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CIEN - Q1 2016 Ciena Corp Earnings Call

EVENT DATE/TIME: MARCH 03, 2016 / 1:30PM GMT

CORPORATE PARTICIPANTS

Gregg Lampf *Ciena Corporation - VP IR*

Gary Smith *Ciena Corporation - President, CEO*

Jim Moylan *Ciena Corporation - SVP Finance, CFO*

Francois Locoh-Donou *Ciena Corporation - SVP, COO*

CONFERENCE CALL PARTICIPANTS

Tal Liani *BofA Merrill Lynch - Analyst*

Rod Hall *JPMorgan - Analyst*

Paul Silverstein *Cowen & Company - Analyst*

Doug Clark *Goldman Sachs - Analyst*

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

Meta Marshall *Morgan Stanley - Analyst*

Vijay Bhagavath *Deutsche Bank - Analyst*

Tim Savageaux *Northland Securities, Inc. - Analyst*

Tim Long *BMO Capital Markets - Analyst*

Jess Lubert *Wells Fargo Securities - Analyst*

Stanley Kovler *Citigroup - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ciena Corporation's fiscal first-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Gregg Lampf, Vice President of Investor Relations. Sir, you may begin.

Gregg Lampf - *Ciena Corporation - VP IR*

Thank you, Kaylee. Good morning and welcome to Ciena's 2016 first-quarter 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 have posted to the Investors section of Ciena.com the Company investor presentation, including certain highlighted items from the quarter being discussed today.

In our prepared remarks today, Gary will discuss management's view on the market and our overall progress, and Jim will provide detail on our Q1 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 will remind you that during this call 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-K filing. Our 10-Q is required to be filed with the SEC by March 10, 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 in the Investors section of our website. Gary?

Gary Smith - *Ciena Corporation - President, CEO*

Thanks, Gregg, and good morning to everyone on the call. Having posted solid Q1 results this morning, Ciena is off to a strong start in 2016.

Revenues came in right where we expected. And in a quarter that is normally highly affected by seasonality, we delivered a strong adjustable operating margin of 8% in the quarter.

Obviously we are aware of the recent volatility in the broader macro environment. While it had no discernible effect on our performance in Q1, we are obviously mindful of the uncertainty it creates and will comment on that in the context of our guidance more, later in the call.

If you were at Mobile World Congress last week, you likely saw some of the same trends that we observed in our meetings in Barcelona. Specifically, the shift is continuing towards on-demand networking across an open ecosystem, part of what we refer to as the Web-scale effect. It's a trend that is drawing the worlds of service providers and Web-scale players ever closer together, and the investments that we've made in our portfolio and our customer relationships put us in a prime position to help different kinds of network operators make the transition to open on-demand networking.

With open interfaces between network applications, controllers, and infrastructure, our OPN architecture -- introduced some four years ago -- is proving to be the right strategic blueprint for customers in this increasingly virtualized environment. So in that context, I will focus my comments today on the progress we're making as we engage the market on some key new products that are helping customers capitalize on the Web-scale effect. I'll also provide a view on our ongoing performance across geographies.

I'll start with some commentary around Blue Planet. Overall, the Cyan integration has been extremely smooth. Customer interest is, frankly, beyond our expectations, especially around the virtualization and orchestration capabilities of the next-gen Blue Planet software platform.

As we said last quarter, success for Blue Planet in 2016 is really all about getting mindshare and key architectural wins. So I'm delighted to announce the Blue Planet had four next-gen wins in the quarter, including a new global Tier 1 based in Europe and a North American MSO.

Based on what customers are telling us, Blue Planet's momentum is being fueled by differentiators that fall broadly into two categories. The first is what I would characterize as superior architecture.

The response to Blue Planet's new microservice architecture has been extremely positive. It's an architecture that essentially facilitates a modular approach to building a complex system and enables customers to utilize Web-scale technologies and easily integrate with third-party solutions.

The second point of differentiation is really around the platform's ability to deliver on the market's growing preference for openness. Blue Planet is designed as an open, vendor-agnostic platform; and in Q1 we launched at the industry's first hardened version of ONOS, open-source software for commercial use.

We're also excited about the early traction in the market we're seeing with Waveserver, which we believe sets a new standard for the data center interconnect market. Q1 was our first quarter shipping Waveserver, and we took revenue from our first three customers.

In addition to QSC, who we announced last week, we sold Waveserver to a top-five Web-scale player and a US-based media company. The pipeline is expanding as we're engaged with more than 30 customers on Waveserver opportunities worldwide. These include Web-scale companies, Tier 1 and Tier 2 service providers, MSOs, datacenter operators, and wholesale service providers.

This diverse mix of customers illustrates the broad demand that we're seeing for this solution. And, like Blue Planet, customers are telling us that the appeal of Waveserver is essentially around its openness and its architecture.

Firstly, openness and the programmability that it enables are key differentiators for Waveserver. Waveserver's open photonics, open WDM interfaces, and open APIs stand, frankly, in stark contrast to other solutions on the market.

Architecturally, Waveserver takes advantage of our WaveLogic coherent optical processors, resulting in 60% better density and more than 100% better spectral efficiency than our commercially available competitive solutions.

