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Ciena Corporation

Fiscal Fourth Quarter and Year End 2021 Results Conference Call

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Paul Silverstein, *Cowen & Company*

George Notter, *Jefferies & Co.*

Tim Long, *Barclays PLC*

Simon Leopold, *Raymond James*

James Suva, *Citigroup*

Amit Daryanani, *Evercore ISI Institutional Equities*

Samik Chatterjee, *J.P. Morgan*

Alex Henderson, *Needham & Company*

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PRESENTATION

Operator

Welcome to the Ciena Announces Reporting Date and Web Broadcast for Fiscal Fourth Quarter and Year End 2021 Results Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Gregg Lampf, Vice President of Investor Relations. Please go ahead.

Gregg Lampf

Thank you. Good morning and welcome to Ciena's 2021 Fiscal Fourth Quarter and Year End Review. On the call today is Gary Smith, President and CEO, and Jim Moylan, CFO. Scott McFeely, our Senior Vice President of Global Products and Services, is also with us for Q&A.

In addition to this call and the press release, we have posted to the Investor section of our website an accompanying investor presentation that reflects the discussion as well as certain highlighted items in the quarter and fiscal year. Our comments today speak to our recent performance, our view on current market dynamics and drivers of our business, as well as a discussion of our financial outlook. Today's discussion includes certain adjusted and 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.

Before turning the call over to Gary, I'll remind you that during this call we'll be making certain forward-looking statements. Such statements, including our quarterly and annual guidance and long-term financial targets, discussion of market opportunities and strategies, and commentary about the impact of COVID-19 and supply constraints are based on current expectations, forecasts and assumptions regarding the Company and its markets, which 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 and in our upcoming 10-K filing. Our 10-K is required to be filed with the SEC by December 29, 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. As always, we'll allow for as much Q&A as possible today, but we ask that you limit yourself to one question and one follow up, please. This call is being recorded and will be available for replay on the Investor's page of our website shortly after the call is concluded.

With that, I'll turn the call over to Gary.

Gary Smith

Thanks, Gregg, and good morning, everyone.

Today we reported strong fourth quarter and full Fiscal Year 2021 results. This performance further demonstrates that continued ability to successfully navigate challenging market conditions and to deliver on the objectives and financial outlook we laid out as we entered the year, including annual revenue growth of 2.5%, which was at the high end of our expectations; Fiscal '21 adjusted gross margin at 48%, which exceeded our forecast; and adjusted operating margin at 16.8% for the full year, also above our original forecast.

Revenue in the fourth quarter exceeded $1 billion for the first time and came in higher than expected. Additionally, orders in the quarter were once again significantly higher than revenue. With our third consecutive quarter of orders outpacing revenue, we have substantial momentum and increased confidence in the demand environment. We ended the year with our highest ever backlog of approximately $2.2 billion, nearly double our backlog for the year ago.

This performance I think reflects our market leadership within a very strong demand environment. Specifically, the combination of our differentiated balance sheet, leading innovation and R&D capabilities, and deep and growing customer relationships around the globe give us the distinct strategic advantage in the industry. Of course, our people continue to amaze us with their resilience and kindness, but they continue to perform at the absolutely highest levels.

Turning to highlights from the fourth quarter and fiscal year, our focused investments are in three key areas: optical, routing and switching, and software automation, and they are yielding great results. In optical, we continue to lead the market in high-capacity coherent technology. Q4 was a record quarter for WaveLogic 5 Extreme. We added 34 new customers, including 13 new logos spanning all regions. Our total customer count for WaveLogic 5e is now 140 globally and we've shipped nearly 25,000 modems to date. We also shipped our first customer orders in Q4 for our WaveLogic 5 Nano Coherent pluggable optics.

We had a strong quarter in routing and switching, and we continue to build momentum in this space. In Q4, we secured a dozen new wins, including significant multiyear deals with two of the largest U.S. tier one service providers, one of which is for a nationwide 5G cell site router deployment. Additionally, we've now closed the deal with AT&T to acquire it's Vyatta virtual routing and switching technology, which will help strengthen our adaptive IP capabilities and increase our exposure to certain 5G use cases. We also announced a partnership with Samsung to couple our xHaul solutions, next gen MCP domain controller, and services with Samsung's 5G core and RAN equipment to support global 5G networks.

Moving to our software automation business, Blue Planet performed well in FY '21, growing 23% in the year to deliver annual revenue of $77 million, which again was above the high end of our target range, as well as record bookings for the year. Some of the marketing wins in the year for Blue Planet included British Telecom, Vodafone, and Colt, as well as a major U.S. tier one service provider and large U.S. MSO.

I also want to highlight our global services business, which grew 7% year-over-year with revenue growth across each of our service categories and earning a 95% customer satisfaction rating in 2021. Also, as a part of that, really advancing a key part of that strategy, we landed major network migration wins, including three U.S. tier one service providers and an international tier one service provider.

