



**ciena**

# Ciena Corporation Q1 Fiscal 2015 Earnings Call

March 5, 2015  
8:30 a.m. EST

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# Forward-looking statements and non-GAAP measures

Information presented and related comments of presenters may contain forward-looking statements. Forward-looking statements include Ciena's business outlook for future periods as well as statements regarding Ciena's expectations, beliefs, intentions or strategies regarding the future and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words.

These forward looking statements, based on information, expectations, prospects, forecasts and assumptions available to Ciena as of the date of this event, involve inherent risk. Ciena's actual results could differ materially from those stated, forecasted or implied, due to a number of risks and uncertainties associated with Ciena's business, operations and markets, including those risk factors disclosed in Ciena's Form 10-K filed with the SEC on December 19th, 2014.

All information, statements, and projections in this presentation and the related earnings call speak only as of the date of this presentation and related earnings call. Ciena assumes no obligation to update the information presented today, whether as a result of new information, future events or otherwise.

In addition, this presentation includes historical, and may include prospective, non-GAAP measures of Ciena's gross margin, operating expense, operating profit, net income, and net income per share. These measures are not intended to be a substitute for financial information presented in accordance with GAAP. A reconciliation of non-GAAP measures used in this presentation to Ciena's GAAP results for the relevant period can be found in the Appendix to this presentation.

# Key Messages

1

**Operating Leverage:** Although order timing and foreign exchange headwinds impacted revenue in the quarter, we were able to deliver excellent adjusted operating profit and adjusted EPS. With a strong performance across all other operating metrics, we are now consistently delivering on our business model with improved operating leverage and profitability.

2

**On-demand environment for the cloud:** We are seeing strong market demand from both Tier 1 service providers and the Web-scale providers as their worlds increasingly come together in an open, on-demand cloud.

3

**Portfolio expansion:** As web-scale principles are further adopted worldwide, we expect that our new solutions launched last week – and other introductions during 2015 – will further extend our role in new and existing markets.

4

**Diversification:** Ciena's innovation, and market and portfolio expansion further diversifies our business.

# Q1 Fiscal 2015 Financial Highlights

## Key Takeaways

1

**Revenue** of \$529.2 million

2

**Adjusted Gross Margin** of 44.1%\*

3

**Adjusted Operating Expense** of \$197.3 million\*

4

**Adjusted Operating Margin** of 6.8%\*

5

**Adjusted Net Income** of \$13.6 million or \$0.12 per share\*

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

# Q1 Fiscal 2015 Balance Sheet and Operating Metrics

Cash and Investments	\$799.0 million
Cash Flow from Operations	\$22.1 million
DSO	87 Days
Inventory Turns	3.9
Headcount (as of January 31, 2015)	5,070

# Revenue by Segment

(Amounts in millions)

## Revenue by Segment

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
Converged Packet Optical	\$ 336.6	\$ 383.3	\$ 382.0	\$ 356.8	\$ 333.4
Packet Networking	\$ 55.0	\$ 56.4	\$ 69.5	\$ 66.6	\$ 51.7
Optical Transport	\$ 22.3	\$ 26.5	\$ 31.0	\$ 29.6	\$ 40.1
Software and Services	\$ 115.3	\$ 124.8	\$ 121.1	\$ 107.1	\$ 108.5
<b>Total</b>	<b>\$ 529.2</b>	<b>\$ 591.0</b>	<b>\$ 603.6</b>	<b>\$ 560.1</b>	<b>\$ 533.7</b>

## % of Total Revenue

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
Converged Packet Optical	63.6%	64.9%	63.3%	63.7%	62.5%
Packet Networking	10.4%	9.5%	11.5%	11.9%	9.7%
Optical Transport	4.2%	4.5%	5.1%	5.3%	7.5%
Software and Services	21.8%	21.1%	20.1%	19.1%	20.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# U.S. and International Revenue

(Amounts in millions)

## Revenue

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
United States	\$ 297.7	\$ 308.5	\$ 368.1	\$ 324.0	\$ 317.4
International	\$ 231.5	\$ 282.5	\$ 235.5	\$ 236.1	\$ 216.3
<b>Total</b>	<b>\$ 529.2</b>	<b>\$ 591.0</b>	<b>\$ 603.6</b>	<b>\$ 560.1</b>	<b>\$ 533.7</b>