It's a point of differentiation that will only increase as networks scale and we continue to innovate on the platform. So while it will take some time to see significant Waveserver revenues, given its early stages, we're very pleased with the initial interest and we're also highly confident in Waveserver's long-term prospects.

Separately, we're also continuing to win with our new 8700 Packetwave platform across a diverse set of customer segments. In fact, in Q1 we received our largest order ever for the platform.

With three new customers in the quarter, we're now up to 29 total 8700 customers. Trials are also ongoing with a number of other potential customers, including two Tier 1 service providers in North America.

So the foundations are being laid for new growth drivers and technology leadership. But as our Q1 results demonstrate, we're also performing well across many of our established markets.

In Q1 we had another strong quarter in North America, driven in large part by continued demand from MSOs and Tier 1 service providers. It's worth noting as well that we saw an expansion in our packet optical revenue from AT&T outside of North America as well.

In our CALA region, we've seen solid growth in recent years. Following a strong contribution in 2015, CALA revenue in Q1 was up slightly over the same period last year. Overall we're seeing good demand even in the face of some economic challenges in the region, and we expect to see growth in CALA again this year.

In APAC we continue to take market share, with Q1 revenue growing nearly 30% over last year, driven in part by our successful submarine business. India also continues to be a particularly strong market for us in this region.

EMEA, on the other hand, has been somewhat disappointing. Our business in region continues to be impacted by market volatility and corresponding CapEx constraints that are well known by everyone. But frankly, our execution as a Company in the face of these known challenges could have been better.

That said, our new leadership in the region is taking active steps to improve our performance and improve our coverage to those market opportunities. We continue to believe that portfolio is really a great fit for the EMEA market and that our recent changes position us to take advantage of the overall improving EMEA opportunities.

In closing my comments, our Q1 financial performance with solid revenue and a strong bottom line is a great start to 2016. Our differentiated approach is strategically aligned with the market's direction, particularly around the openness and the architectures that enable customers of all kinds to capitalize on the Web-scale effect and drive customer choice.

With industry-leading platforms that address today's network challenges and the open solutions that will be essential as the industry enters the next phase of transformation, Ciena is very well positioned to translate market momentum into continued growth, share gains, and increased profitability. With that I'll hand over to Jim.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

Thank you, Gary. Good morning, everyone. All of the progress end market momentum that Gary just discussed contributed to a strong Q1 performance across our financial results. But before I speak to those results, I'll address another area of progress that we've been focused on: The continued diversification of our business.

Here are some data points to illustrate our success. We continue to see Web-scale players as the fastest-growing vertical in the market.

We hold number-one share in this customer segment, and our Web-scale outlook for the full fiscal year remains strong. In Q1, direct sales to Web-scale customers represented between 5% and 10% of revenue, which is the range we've been seen for some time now with these customers.

Web-scale customers are also becoming a larger part of our submarine business, which had another strong quarter. In Q1 we won new submarine business with a top-five Web-scale player, and we have submarine trials ongoing with multiple ICPs.

To date, our submarine business essentially has been in the cable upgrade market. We're beginning to see an increase in the number of newbuild opportunities in many of which cable and optical gear are provided by separate vendors. In these cases, operators are looking for best-in-class optical solutions -- which translates to Ciena.

Newbuilds represent roughly a 25% increase in our total addressable submarine market. And in Q1, two of our new submarine wins were newbuilds.

We also continued the growth and momentum in our 100-gig and 200-gig business. In Q1 we had record 200-gig shipments and a big increase in 100-gig shipments over the year-ago period, reflecting 19 new customers. Our top 100-gig customers in the quarter were a major Tier 1 service provider in North America, a North American MSO, and a top-five Web-scale provider.

Turning now to our first-quarter financials, Q1 revenue was $573 million, which is the midpoint of the guidance range we provided. The former Cyan portfolio continues to perform well, with revenue in the quarter coming in strong at approximately $40 million, primarily due to strong demand for the Z-Series platform. We expect revenue from Cyan hardware and related services to normalize around $30 million per quarter for the rest of fiscal 2016.

Q1's adjusted gross margin was 44.7%. A strong mix of services and software subscription were positive contributors.

Operating expense in Q1 was $208 million. OpEx benefited from savings on major IT projects as well as a lower Canadian dollar.

We achieved $48 million in adjusted operating profit in the quarter, which equated to an 8% adjusted operating margin. Orders and Q1 were solid, coming in higher than revenue.

Also, we generated $15 million in cash from operations. This is after the payment of our fiscal 2015 companywide incentive compensation. This was paid in Q1, a quarter earlier than in prior years.

In addition, we used $14 million in the quarter to repurchase a portion of our 2017 convertible debt. We ended the quarter with approximately $995 million in cash and investments. Q1's adjusted earnings per share were $0.18.

Before I turn to guidance I'd like to provide some broader context as to what we're seeing in the market. We are four months into our fiscal year, and we are seeing some factors that we currently expect will impact our financial projections for the remainder of 2016.

First, as Gary noted, our EMEA region is not performing as well as expected. While we made changes to address our performance in EMEA, it will take some time for those changes to translate into faster than market growth. Accordingly, our EMEA revenue this year will be lower than originally expected.