Shifting to diversification in our business across both customers and regions, our top 10 customers for the year included three U.S. service providers, two international service providers, one MSO, and all four major web scalers, a strong illustration of the continued diversity in our business. In fact, our non-telco revenue was 41% of total revenues for the year. Also, of note in FY '21, we had more than $1 billion in orders from web scale customers. We also performed well once again in submarine segment, gaining more than 2% market share year-over-year, bringing our SLP market share to the mid 50's.

Finally, international growth was also strong, led by EMEA and India, which each grew 13% year-over-year. Overall, secular demand remains very strong, driven by increasing bandwidth needs, the shift to the cloud, and also the focus on edge applications, as well as digital transformation and the growing need for network automation. We continued to take full advantage of our leading position to address these network priorities. We're making forward investments in our portfolio and go-to-market resources that are aligned with these trends and the longer-term opportunities.

As an example, we are leveraging our optical expertise to offer a new architectural approach to address next gen metro and edge use cases where we are investing to expand our total addressable market in this growing market from about $13 billion overall currently to roughly $22 billion over the next several years. I would also like to highlight the development of critical assets in software automation, including network layout automation with MCP. This is our microservices based domain controller that has now been adopted by the vast majority of our customers around the world. Also, our differentiated software for our adaptive IP approach, and this can be deployed as embedded in our routing and switching portfolio on white boxes or virtually.

Finally, our multivendor Blue Planet services automation software, which is now deployed at 30 of the largest global carriers around the world to help drive their digital transformation efforts. These software elements are delivering unique innovation into the marketplace and expanding our relationships with customers. Our overall software business currently constitutes less than 10% of our total revenue. We do see this growing over time as we expand both the adoption and applications and move to more recurring and subscription-based models.

Of course, this strong secular demand for bandwidth and automation remains challenged by the global supply chain constraints and the current environment. We continue to believe that these supply challenges are likely to persist through at least to the middle of Calendar ’22. To be clear, supply conditions are adversely impacting product costs, availability, and lead times, as well as our overall supply chain operations. We expect these variables to affect our gross margin as well as the level and timing of revenue during Fiscal ’22. We’ve obviously incorporated all of these elements and considerations into our guidance accordingly. However, as you can see from our performance to date, we continue to manage these challenges well, and while we’re obviously not immune, we expect to continue to outperform others in this regard going forward.

In fact, we’ve entered Fiscal Year ’22 with increased confidence and visibility. In a moment, Jim will provide our outlook for FY ’22, which we believe will be a year of outsized revenue growth for Ciena. That is driven by several factors including, number one, strong order flow and additional visibility to short-term customer purchasing decisions. Number two, overall, a return to historical customer spending levels to address the continued bandwidth demands, following about two years of slow investment due to the pandemic. Thirdly, and most uniquely to Ciena, increased monetization of wins, both those that we’ve secured over the past couple of years as well as new awards.

Jim will also provide a new set of long-term targets that we are confident in providing now, given the positive demand environment and strength of our business and overall financial position.

Jim.

James Moylan

Thanks, Gary. Good morning, everyone.

We delivered a solid Q4 performance. Total revenue in the quarter was $1.04 billion, somewhat above our expectations. It is a milestone quarter. It’s the first ever billion-dollar revenue quarter for Ciena, and there will be many more to come. Orders in the quarter significantly exceeded revenue.

Q4 adjusted gross margin was 46.3%, which was within our guidance range and reflects the dynamics we highlighted last quarter. Primarily, the impact of increased supply and logistics costs as well as increased monetization of new wins.

Adjusted operating expense in the quarter was $307 million due to a higher variable comp as a direct result of extremely strong order flow at the end of the year. With respect to profitability measures, in Q4 we delivered adjusted operating margin of 16.8%, adjusted net income of $132.7 million, and adjusted EPS of $0.85.

In addition, in Q4 our Adjusted EBITDA was $199 million and cash from operations was $255 million. Also, in Q4 we repurchased approximately 494,000 shares for $26.7 million for a total of approximately 1.7 million shares repurchased in Fiscal ’21.

Regarding our performance for the full fiscal year, annual revenue was $3.62 billion, which was at the high end of our annual guidance range. As Gary mentioned, we ended the year with $2.2 billion in backlog. Adjusted gross margin was very strong for the year at 47.9%. Adjusted Op Ex for Fiscal ’21 totaled $1.13 billion, largely as we expected.

Moving to profitability, adjusted operating margin in Fiscal 2021 was 16.8%, at the high end of our guidance range, and adjusted EPS was $2.91. Free cash flow for Fiscal 2021 was very strong at $462 million, almost 75% of adjusted operating income.

