.

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Michael Genovese - *MKM Partners - Analyst*

Great. And then one follow-up for Gary, if I could, just quickly. Gary, last quarter, you talked about push-outs quite a bit, and we haven't heard anything on this call about -- that term has not come up. So, could you just, within the context of what you're talking about last quarter versus this quarter's guide, talk about that push-out issue and what you're seeing now versus then?

Gary Smith - *Ciena Corporation - CEO & President*

Yes, let me be specific about that. I think we talked about two or three customers, particularly in the US context, with different issues with them, but let me give you an update on that.

We're actually expecting good growth from those customers in 2016. We've had a number of engagements with them. In fact, we've had a good couple of additional design wins with those customers to expand their role.

So, we actually see good movement in growth with them within 2016 in the overall -- in aggregate with them. And that, again, is played into our forecast. So, I wouldn't classify any of this -- and as Rod said earlier, in fact, if you do the math, we're actually accelerating our growth rate in our core business, and these carriers are back on the wagon.

Michael Genovese - *MKM Partners - Analyst*

Thank you.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thanks, Mike.

Operator

Our next question comes from the line of Dmitry Netis with William Blair.

Dmitry Netis - *William Blair & Company - Analyst*

Okay, thank you, gentlemen. I'll try to pose just as thoughtful questions as Tal did.

Just to begin, on the number of customers you guys use to provide starting each year, an update on how many customers you have on 100 gig, 40 gig (technical difficulty)? You gave some numbers for 8700 and Waveserver, so I was wondering if you can give us those numbers for the rest of the platforms?

Jim Moylan - *Ciena Corporation - CFO*

Yes. This is Dmitry this time, right? Got it right this time; sorry, Tal.

Okay, the coherent total customers at the end of Q4, 241; 40-gig customers, 147; 100-gig customers, 190 in total -- that includes some Z-Series customers; and then 200-gig, we have 20 customers. We added 22 100-gig customers in the quarter. On the 8700, I think we said we have 26, and we had new eight wins in the period. And of that 26, five tier 1s, which we think is really, really encouraging for the growth of that platform.

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Dmitry Netis - *William Blair & Company - Analyst*

Great. That's very helpful. I'm sorry. There was a --

Gregg Lampf - *Ciena Corporation - VP of IR*

Thanks, Dmitry.

Operator

Our next question comes from the line of Catharine Trebnick with Dougherty & Company.

Catharine Trebnick - *Dougherty & Company - Analyst*

Thank you for squeezing me in.

Could you discuss a little on the competitive landscape, especially in DCI Interconnect? As you started out saying, Gary, at the beginning, the long-haul Metro, you're seeing fewer competitors. But I think if you total everybody that is introducing new products on the DCI side, how is that shaking out, and who do you see most in the bake off? Thank you.

Gary Smith - *Ciena Corporation - CEO & President*

Yes, hi, Catharine.

On the general, more traditional space, we've seen consolidation in that space, and you have less competitors.

On the DCI side, we're not seeing too many key players to it. Obviously, there's one or two players got out there and have done well on the initial movement, like Infinera, et cetera. But we're also seeing Cisco and, to some extent, Alcatel as well. But I think, given our channels to market and the architecture of the platform that we've released, we're seeing tremendous amount of interest in this space.

We only started shipping the platform a couple of weeks ago, and we have 16 trials. We have four customers. We'll take some revenue in Q1, albeit small. And interestingly, it was the Waveserver platform that actually secured the new web-scale customer, the large web-scale customer in the quarter as well. So, we've now got four out of five, and that was on the back of the Waveserver technology.

Catharine Trebnick - *Dougherty & Company - Analyst*

All right, thank you.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thanks.

Operator

Our next question comes from the line of Jeff Kvaal with Nomura.

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Jeff Kvaal - *Nomura - Analyst*

Thank you very much.