Separately, the US dollar has strengthened over the past few months, both in general and particularly with respect to two currencies to which we are exposed, the Brazilian real and the Canadian dollar. This will likely have a negative impact on our expected revenue for 2016.

It's also worth reiterating that since our December call the broader macroeconomic environment has become significantly more volatile. While we haven't yet seen this impact on our business outside of EMEA, it adds an increased element of uncertainty when predicting customer spending behavior.

As a result of these factors and to account for increased macro uncertainty, we are now revising certain elements of the fiscal 2016 guidance we provided in December. We previously said that we expected annual revenue growth to be in the range of 8% to 9%. We now expect that revenue growth for the year will be in a range of 5% to 8%.

We believe that our revised view is consistent with that of the broader market. In fact, we are starting to see industry analysts revised downward their estimates for 2016 growth in our market.

For example, the most recent Ovum estimates for the total WDM market excluding China called for growth of approximately 5% in 2016. As a result, even with this reduced range, we believe that we will be taking share and growing faster than the market in every region other than EMEA.

With respect to adjusted gross margin, we continue to expect it to be in the mid-40%s percentage range. We previously said that we expected adjusted operating expense to average approximately $225 million per quarter for the entire year. As I noted earlier, we performed substantially better on OpEx in the first quarter; however, we don't expect to achieve this level of OpEx for the rest of 2016. We now expect that adjusted OpEx will average approximately $225 million per quarter for the last three quarters of 2016.

With respect to adjusted operating margin, we previously said that we expected it to be in the range of 11% to 12% for the year. Based on our revised expectations with respect to revenue and OpEx, we are widening that range and now expect adjusted operating margin to be in the range of 10% to 12% for fiscal 2016.

We continue to expect good cash generation for the year, and our balance sheet will show continued improvement.

I'll now provide guidance for our fiscal second quarter. We expect Q2 revenue to be in the range of $615 million to $645 million. We expect Q2's adjusted gross margin to be in the mid-40%s range and we expect adjusted operating expense in Q2 to be approximately $225 million.

Despite some recent volatility in the broader macro environment, the demand drivers for our business remains firmly in place, and we are well positioned to translate our market leadership into continued growth and profitability this fiscal year and beyond.

Kaylee, we'll now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tal Liani, Bank of America Merrill Lynch.

Tal Liani - *BofA Merrill Lynch - Analyst*

Hello; good morning. My question, first, is about the 22% customer this quarter. How much was it this same quarter last year?

And the second question is around the same topic. If I remove Cyan -- and maybe you can provide us with the number of how much it was. But if I -- last quarter it was $80 million. If I remove that, you declined, your revenues declined year-over-year.

We're looking also at optical component companies who are just doing great and having a great cycle now. I look also at more direct competitors on the systems side, and I just cannot reconcile why you're seeing such, let's say, declines year-over-year, if the math is right, and the other parts of the market are seeing growth at the same time. Can you discuss the differences? Thanks.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

Yes, actually, Tal, if you remove Cyan from our numbers in this quarter -- remember they weren't in the quarter a year ago -- our North American business is up around 8%. The $40 million for Cyan is a global number, not a North American number. So we're up about 8% North America Q1 of last year versus Q1 of this year.

One thing I'd say -- we'll get the AT&T number for you. But one thing I'd say about the component guys is, as we've said many times in the past, their performance is increasingly less correlated with us. They sell a lot of components into China; we're not in China at all.

We have a packet business which doesn't really buy their gear. I've just said many times that you can be in error if you expect an exact correlation between us and the vendor suppliers in any particular period.

So, on AT&T: AT&T last year was $117 million or 22%, which is 22% this year and up.

Tal Liani - *BofA Merrill Lynch - Analyst*

Got it; excellent. Thank you.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

By the way, some of that -- I will mention that AT&T, we did take some revenue from AT&T outside of North America for one of the few times that -- they don't do that. We're expanding our business with AT&T globally, and that's about $10 million.

Tal Liani - *BofA Merrill Lynch - Analyst*

Great. Thanks.

Operator

Rod Hall, JPMorgan.

Rod Hall - *JPMorgan - Analyst*

Yes, hi, guys; thanks for taking the question. I just had a couple. I wanted to see if you could give us some commentary on your thinking on market share particularly in 100-gig metro and the North American market this year. How are you feeling about that?

Do you think you're likely to gain share? Just give us some idea of what you expect the share trajectory to there to be.

Then I wanted to circle back around maybe, Jim, to the guidance change for the full year. We get that there are a lot of negative things going on out there. I just wonder if you could give us a little bit more detail on what drove most of that change.

Is it a reduction in your EMEA expectations? Is it mostly currency? Just give us some idea of what -- where the quantum of difference is in that guidance, if you could. Thanks a lot.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

Thank you, Rod; it's Francois here. So on market share, specifically on the 100-gig, we've been doing very well on 100-gig shipments and 200-gig shipments across a broad base of customers around the world. We expect to continue to be taking share in the metro market this year.

In fact, in the second half of this year, we are ramping on a number of metro projects including Verizon. Verizon is on track on a next-gen metro project that we were awarded a few months back, to ramp on their milestones; and we've also met all the milestones we had with them, so we should be ramping up with them in the second half of the year.