Our balance sheet remains a significant competitive differentiator. We ended the year with approximately $1.7 billion in cash and investments. Looking to the full fiscal year, we believe Fiscal Year ’22 will be a year of outsized growth for our business. We have strong visibility to our near-term opportunities, including a record backlog ending the year and entering the year.

Customer spending is returned to historical levels, following two years of lower investment due to the pandemic and related economic uncertainty. More pronounced perhaps and unique to Ciena in Fiscal Year ’22, is that we are now monetizing our new wins and seeing increasing numbers of deployments for significant deals that we secured over the past couple of years, as well as some new awards. Accordingly, we expect to grow our revenue in Fiscal Year ’22 in the range of 11% to 13%.

With respect to gross margin, we expect the dynamics that we saw in the fourth quarter to continue. Specifically, the impact of ongoing supply chain challenges that are manifesting, and significant cost increases, and higher logistics speeds will continue. The increased monetization of multiple new wins with initial deployments and roll outs will also effect gross margins. Accordingly, we believe that our gross margin for Fiscal Year ’22 will be in the range of 43% to 46%.

For operating expense, we intend to continue investing strategically in our business, in particular, in our routing and switching and software automation portfolios to leverage our opportunities in these growing addressable markets. Therefore, we expect adjusted operating expense to average $300 million per quarter in Fiscal ’22. As always, this number will vary quarter-to-quarter and is expected to start a bit lower and increase through the year.

We expect adjusted operating margin in Fiscal ’22 will be in the range of 15% to 16%. In addition, during Fiscal ’22 we will be making investments in inventory and accounts receivable in order to continue mitigating the impact of the ongoing supply chain challenges. As a result, we expect our free cash flow in Fiscal ’22 will be 50% to 60% of adjusted operating income.

The coming quarter, in line with ’22, we expect to deliver revenue in the range of $870 million to $910 million, adjusted gross margin in the 43% to 46% range, and adjusted operating expense of approximately $290 million. As Gary mentioned, strong secular demand is driving solid business performance and greater visibility for us, which puts us in a position to resume providing longer-term financial targets. Three-year targets give the best indication of our long-term view of the industry and what to expect in Ciena over the next three years.

Overall, we believe that we are well positioned to continue delivering a combination of top-line growth, profitability, and cash generation. We believe the most important indicators of our performance and progress are revenue and EPS growth. On the top line, we expect (audio interference) in line with recent historical norms, and particularly in 2022, we intend to continue to gain footprint and take market share as we have over the last decade. Beginning in Fiscal '23, we expect to resume a target annual revenue growth range of approximately 6% to 8%.

With respect to adjusted earnings per share, as we return to historical revenue growth wins and continue to focus on driving increased profitability in our business, we expect our EPS will resume growth. Specifically, we expect to grow our adjusted earnings per share in the 10% range annually for the next couple years. Also, as part of our long-term outlook, beginning in '23 we are targeting annual free cash flow generation of approximately 75% to 85% on adjusted operating income over the next few years.

Finally, with respect to operating margin, we continue to focus on driving leverage from our operating model. In particular, growing our operating expense at a lower rate than expected revenue growth will enable us to increase profitability. As a result, we are trying to achieve adjusted operating margin of 17% to 18% for Fiscal '24.

With our strong balance sheet and our expectations for cash generation over the next several years, we are now in position to increase significantly the return of capital to our shareholders. We previously announced a program to repurchase up to $500 million of our common stock with the goal of completing those purchases by the end of Fiscal '21. (Audio interference) several reasons. Most importantly, we suspended the repurchase plan for almost a year due to the pandemic and the resulting industry and market dynamics.

Today we announced our Board of Directors has authorized a new program to repurchase up to $1 billion of common stock. Under this new authorization we also announced our intent to enter into a $250 million accelerated share repurchase arrangement, or ASR, whereby we more than make up the unused portion of our previous repurchase authorization. Final settlement for the ASR is expected to be completed in the second quarter of Fiscal '22.

Following the completion of the ASR, Ciena's remaining 750 million repurchases will be based on our stock price, general business and market conditions, our liquidity and cash flow, and other factors. Our intent is to fully utilize the repurchase authorization by the end of Fiscal '24. We expect to finance the program with cash on hand or cash generated by operations. This new share repurchase authorization and the ASR represent the next phase of our cash deployment and demonstrate our commitment to return capital to shareholders while maintaining a meaningful liquidity balance.

In closing, we delivered very strong fiscal fourth quarter and '21 results despite challenging supply chain conditions. With continued market leadership and a very strong demand environment, as well as significant backlog going into the year, we are confident of another strong performance in Fiscal '22, including outsized revenue growth. For the longer term, our differentiated financial position will enable continued investments and innovation to address bandwidth demand, new edge applications through routing and switching technologies, and digital transformation with our growing software automation (inaudible). We are in a strong position to return capital to our shareholders, and we intend to do so.