I was hoping to delve a little bit more into what Rod brought up, which I thought was -- could have been a key point here about the Cyan business. Would it be fair to say that the Cyan business that you got in the October quarter was ahead of what you were expecting, and then that was a bit of a pull forward, and that is affecting the comparables with the first quarter in 2016?

And then the second part of that question, Jim, you had talked about order flows in the first quarter being sequentially lower at a normal pace. And my understanding of seasonality for you is down in the upper-single digits to 10%. This guide is obviously a bit lower than that. I'm wondering if you could put that into some context for us, please?

Jim Moylan - *Ciena Corporation - CFO*

Yes, there's no question that we did have a stronger quarter than we expected from one of the former Cyan's customers. It was a customer that had a particular opportunity to grow its network in some places, and they wanted to get that capacity in place, well before year end. And so, we worked our supply chain hard to satisfy that customer. So, yes, there were some pull-ins from that business that would have been probably in Q1 or perhaps later quarters; no question about that.

And as far as the comparison going into Q1, there's certainly some effect, as we said, from that Cyan customer. But I just think, overall, Q1 is always going to be a difficult quarter for us in terms of the trend line because we have two months of holiday and then we have one quarter to really get -- or one month, excuse me -- to get stuff done. And so, it's always going to be down from trend.

But I'd point out that, over the last two years, we've seen that big drop into Q1, and a nice ramp as we've gone through the year. This past year, I think we started with $530 million of revenue and like a 7% operating margin. We ended this year with $692 million and 13% operating margin. So, we think that same sort of effect is going to happen in 2016.

Jeff Kvaal - *Nomura - Analyst*

Okay, so, outside Cyan, everything seems normal. It's just that you've had a pretty big Cyan impact affecting the comp sequentially?

Jim Moylan - *Ciena Corporation - CFO*

I think if you ran those numbers based on all the data we've given you, you'd see a much more normal change from Q4 to Q1, yes.

Jeff Kvaal - *Nomura - Analyst*

Well, we will all do that. Thank you.

Operator

Our next question comes from the line of George Notter with Jefferies.

George Notter - *Jefferies LLC - Analyst*

Hi, guys. Thanks very much.

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I was just curious about the reduction in lead times across your Business. I think earlier you said you went from eight weeks to four weeks. How should I think about that in the context of your growth rate?

And can you just tell me over what time frame did you shrink those lead times? Was that during FY15? And then, as I look forward into 2016, is it possible to continue to reduce those lead times? And I'm asking the question because I'm trying to just sort through growth rates in light of the changes in lead times here. Thanks.

Jim Moylan - *Ciena Corporation - CFO*

Yes, let me just clarify the information I tried to impart there, George.

First of all, we were at eight weeks lead time through the first part -- all of 2013 and the first part of 2014. In the middle of 2014, you'll recall that we talked about doing some things in our supply chain in order to improve delivery times. We actually said at the time we were going to add inventory. But in addition to that, through a combination of things with our contract manufacturers, we were able to reduce those lead times to four weeks, and even better if necessary in some cases.

So, our feeling is that lead time has gone from being something that we needed to improve, to a real competitive advantage in a number of markets, principally North America, which are markets -- many of the customers there have very quick turnaround in either success-based stuff or desire to grow their network. So, I'd say that the improvement is four weeks, and even better if we need to get them for certain customers. It has helped us grow, in North America in particular.

Does that answer your question, or is there another question that you --?

George Notter - *Jefferies LLC - Analyst*

Yes. Perfect, thank you very much. I appreciate it.

Operator

Thank you. Ladies and gentlemen, that is all the time we have for our Q&A portion of today's call. I'd like to turn it back over to Gregg Lampf for any closing remarks.

Gregg Lampf - *Ciena Corporation - VP of IR*

Thank you, Cat. We appreciate everybody's time this morning. We look forward to catching up with everyone over the next several hours and days. Everyone have a happy holiday and happy New Year. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. You may all disconnect. Everyone, have a great day.

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