We also now have more visibility to our market share in the next-gen metro at Verizon, and we expect to be getting at least half of the market share in that implementation. But we're also ramping on 100-gig with other Tier 1 carriers both in North America and outside of North America. So, generally, we expect our share of the 100-gig metro market to continue to go up in 2016.

Rod Hall - *JPMorgan - Analyst*

Yes, great. Thanks, Francois.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

And on the new guidance, what I'd say, Rod, is first of all -- when you think about it, we've taken the midpoint of our guide down about 2 percentage points, which translates into roughly $50 million. And there are two very specific reasons for that, one of which is the currency issue. We think that's about $20 million for the rest of the year.

We think that the EMEA downturn from our previous expectations is about $30 million. There are a number of factors there, some of which are the macro and capital spending on the part of certain customers; and some of which, frankly, is our own performance in the region.

So that's the story. One of the things I'd say is that we try to give at any point in time our best view of what the market looks like to us today. You'll recall that last year as we went through the year we changed our numbers as we saw certain things in the market change, and we'll continue to do that.

Having said all that, we still see a great opportunity ahead for us. Our engagement with customers has never been better. Our win rate is exceptionally high. We have brought new platforms into the market.

We believe that other than EMEA we are still taking market share. So we still feel great about our opportunity going forward.

Rod Hall - *JPMorgan - Analyst*

Great. Thanks, Jim, and I appreciate the detailed color there as well.

Operator

Paul Silverstein, Cowen and Company.

Paul Silverstein - *Cowen & Company - Analyst*

Yes, guys, is there any color you can give us on the Verizon 100-gig metro rollout, and beyond Verizon 100-gig metro in general? What do you see in the marketplace? Why should we feel good about the outlook going forward over the next 12 months? Thanks a lot.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

Hi, Paul; it's Francois. Yes, as I said, on the metro rollout at Verizon, things are progressing on track as per their plans. We now have better visibility into which markets are going to be deployed first, and we're in the planning stages of the rollout.

We expected it to ramp in the second half of our fiscal year, and it's still the case. It is ramping on track.

In terms of other 100-gig metro deployments, again, we've had a clean sweep of the North American Tier 1 market for metro 100-gig; and these programs are ramping as well. Basically we are taking wallet share in these accounts with metro 100-gig, largely because the combination of not just 100-gig capability, but packet and OTN switching in our platforms is really appealing to carriers who are trying to hone in multiple services in these metro areas.

So generally that's on track. That's progressing well, and we expect to take share in the second half.

Paul Silverstein - *Cowen & Company - Analyst*

Can you give any quantification of what these opportunities look like from a 12-month time frame?

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

I think, Paul, these are large programs. We wouldn't go into details of the numbers.

But generally if you look at the metro market, it's a market that we expect to be growing faster than the long-haul market in 2016 and 2017. And within that market we expect to be taking share relative to other players.

Operator

Doug Clark, Goldman Sachs.

Doug Clark - *Goldman Sachs - Analyst*

Hi, thanks and good morning. A few questions on my end. The first one is from a margins and OpEx standpoint.

Gross margins for the second quarter, mid-40%. Is that -- should we think about that as flat or up slightly sequentially? And what are the factors that go into that for the outlook?

Then secondarily on OpEx, $225 million for the rest of the year is substantially above what you just put up for the quarter. And factoring through benefit of FX on the Canadian dollar and perhaps some other things, why the ramp in OpEx towards the -- or the increase in OpEx for the rest of the year?

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

Yes, on the OpEx question first, there is some impact from FX positives. We also bought TeraXion; that's going to cost us a little bit.

We did our OpEx planning really with a long-term view, based on what we see as the long-term opportunity in the market. We still see a long-term opportunity, and so we'll continue to invest in innovation and in putting feet on the ground in places around the globe.

So that's our plan for OpEx. With all that, our OpEx is going to be down this year from our earlier call.

On the gross margin, we're not going to comment on the direction of it. We feel good about our gross margins. Mid-40%s is our call. We've done really well on gross margin now for six or so quarters, and we expect to continue to do well.

Doug Clark - *Goldman Sachs - Analyst*

Okay. Then one additional follow-up. Now that you've started to break out the Software and Software-Related revenues -- and presumably Blue Planet a part of that as well -- what is the outlook there? Just looking at the historicals it's been growing modestly, but no substantial uptick. Is there at some point an inflection that we should see?

Gary Smith - *Ciena Corporation - President, CEO*

Doug, this is Gary. I would say I would continue to have the same expectation for the rest of the year. I think this stuff always takes longer than everybody thinks to get into market.

We're really delighted with the traction and the wins that we've got, but I would expect more of the same this year, frankly; and then I'd start to see the uptick towards the end of the year as we come in 2017, in terms of really monetizing all of these wins. And then that will drop to the bottom line.

Operator

Simon Leopold, Raymond James.

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

Great; thank you very much. I just wanted to get two quick clarifications and then discuss a trend in particular. In terms of clarification, Jim, you talked about the FX headwind on revenues. Just wondering if you could talk to FX as a tailwind on your operating expenses, given the significant portion of the salesforce that's based in Canada.