(Inaudible) we'll now take questions from the sell-side analysts.

Gregg Lampf

Before we start the Q&A, we recognize there's some audio quality issues with the webcast. Please note that all of this information is on the earnings presentation, including our guidance, and we'll be happy to clarify anything that you'd like in the Q&A.

Operator

Your first question comes from the line of Rod Hall with Goldman Sachs.

Rod Hall

Yes, hi, guys. Thanks for the question.

I guess I wanted to dig into this guidance for next year. I mean, it's very strong relative to what we had expected, and I wonder if you could talk a little bit about some of the drivers within that. I know the sell-side routing seems like a really big opportunity. I don't know, Gary, if you think that goes beyond this, just one installation or not. Curious how big hyperscale is in that. That's kind of the first question is can you give us more color on what's driving that growth. Then I have one follow up for you as well.

Gary Smith

Yes, well, thank you. I would describe it as sort of, you know, it's the monetization of new wins that have sort of been on hold for a couple of years, plus the new wins that we're seeing. The sell-side router opportunity, I think, you know, we've secured in this last quarter the two large service providers in North America for our switching and routing portfolio. I think I view this as just the start, quite frankly.

We're very encouraged by the opportunities that we're seeing there. I think if you step back from those specific things to Ciena, which is really the new business, and the portfolio, the new innovations in the portfolio, we're seeing carriers return to sort of a catch up on their capacity builds, basically getting to more normalized views around the modernization of their network. I think you're also seeing, Rod, a step function increase in overall traffic demand. It's a blend of all of those things.

I would also mention in terms of the orderbook, some of that is customers wishing to get security of supply in this environment. It's a blend of all of those dynamics, but I think the secular demand for the industry I think is very positive. I think our own particular position, you know, is unique around the wins that we've had in the last few years, and you're beginning to see that flow through.

Rod Hall

Okay, great and then my follow up, Gary, was on the software comment you made. You said it was below 10%. I wonder, by saying that you mean it's close to 10%, or is it quite a bit below? I'm just curious how big that software element is now in the revenue stream.

Gary Smith

Yes, so it was actually sort of three elements that I outlined, and I think the last year it's about 8.5% if you put it all together. We highlight that because I think we're focused on growing that in absolute dollar terms and over time as a percentage of our overall revenue, so Blue Planet, MCP, and the adaptive IP.

Rod Hall

Great, okay. Thanks a lot. Appreciate it.

Operator

Your next question comes from the line of Paul Silverstein with Cowen & Company.

Paul Silverstein

Jimmy, can I ask you to just repeat the long-term guidance? I was having trouble hearing you. My apologies. My question is what would gross margin operating margins have been on a normalized basis? How much of an impact are you getting hit from supply chain? I assume as your routing and switching business grows that that's going to have a positive impact on gross margin, operating margin. Anything you could say on that and what type of growth are you expecting there. I've got one follow up to that. Thank you.

James Moylan

You have a lot of questions in there, Paul. Let me try.

Paul Silverstein

Three.

James Moylan

The last one first, which is routing and switching. We do believe that routing and switching overall will provide accretion to our gross margins as we move through time, and we do expect routing and switching to grow as a percentage of our revenue. With respect to what our profitability might have been, what I'll say is that the last time we gave sort of run rate gross margins was right at the beginning, right before COVID, really. We said that they were centered around 45%.

I still believe that to be true, and that 45% or so, call it 44% to 46%, represents a run rate percentage of new business in our revenue stack. That's what I would say, and you can kind of based on our guidance for the year, which is 43% to 46%, you can sort of get somewhere close to what we think the effect of the supply chain challenges will be this coming year.

And I'll just summarize our long-term targets. What we said was we expect the industry will return post '22 to a sort of a low to mid-single-digits growth rate. Not going to be that different from that in '22, by the way. But our growth rate, we think, will return to the rate that we've seen historically for a long time, which is 6% to 8% range, which will reflect a continued taking the market share. We also said that we expect our adjusted EPS will grow in the 10% range over the next several years. We gave some other metrics, but those are the key ones, we believe. (Multiple speakers) clarification for you.

Paul Silverstein

I appreciate that, and one follow up. It does appear from the numbers, but I'll ask the question. Are you seeing any impact from ZR in particular as well as open line systems? What type of impact are you seeing? Obviously, it's just at the award stage, but any concerns?

Scott McFeely

Got it, Paul. It's Scott.

Obviously, on the ZR piece I don't think our perspective has changed since the last time we spoke. We really think it's starting of the event is really 2022, so no, we're not seeing any impact in the short term on that. As we noted in the press release, we shipped our first ZR plugs to the marketplace from a commercial perspective and certainly expect to participate in that market opportunity as it comes to fruition.

Open line systems, you know, that's a game that we've been playing for some time, and we've actually benefitted from, by the way, some technology we shipped both on the line system side and on the coherent modem side in whatever consumption model our customers want to choose is a good thing for us. No negative impact on open line systems.

Paul Silverstein

Scott, just to be clear, when you say no impact from ZR, we all know they're just starting to ship. You're not seeing meaningful awards by either web scale or traditional service providers?

Scott McFeely

No, like I said, think the game on that really starts in 2022.

Paul Silverstein

Okay, I appreciate it. Thanks, guys.

James Moylan

Thanks, Paul.

Operator

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

George Notter

Hi, guys. Thanks very much. Congratulations on the terrific results and guidance.

I guess I wanted to ask about, you know, market share opportunities. You certainly are implying that you'll take continued share. I think Huawei obviously is one of the opportunities out there. What are you seeing in terms of new wins competitively against them? What are you seeing in terms of the opportunity to mine out the installed base? Any additional color you could provide would be great. Thanks.

Gary Smith

Hi, George. It's Gary.

I would say, you know, efforts around that have been ongoing for a while. We've seen this dynamic and really it's around two regions. It's Europe and India. What we have seen in both of those regions, even during last year, we've seen an ongoing move to migrate their dependency, carriers away from Huawei on the optical transport side and in other areas. We're getting more than our fair share of that. The fact that we saw good growth in Europe and India, some of that is absolutely directly attributable to that move. We think that's going to continue over the next, you know, one to three years, and as I said, we're taking more than our fair share of that, George.

James Moylan

The other thing I'd say, George, is that you see market share gains in our revenue numbers. We actually see them quite a bit before that. We see them at the contract awards. We see them in our orderbook. All that's been going on in our business over the last several years. Particularly, you look at our backlog, at the beginning of this year it's $2.2 billion. It's hundreds of millions higher than we've ever seen it. Of course, some of that is visibility to future orders, but it reflects the fact that we have been taking market share, and it's going to show up in our revenue this year in '22.

George Notter

Great. Thanks very much.

Gary Smith

Thanks, George.

Operator

Your next question comes from the line of Tim Long with Barclays.

Tim Long

Thank you. I was hoping we could talk a little bit about the web scale business. It was down a bit sequentially in the quarter. I'm assuming that's kind of lumpiness. If you can just touch on that as well as the billion in orders is good. That's for the year, looks like, whatever, 1.2 or so booked to bill. It seems others in the web scale world are seeing doubling plus of orders, so probably more growth. Is there something going on there where maybe there's a little less forward ordering than maybe some of the networking folks are seeing? Then as a follow up if you can just touch on Asia. With India up, Asia is still under a little bit of pressure. Can you talk about what's going on in the other parts of the Asia theatre? Thank you.

Gary Smith

Yes, let me take the web scale first. I would just say in the quarter, just one thing. I think during the year I think the supply chain stuff weighed a little bit on revenues for that space, but we certainly maintained share as expected. I'd say the fact that we have all four web scalers for the first time in our top 10 customers, you know, is testament to the position that we have there, and more than $1 billion in orders is a significant milestone from them. And that features in our backlog as well. We have good visibility to the year, and we expect actually, web scale, in the guidance that Jim gave for our overall business, the web scale growth in '22 will probably be above that corporate average, if that's helpful to you. We've got very good visibility into that.

In terms of other parts of Asia, you know, India we expect to, again, I would make the same comment actually about India. I think that will grow faster than our corporate average as well.

Other parts of Asia a little more challenging to us. I think Australia/New Zealand I think will have a very good '22. We've had a couple of new wins there, new customers for us. Japan continues to be challenging, but we additionally have had a couple of new wins there, one of them with the large tier one there. I think over time our position in Japan over the next probably 18 months or so will improve. Obviously, we're not focused on China. The rest of Asia I think has been a bit of a challenge, and I think the pandemic continues to weigh on a lot of those countries.

Tim Long

Okay, thank you.

James Moylan

It's also Huawei's sort of home turf, and they're not under as much pressure there as they are in Europe, for example, and India. That's one of them.

Tim Long

Okay, makes sense. Thank you.

Gary Smith

Thank you, Tim.

Operator

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

Simon Leopold

Thank you very much for taking the question. Two as well.

First, I want to understand what actions you may be taking in terms of the prices to your customers, whether you're planning on or have made adjustments. If so, how successful have you been in getting any price increases to stick to pass on the higher input costs. Then I've got a follow up, please.

Gary Smith

Yes, I think in our perspective is really driven by a lot of that stuff we just absorb in the normal bumps and moves of supply chain and the ecosystem. But I think there's elements to this, which everybody's seeing, you know, the cost environment. We do not think it's transitory. I'd split it into two elements. There's all the expedite fees and logistics and the rest of it. Eventually that will ameliorate, but some of these costs from a chip point of view, we do not see that being transitory.