And also in terms of a little bit more detail, if we could get in terms of old segmentation -- it was nice of you to give us the Cyan number. Would also help to get Packet Networking so we can understand what that business is doing.

Then just in terms of the trending question, I wanted to see if you could give us some sense of your expectations for this Web-scale business. You give us the 5% to 10% range, but it sounds like that pipeline is strong; you mentioned new submarine wins.

So where should we think of Web-scale as a customer base, let's say by year-end or maybe even fiscal 2017? Thank you.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

That's more than one question, Simon.

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

Two clarifications and a question.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

That's like six. Okay, I'll start with the OpEx point. We've talked about this before, but what we have is -- we don't have a big salesforce in Canada. We do have a big R&D force in Canada.

And because it's a big exposure to us, we try to look at the expected revenues in Canada and the expected OpEx in Canada, and we hedge the open position, which is we have a much higher expense base in Canada than we have revenue base. So we hedge that and we don't expect to see any volatility in that portion of our OpEx as a result of the fact that we've hedged it.

The open position we see a decrease in -- with the current foreign-exchange rates on the Canadian dollar, we'll see a decrease in the Canadian revenues, but we'll see an offsetting decrease in our OpEx, roughly. But -- so that's not a big number; it's around $10 million or some number like that.

But we are taking on some expense related to the TeraXion investment that we made. So the two roughly offset although for the year, as we said, we're going to be down on OpEx from our earlier projections.

On Packet Networking, we will -- we can tell you that we did around $48 million in that business for the quarter. Those are the clarification questions.

Gary Smith - *Ciena Corporation - President, CEO*

Why don't I take the -- on the Web-scale, Simon, I would say this. When we give the number of 5% to 10%, what Jim's directly talking to there is a direct contracted relationship with the Web-scale players. I would say what we're seeing increasingly, both through submarine -- and again some of that is direct but most of that is indirect -- they are probably the -- they are I think the largest players in the submarine space now. Probably more than 50% of the traffic across the Atlantic, transatlantic, is really attributed to the Web-scale players.

So both direct and indirect I would expect to see that percentage increase. It's a very large part on the indirect of our business, where very often we'll work with them and carriers around the globe and facilitate a network capacity build for them. And that's not reflected in the numbers when we say 5% to 10%.

So I think it's increasingly obvious that these Web-scale players -- and I would also make a point here. Everybody thinks about the top five, and clearly they are the major players right now. But we're also seeing the smaller, newer Web-scale players increasingly wanting to connect datacenters and think about network access as well. So I think that's a market that we're seeing emerge and will see, I think, during the course of the year.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

They are also very focused and are driving -- one of the drivers of this trend toward separate purchasing of new cable and optical equipment on new cable. They are very focused on performance. They want best-in-class on both.

We think that plays to our strengths. And as we said, we had -- two of our submarine wins in the quarter were newbuild opportunities for which we are providing the cable for the optical gear.

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

Great. Thank you.

Operator

Meta Marshall, Morgan Stanley.

Meta Marshall - *Morgan Stanley - Analyst*

Hi, two quick questions. One, wanted to ask whether you still thought metro could be a double-digit grower exiting fiscal-year 2016 and looking forward to fiscal year 2017.

Then the second question is on EMEA and just -- is the competitive environment getting stiffer just on currency? Is it getting more competitive based on new entrants into that market? Just a little bit on the execution issues in EMEA; thanks.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

Okay, so on the metro, the short answer is yes. We do believe that it can and will be a double-digit growth market for us going into 2017, largely because we're still in the early stages of deployment of some of the largest programs that we've won in North America and outside.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

And we expect Verizon is going to roll out this year, and it's right according to our expectations. We believe based on what we hear so far we're going to get at least 50% of that rollout.

Gary Smith - *Ciena Corporation - President, CEO*

Meta, let me take the European question. I would say from a competitive environment, it's not particularly changed.

I think what we have seen in the last couple of years -- and I think this is widely understood, I think particularly around Alcatel being very, very aggressive on their home turf prior to their acquisition by Nokia, and I think they have been very aggressive. That's something we've seen for the last couple of years, particularly in Continental Europe. We'll wait and see how that plays out after the acquisition.

Obviously, you've got known macro issues in the broader EMEA, particularly around the Middle East, Russia, and in Southern Europe. But these have been around for a while.

So I actually think the overall market in Europe is actually beginning to move and beginning to grow. I think over the next 18 months to two years I actually think from a market point of view, you will see growth in Europe returning.

I think particularly the issues that relate to Ciena really fall into two categories. One is some of the large accounts that we have are in the middle of some M&A right now and are watching their CapEx very, very carefully; and that gives us some hesitancy as we look to the full year.

I think they will return in 2016, and they've got some very big plans from a network architecture point of view, and we're very well placed. But that, I think, is reflected in some of our changes in the full-year picture.

I think the second one, frankly, is around coverage. I think there are some opportunities in Europe; but really we should be better placed from an engagement and a coverage point of view, and we've made some changes in the last few months to address that.

We're pleased with what we're seeing in terms of the pipeline now improving. But I don't think that will kick in fast enough in terms of revenue recognition as we come in for the second half of the year.