I would say we're actively engaged with our customers on how best to navigate this from a partnership point of view. How do we do that in an equitable way? We don't expect any of those dialogs to really impact FY '22. And it's largely because we've got such a large backlog already, but we are engaged. We are engaged with our customers on that.

Simon Leopold

Then as a follow up (multiple speakers).

James Moylan

If we are able to share these costs, it won't effect the current backlog. It will effect orders going forward, just to make that point.

Simon Leopold

Thank you for that. Thank you for that. On the follow up, Gary mentioned web scale growing faster, India; but you didn't mention the cable TV vertical, which in the fourth quarter was really strong, and we've been observing some spending shifts in that vertical. How are you thinking about your cable TV market in your 2022 guidance? Thank you.

James Moylan

We're going to have a good year with the MSOs, but we had a very, very strong year, particularly with our biggest customer there, which is Comcast. We had a good year with them. We're just not going to see the kind of growth rate in that vertical that we're going to see across our business in '22.

Gary Smith

What I would add to that, though, I do think from a specific, from a Blue Planet point of view, we've had two additional MSO wins for Blue Planet that will begin to roll out into the year. We've got a pretty good footprint now from Blue Planet, mainly on the inventory side across a number of those large cable companies.

Simon Leopold

Thank you.

James Moylan

Thanks, Simon.

Operator

Your next question comes from the line of Jim Suva with Citigroup.

James Suva

Thank you, and good morning.

My question is regarding some of the countries like India and Australia. It seems like during COVID that they are coming back a little bit later than other parts of the world, just given the timing of when COVID hit those societies. Is it fair to say that your growth outlook in those is not only higher than corporate average but also kind of multiyear sustainable? As I believe some of those countries kind of put spending and infrastructure on pause during COVID a lot more than others. If you can just kind of talk a little bit about that. Thank you.

Gary Smith

Yes, Jim, I think, you know, it does sort of ebb and flow, depending on, particularly India. India has gone through a number of challenges, some of which pre-COVID were industry based. I do believe that they've dug out from that. Obviously, they have this sort of wave of COVID which really dampened down demand; but we're seeing a very strong set of dynamics in India, and obviously we have number one market share in India. I think, you know, if I look at it from an RFP and order point of view, we've actually grown share in India in the last 18 months, even during that period.

I think we've said this before that while deployments may have been very patchy in some of the territories of different countries, the RFP activity has largely gone on unabated, which is why we've got new wins in addition to the stuff that we had prior to the COVID piece. I think we feel very positive about some of these territories. And I would agree, I think this is a multiyear dynamic. Obviously, you know, everybody's supply constrained right now; but as they look over the next one to three years, feel very bullish about Australia/New Zealand, India, and longer term I think our position in Japan as well, but that's going to take a little more rebuilding.

James Suva

Thank you so much for the details and clarifications.

Gary Smith

Thanks, Jim.

James Moylan

Thanks, Jim.

Operator

Your next question comes from the line of Amit Daryanani with Evercore.

Amit Daryanani

Yes, thanks a lot and congrats on a good front end guide. I have two questions as well.

The first one maybe, when I think of this 11% to 13% guide, revenue guide for Fiscal '22, I think you talked about web scale Asia doing better. I was wondering if you could just touch on what are you seeing in North America and Europe, just form a geo basis, in the context of the guide for Fiscal '22?

Gary Smith

I would say that Europe I think will also be probably above our corporate average, so then you get to the question, well what is not above our corporate average. I guess you end up at that point. That would be North America, and it's mainly the law of big numbers, and also we've got such a large market share in North America across the board. But we do expect growth in North America, let me be really clear about that. But I think the dynamics in Europe, and I'd say there's two dynamics in Europe.

One is, they basically have underfunded their infrastructure for a period of time now. This is way prior to COVID. Then in COVID, obviously, it's affected like everybody else. But so I think Europe and then you've got the Huawei dynamic there as well, which you don't really have in North America. There's not much deployed, and what is has been taken out. I think we do expect a good year in North America for sure, and I look at the number of wins that we've had that will help drive that, but I think Europe will have another strong year in '22.

Amit Daryanani

Perfect. Then you said, if I could just follow up. I think when you talked about the long-term guide, you kind of said we expect the industry to grow low single digits, and I think that's the same assumption you have for Fiscal '22 if I'm not mistaken. Clearly, it's an indication your share gains are much more outsized in Fiscal '22 versus what can happen beyond that. If that's fair? I guess my question is why do you think the outsized share gains that you have this year are a one-time phenomenon versus perhaps something that's more enduring and durable, i.e., (multiple speakers).