Meta Marshall - *Morgan Stanley - Analyst*

Great. Thanks, guys.

Operator

Vijay Bhagavath, Deutsche Bank.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Yes, thanks. Hey, good morning, Gary, Jim. My question is on OpEx. You've maintained a $225 million OpEx number; you have guided on the full-year target in terms of top line. So help us understand the $225 million OpEx and in the context of a lower expectation for top line. Thanks.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

Yes. First thing I'd say, Vijay, as I said earlier, is that with $225 million a quarter for the next three quarters and what we did in Q1, our OpEx number will be lower this year than our original plan and the expectations that we guided to.

The other thing I'd say is that we do our OpEx planning, which is driven by what we're planning to do on the innovation side and what we're planning to do with respect to our salesforce, with the -- looking at the prospects for our business not just this year but for years into the future. And knowing what our customers are talking about and wanting, we think that it's very appropriate for us to continue the investment at the level we're talking about.

We still think we've got a good long-term opportunity for growth and taking market share. And reducing OpEx today would impede our ability to get at that opportunity. That's our thought process.

Gary Smith - *Ciena Corporation - President, CEO*

Vijay, I would also add that we see very good opportunities going forward, and we want to fund that. But I would also say that on the balance of probabilities we'll improve our financial performance at the bottom line as well this year.

What we're saying is this is a snapshot in time, which is basically eight months out from completion. And it's our best -- as Jim said earlier on, it's our best view of the business right now.

One thing for sure is the only real certainty is that will change as we go through the course of the year. And we're not about to change OpEx and things based on what we think is steady as she goes in terms of opportunity.

Vijay Bhagavath - *Deutsche Bank - Analyst*

Yes, thanks. A quick follow-on on Blue Planet. I was at MWC and impressive to see the demo. The claim is it could work with other people's gear, not just Ciena. Are you seeing that playing out in the field, Blue Planet really looking to orchestrate, automate, for example a Cisco, a Ciena, Infinera? You know, other vendors' equipment. Thanks.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

Vijay, it's Francois. Yes, absolutely. A key pain point for a lot of service providers is they have these heterogenous networks, and the operations of these networks are -- the multivendor networks are extremely complicated, and slow them down, and drive their operations expenses up.

Blue Planet addresses that pain point because it's an open platform. It's completely open architecture.

And more than that, it gives them flexibility in terms of how much of their own software resources they want to put into integration versus how much resources they want to get from Ciena or from an integrator, to go and implement a multivendor control environment. So that's a key proposition of Blue Planet.

And we are expanding every week the number of vendors that are in the Blue Orbit Ecosystem. You may have seen an announcement from us around integrating four or five other vendors in this ecosystem most recently. So absolutely a key pain point that we are addressing at the right time.

The other pain point or aspiration is -- and you probably will have seen that at Barcelona and Mobile World Congress -- is a number of service providers want to introduce new services in the marketplace, NFV-type services, to differentiate and to move faster specifically in the enterprise marketplace. We're seeing a number of opportunities related to that, and that's another area where we're winning because of the orchestration capabilities of Blue Planet for virtual services.

So overall, we're really, really pleased with the traction and momentum in the market for the platform.

Operator

Tim Savageaux, Northland Capital.

Tim Savageaux - *Northland Securities, Inc. - Analyst*

Good morning. Hey, I have a question; I want to focus on Europe here, the EMEA region, and really the extent of the decline you expect for the year. You mentioned you do expect a decline and bracketed the range at $30 million. Though if you look at Q1 revenues, down I think around 27% year-over-year, I wonder if you could talk about the magnitude of the decline you expect and also maybe sharpen the focus on the drivers there.

Given you have direct competitors describing the European CapEx environment as, quote-unquote, rock solid last week and really reports from the major carriers supporting that, I wonder exactly what you're referring to with regard to broader macro issues driving spending, and whether we aren't really looking at a pretty specific market share and execution situation for Ciena in EMEA in 2016. Thanks.

Gary Smith - *Ciena Corporation - President, CEO*

Yes, Tim, let me take that. The quick summary to it, it's more the latter comment that you made, frankly.

Let me go back to the overall numbers. We expect it to be about $30 million down from where we had originally thought for the year. And again I would stress that's a photograph in time; we've got eight months through this; but that's our best perspective on the balance of probabilities right now.

Overall, last year we did about $400 million in EMEA. I would expect it to be flat to down from that number by the time we get to the end of the year.

My overall view of the market, I would concur with some of the other commentaries that you've heard from other players, frankly. I'm reasonably positive about Europe, and I think it is growing, and it will grow in 2016.

I think in absolute terms we will probably lose a little bit of share this year based on the pure math if that is the outcome. Specific to us are really two issues, Tim.

One, the particular large carriers that we have there are having some CapEx issues this year predominantly related to things like M&A. I expect that to be somewhat short term, but that is overly impacting us as opposed to potentially some others.

Secondly, there are some opportunities around coverage into some of these new opportunities that I think we can do better at. We've addressed that as an issue.

I'm pleased with the plan that we have in place, and we're executing on that, and we're seeing some good, positive increase in opportunities and engagement. But, frankly, I don't think it will come quickly enough into the second half.