Gary Smith

I would describe it as this. I think you've got a bit a catch up. You know, we've had a bit of a backlog of wins that have not deployed or monetized, and I think that's now beginning to turn into revenue, albeit slower than anybody anticipated because of supply chain. But I think it is a bit of a catch up year, and I think it is somewhat unique to Ciena. Because I think the market rate overall is probably going to be in the low single digits for '22. I expect that to, you know, and it's the further out you get, the more difficult to tell. But if you look over the sort of '23, '24, I would expect it to be similar and I would expect us to continue to take share, which is why you get into that sort of 6% to 8%.

When you look at it over the last sort of decade, that kind of number is, that kind of dynamic and structure is what we've seen play out, and I don't expect that to be any different. We're also potentially, as we've said, opening up our TAM in the switching and routing, which I think will be helpful to reinforce our outsized growth.

Amit Daryanani

Thank you.

Operator

Your next question comes from the line of Samik Chatterjee with J.P. Morgan.

Samik Chatterjee

Hi. Thanks for taking my question. I guess I wanted to just start with Jim.

I know you mentioned some headwinds to cash conversion, I think next year if I heard you right. But as you return to a more normal level of growth for Fiscal '22, I think you will be generating more $400 million, $500 million of cash. I mean, given the needs for deployment of cash that you have, I don't see any major M&A requirements that you have, unless you're thinking of any. Why shouldn't we be thinking that the share repurchases can be or the cash shareholder returns can be as much as 100% of free cash flow with the strong balance sheet that you highlighted? I have a follow up, please.

James Moylan

Yes, what I'd first say is that we would like to consider good M&A transactions. You can't see it because it's in our offices, but we've been very active in thinking about things. We just have not been able to find something that worked for us. We hope to be able to do that. That's why we're going to keep very good and solid cash balance and a strong balance sheet. I would say this that you're right. We're going to be generating a lot of cash over the next several years and if we can't deploy that either in the business or in M&A, then you can probably expect to see more share repurchases.

Samik Chatterjee

Perfect. For my follow up, just going back again to the long-term guide beyond FY '22, the 6% to 8% that's largely similar to what you had pre-pandemic for your long-term guide as well, but if you can share any thoughts about how similar is that in composition to how you thought about it pre-pandemic.

Is there more growth coming out of telcos, or is there maybe less share gain in certain verticals? Just how to think about how similar it is to pre-pandemic levels. Thank you.

Gary Smith

I would say, broadly from trend point of view, I would say international growth, but would be pretty much as we talked about in '22, and we expect that to continue. Obviously we've got such a large market share in North America. It will grow, but it's more difficult to do that more big numbers. I also think the web scale will be a fantastic opportunity for us over the medium to longer term and the time talking about there. I would expect, you know, a lot of that growth to be from international and from web scale and further diversification of the customer base.

James Moylan

Also routing and switching. That's a great opportunity for us. We've said our TAM can increase from around $13 billion to $22 billion because of this convergence of optical and IP technology. Our routing and switching investments and engagements are going to increase our revenue over the next several years at a (inaudible) rate.

Samik Chatterjee

Okay, thank you.

Gary Smith

Thanks, Samik.

Operator

Your next question comes from the line of Alex Henderson with Needham.

Alex Henderson

Thank you. Could you just repeat the order backlog that you have, and is that primarily a product backlog?

James Moylan

Two point two billion. It is products and services. Some very small portion of that, you know, in the small low hundreds of millions, is services and maintenance that will continue beyond Fiscal '22. The vast bulk of that backlog will be delivered in Fiscal '22.

Alex Henderson

What do you think your normalized backlog would be if you were in a normal environment? How much of that is outsized backlog?

James Moylan

Yes, Scott will address this, but we've talked about that internally. The business, really, because of the COVID situation and what quickly followed it, which was a supply chain imbalance, the way the ordering pattern of our customers occurs has changed.

Scott, you ought to address that, as we've talked about.

Scott McFeely

Yes, I think, Alex, if you look at a couple of data points, number one is the backlog grew from beginning of ’21 to the end of ’21 by $1 billion. The environment going into ’21 I wouldn’t say was a normal year, so that might have been a bit low. Going into ’22 is probably a bit high, so somewhere in between there is the normalized rate. If you go back in historical numbers through the last decade, we’ve sort of entered the year typically somewhere between 30% and 35% of the annual revenue plan for the year in backlog. That may give you some indication of what sort of normal state is. I personally think we’ll be living in this new environment where we have longer visibility and therefore more backlog for quite a while, probably through all of 2022.

Alex Henderson

Yes, so the primary reason I’m asking these questions is I wanted to get at the mechanics of how the backlog normalizes. Over the course of CY ’22, FY ’22, would we see the book to bill start to run below one and therefore the backlog start to trim lower, or do you expect in your guidance that the backlog stays at elevated levels and we don’t bring that down? I mean, if I’m looking at the backlog at 61% of your total trailing revenues and 75% of product revenues, so it’s a very large backlog. What’s the mechanics for normalizing that, and does it happen all in ’22, or do we actually end up with a large chunk of that backlog being realized in 2023, which case the guide seems conservative for ’23?