Now that being said, I do think you will see improvement in Europe in our performance in the second half. So we are confident that we'll see revenue growth in the second half on the first.

Tim Savageaux - *Northland Securities, Inc. - Analyst*

Great. If I might follow-up just real briefly, I assume that implies no change -- or, who knows, maybe a positive change with regard to your expectations for growth in North America, just working through that math a little bit. But in general, has your expectation for it -- and assuming again that Canada is going to be down and a few of the other regions along the lines of your commentary -- have your expectations for North American growth, or sorry, US growth changed at all?

Gary Smith - *Ciena Corporation - President, CEO*

I would say it has improved slightly since the beginning of the year. We feel pretty good around North America. We think we're going to grow faster than we did last year in North America, and we think we're going to grow faster than the market in North America.

It's interesting. The actual market rate of growth, according to people like Ovum, is about 3% in North America. We think we can grow, obviously, probably double that, so North America we feel good about.

CALA, despite some of the challenges on the macro side in Brazil we still think that we'll have good growth out of CALA for the year and Asia-Pacific as well, driven by a lot of submarine activity.

Also India is particularly strong for us. As you know we've invested heavily over the last 10 years in India, and that's really beginning to move.

So, Tim, if you look at really all of the other regions, we actually see faster than market growth in all of them including -- critically, given our size of it -- North America.

Tim Savageaux - *Northland Securities, Inc. - Analyst*

Okay. Thanks for letting me sneak that in there.

Operator

Tim Long, BMO Capital Markets.

Tim Long - *BMO Capital Markets - Analyst*

Hi, thank you; just one two-parter on the competitive landscape. Just give us an update on what you're thinking with regard to Ericsson now that Cisco has this partnership with them and Cisco seems to be trying to get a little bit more aggressive in optical. What do you think that means to the partnership and the opportunity through Ericsson?

Then, Gary, you mentioned something about Nokia Alcatel-Lucent. I know it's early stages. Are you just expecting any disruption there? Are you expecting maybe any changes to the market given that Nokia historically over the last few years has been very margin focused? Do you think that could provide some incremental opportunities for Ciena? Thank you.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

Hi, it's Francois; I'll take the first part of the question on Ericsson. Largely we don't see an impact on our relationship. As you know, the focus of the Cisco-Ericsson alliance is really around the IP and routing space; and we are the best-of-breed optical partner for Ericsson and we're continuing to do well.

In fact, we have won more business with them this quarter, and generally our pipeline with Ericsson is growing and, frankly meeting or exceeding the expectations we had for this year in terms of opportunity and revenue contribution from this relationship. So generally, we don't see an impact, and we continue to be focused on the optical space with Ericsson and continue to do well there.

Gary Smith - *Ciena Corporation - President, CEO*

On the dynamics around the Alcatel-Lucent merger with Nokia Siemens, it's obviously very early days for that. But judging by history from when they spun off their optical unit about three years ago, as a diversification under their disposal of nonstrategic assets, I think they called it, into the private equity world, it's clear that their motivation is primarily around mobile infrastructure and RAM, which places them number two in the world. I think it makes a lot of sense from that perspective.

Also I think the IP, the TiMetra platform, was also another key driver of that. Frankly, I'm not -- I think the jury is out on optical. We don't, given their other priorities, probably believe that that's strategic to them based on their history and the other things that they're dealing with. But again, the jury is out on that.

I think on any integration there is always a challenge and an opportunity, particularly when you're essentially putting a number of these large players together -- and particularly if the context of that is Europe, which has its challenges as well from a flexibility point of view. So we'll see how that goes; but early signs are that optical is not a strategic focus for them.

Tim Long - *BMO Capital Markets - Analyst*

Thank you.

Operator

Jess Lubert, Wells Fargo Securities.

Jess Lubert - *Wells Fargo Securities - Analyst*

Hi, guys; two quick ones. But following up on an earlier line of questions, to get to your revised full-year forecast it still implies a fairly strong second half. So I'd love to just get a sense of your visibility and if you could rank-order some of the opportunities beyond Verizon driving your confidence we'll see better trends beyond the April quarter.

You mentioned things in the cloud, the submarine market. If you can just help us understand how those stack up and your visibility there.

Then for Jim, I was hoping you could touch on what drove the drop in the deferred. It looks like the short-term portion was down quite a bit relative to last quarter. Any insight there would be helpful. Thanks.

Gary Smith - *Ciena Corporation - President, CEO*

Why don't I start with the broader perspective around what are we thinking in the second half, Jess? I think first of all, we've got the largest backlog that we've ever had going into this time of year, as we look into the second half. So obviously, that gives us confidence.

Q1 orders were higher than revenue as well, as Jim mentioned, so they added to that backlog. We've got a disproportionate amount of the backlog being international, which can be longer-term; but we have pretty good visibility into the revenue recognition and project completion of those things in the second half. So that gives us confidence.

The overall pipeline in every region has grown and the engagement levels are very strong. And obviously, when we look at the forecast process, it includes all of those elements.

I think as Jim said earlier on, whilst we're mindful around the other macro uncertainties -- and I think we're all very aware of that -- I can honestly say we haven't -- there's no discernible impact yet on our business to that, both in the quarter that we've just gone through and in terms of the engagement that we're having with our customers. So I certainly don't think that is a discernible factor yet in the business that we're seeing.

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

I'll just add to that. In terms of the drivers in the second half, you're asking to rank-order them. Not necessarily in order, but the second half will be stronger in part because -- we talked about the metro market; we have metro projects ramping up that will be larger in the second half than they were in the first half, specifically in North America.

Gary mentioned India earlier, a number of programs in India that from a revenue recognition timing are going to contribute in the second half. And then the submarine market: as you know, the timing for completion of submarine projects and timing of revenue recognition can be a bit lumpy. But we have a couple of large projects that will come to revenue in the second half.

So those are three of the big factors that give us confidence in a strong second half.

Jess Lubert - *Wells Fargo Securities - Analyst*

Are some of the other metro opportunities in the second half -- of those, is Verizon the biggest? Or are there others that could be as impactful as Verizon as we look in the second half?

Francois Locoh-Donou - *Ciena Corporation - SVP, COO*

I think in terms of order of magnitude, Verizon is pretty important. But there are others that are going to contribute meaningfully as well.

Jim Moylan - *Ciena Corporation - SVP Finance, CFO*

Jess, on the deferred revenue piece, deferred revenue arises when we get paid before we can recognize revenues, and that typically occurs in two places. One is in maintenance contracts and the second is in long-term projects, particularly submarine, in which there is a payment schedule which extends during the period of deployment and then we recognize revenue at the end.

I frankly couldn't give you the exact breakdown of each of those pieces, but I'm sure it's both of them. If we didn't -- the Q1 is going to be a somewhat lighter order intake quarter than other quarters, and so I'm sure that the maintenance deferred revenue went down in the quarter and probably a couple of longer-term projects.

I would not read anything into that. It's going to fluctuate depending upon our order intake on the maintenance side as well as what's happening with the projects.

Operator

Stanley Kovler, Citi Research.

Stanley Kovler - *Citigroup - Analyst*

Thanks very much and good morning. I just wanted to follow up just a little bit more on the Verizon project and some of the guidance. If I take the guidance and back out Verizon, the second half versus the second half of 2015 looks pretty flattish. I know you outlined some of the trends there, but Verizon specifically looks like a $50 million to $60 million a quarter opportunity or so; and that lasts probably into the first half of 2017.

So just wanted to make sure that I'm thinking about that correctly. And then I have a follow-up.

Gary Smith - *Ciena Corporation - President, CEO*

Stan, this is Gary. I don't think it would be appropriate for us to get into that degree of detail around a specific customer. But I would say, and I think Francois gave context to it -- and I know everybody is very focused on Verizon, and it is a very large deal, multiyear deal, for sure. It begins to ramp in the second half. It's probably not the biggest ramp for us of the other engagements that we've got overall.

So whilst it's meaningful I wouldn't just look to that. I think the numbers you've probably got there are a little high, frankly.

This is going to be a multiyear ramp-up. It's on track, absolutely on plan, but there are a lot of other factors taken into consideration there.

We think that our second half in North America is going to be strong. Verizon is a part of that -- and bearing in mind we have a lot of other things that we do with Verizon as well outside of this next-gen metro.

But we do see good growth across a wider range of markets in the second half in North America including government, MSOs, Tier 2, the ICP guys. We actually see a very good second half.

And that's pretty consistent. Second half is always better than the first half.

Stanley Kovler - *Citigroup - Analyst*

Thanks; that's great detail. And then a separate follow-up just on the Software and Services business. You're at about a $100 million run rate, contributing low single-digit percentage of revenue. How do you think that ramps over the next few years?

2017 sounds like that's more of when we get a lot of that Cyan revenue actually after the customer wins come this year. Could we see that creep up to 10% of revenue exiting 2017? Thank you very much.

Gary Smith - *Ciena Corporation - President, CEO*

Stan, I think it's early days for us on the Blue Planet, obviously. I would expect, as I said earlier, I think more of the same this year in terms of percentage. It may tick up a little bit towards the end.

Then I think we start to see some movement in Blue Planet revenues being a contributor to the bottom line. We haven't given guidance about that, and obviously that's over a year out. It's still a nascent market and the monetization model of that still has work to be done on it.

Stanley Kovler - *Citigroup - Analyst*

Great. Thank you very much.

Gregg Lampf - *Ciena Corporation - VP IR*

Thank you, everybody. We appreciate your attendance today. We look forward to speaking with you and meeting with you over the next few weeks. Gary has a few words to (multiple speakers)

Gary Smith - *Ciena Corporation - President, CEO*

Yes, I'd just like to close the call, just to summarize some of the elements that we've talked about today. Very solid Q1 revenue with a strong bottom line. We do expect, even at the midpoint of our guidance for the year, to have organic growth faster than last year.

We are increasing our order intake, and our backlog continues to grow, as does our engagement with our customers in our pipeline. We're growing in every region for the year is our forecast, excepting EMEA. And overall, we expect to have a very strong financial performance this year.

We appreciate your time and look forward to talking with you. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.