Scott McFeely

I actually think, you know, one of the things we probably need to change your mind around a little bit is sort of looking at a short-term period trying to figure out how much revenue moves from one to the other. Because in the old world, we used to go through a period, and a relatively low proportion of that period’s revenue was actually in backlog and we had pretty fast conversion cycles. It made sense to ask the question of how much did you miss. Right now, we’re in a different world. The demand profile has given us long visibility. It’s a very significant portion of the delivered revenue in a short period of time, and therefore you’re less dependent on new order flow.

I think we’re going to be living in that world for most if not all of 2022. What it does mean is unlike in ’21 where we said that the demand dynamic was really what was shaping the timing of our revenue being back end loaded, it’s going to be not the demand this case. It’s going to be similar shape to ’21, but it’s going to be the supply environment that’s going to be the thing that’s shaping it. You couldn’t actually expect then with the revenue increasing as we go through the year, there’s going to be a convergence on the book to ratios. The question was asked whether it flips to being less than one. We don’t know. But I think you’ll still see an oversized backlog relative to historical measures going into ’23.

Alex Henderson

Are you seeing a reduction in the book to bill because of the parts elements becoming more available over the course of the year? When do you expect that to actually start to improve in the guide, is what I’m really trying to get at? Thanks.

Scott McFeely

I would say it this way because it’s difficult to give you a precision in terms of the quarters, but I would say just we do expect our book to bill in the year to be still greater than one on an annual basis.

We do expect the supply chain environment to largely persist for most of our Fiscal ’22. We think we will start to see some improvements in lead times as we get to the back end of the year. That will probably change the ratios, the backlogs, the revenue in ’23 but not back to sort of the historical norms.

Gary Smith

Thanks, Alex.

Operator

Your next question comes from the line of Meta Marshall with Morgan Stanley.

Meta Marshall

Great. A couple questions from me, maybe just a little bit more market focused. Clearly, you’re seeing a strong web scale order flow. And just what are you seeing in terms of that up rate activity? Is it wholesale upgrades to WaveLogic 5 like we maybe saw with the 400-gig cycle? Are you seeing more of a mix of speeds being installed kind of in the data center?

Then maybe a little answer to that question for Fiscal ’22, but you know, you talked about there needing to be kind of a partnership with the service providers as you look towards making price increases. Just trying to get a sense of when you look at low to mid-single digits in ’23 and beyond kind of for the industry, do you think that will be more pricing driven, or unit driven, just in terms of how much of the price increases will be absorbed by the suppliers versus the service providers. Thanks.

Scott McFeely

I’ll take this one on the web scale piece. As you know, you know we’ve got exposure to the web scale in multiple parts of infrastructure there, (inaudible), metro, data center, connect. In some cases they’re sort of natural backbone efforts and certainly a lot of activity around (inaudible) networks. I think in all three of those use cases, what we’re seeing is certain capacity elements. Those capacity elements hit us in typically the most advanced state of the shelf technology as they try to introduce the lowest cost per bid as they can. We’re not all on WaveLogic 5, but that transition is happening as we speak.

The second thing that we are seeing is expansions in terms of their reach, so that comes at us in terms of new route builds, both in terms of photonics and WaveLogic modems. Then maybe a bit unique to us and the timing wise as we have talked in the past around new logo wins in that space that are significant, and you’re starting to see those come to revenue.

Gary Smith

Meta, on the other part of your question on the industry growth. Whatever happens on the pricing environment, I don’t think that will have a major impact on the actual size of the growth, to be honest. Because I think wherever the pricing dynamics and I think certainly from our point of view is that we will absorb the vast majority of the additional costs associated with the component piece. But I want to be clear, I do not think that will be able to be passed on to our customers. That’s all encompassed in our guide, and I don’t think it will really impact ’22 from a price increase point of view.

But what I would say is, over time, generally to our gross margin, if you look at the guidance we’ve given for this sort of three-year piece, you know, I do think that we will be able through innovation, our own cost reductions, our vertical integration, and mix, and also our increased levels of software exposure to the growth in routing and switching, that will help our gross margin. As Jim said, it’s probably if you look at the baseline gross margin, we're somewhere between 44% and 46% right now if you didn't take into account these component increases.

Meta Marshall

Great, that's very helpful. Appreciate it.

Gary Smith

Thank you, Meta.

Gregg Lampf

Thank you very much and thanks, everyone, for your time today, your attention. We look forward to catching up with everybody today in the next few days. Happy Holidays, everyone, and happy, healthy New Year. Thank you.

Operator

This concludes today's conference call. Thank you for participating.