## % of Total Revenue

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
United States	56.3%	52.2%	61.0%	57.8%	59.5%
International	43.7%	47.8%	39.0%	42.2%	40.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# Revenue by Geographic Region

(Amounts in millions)

## Revenue

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
North America	\$ 331.5	\$ 340.5	\$ 403.3	\$ 377.8	\$ 355.8
Europe, Middle East and Africa	\$ 111.0	\$ 133.7	\$ 99.9	\$ 95.1	\$ 88.7
Caribbean and Latin America	\$ 42.8	\$ 51.8	\$ 67.2	\$ 40.2	\$ 52.7
Asia Pacific	\$ 43.9	\$ 65.0	\$ 33.2	\$ 47.0	\$ 36.5
<b>Total</b>	<b>\$ 529.2</b>	<b>\$ 591.0</b>	<b>\$ 603.6</b>	<b>\$ 560.1</b>	<b>\$ 533.7</b>

## % of Total Revenue

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
North America	62.6%	57.6%	66.8%	67.4%	66.7%
Europe, Middle East and Africa	21.0%	22.6%	16.6%	17.0%	16.6%
Caribbean and Latin America	8.1%	8.8%	11.1%	7.2%	9.9%
Asia Pacific	8.3%	11.0%	5.5%	8.4%	6.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# Q2 Fiscal 2015 Business Outlook<sup>1</sup>

Revenue	\$585 to \$615 million
Adjusted Gross Margin	42% to 43%
Adjusted Operating Expense	Approximately \$210 million range

<sup>1</sup> Projections or outlook with respect to future operating results are only as of March 5, 2015 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

# Fiscal 2015 Business Outlook<sup>1</sup>

Revenue	Approximately 5% Y/Y growth from FY'14
Adjusted Operating Expense	Approximate \$205M quarterly average
Adjusted Operating Margin	8% to 9%
Cash from the business	Roughly double that of FY'14 <sup>2</sup>

<sup>1</sup> Projections or outlook with respect to future operating results are only as of March 5, 2015 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

<sup>2</sup> Excluding any repayment of outstanding notes.

A night-time photograph of a city skyline with illuminated skyscrapers. In the foreground, a road is shown with long-exposure light trails from cars, creating a sense of motion. A large, semi-transparent orange geometric pattern, composed of various triangles and polygons, is overlaid on the right side and bottom of the image. The text 'Convertible Debt Overview' is written in white, sans-serif font across the upper left portion of the image.

# Convertible Debt Overview

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# CONVERTIBLE DEBT PROFILE\*



- \$1.2B aggregate principal amount outstanding; \$725M has a conversion price of slightly above \$20
  - For some portion of the debt, once the stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion or to exercise a redemption right in an effort to cause a conversion.\*
- Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue (see slide 13 or slide 14 in this presentation); and correspondingly, the interest expense is removed for the respective issue(s).

*\*Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.*

# HIGHLIGHTED TERMS PER ISSUE<sup>1</sup>

	<b>Par Value (in millions)</b>	<b>Underlying Shares (in thousands)</b>	<b>Conversion Price</b>	<b>Additional Redemption / Conversion Provisions</b>	<b>Net Income Threshold for Diluted EPS (in millions)<sup>2</sup></b>
<b>4.0% convertible senior notes, due March 15, 2015</b>	\$187.5	9,198	\$20.39	Redeemable for cash (plus a make whole) at Ciena's election - If closing price is $\geq$ \$30.59 for 20 of 30 consecutive trading days	\$27
<b>0.875% convertible senior notes, due June 15, 2017</b>	\$500	13,108	\$38.15	No	\$12
<b>3.75% convertible senior notes due October 15, 2018</b>	\$350	17,356	\$20.17	No	\$24
<b>4.0% convertible senior notes, due March 15, 2020</b>	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is $\geq$ \$26.51 for 20 of 30 consecutive trading days	\$45

<sup>1</sup>Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.

<sup>2</sup>The assumed amount of net income at which the shares underlying the convert would be included in EPS and interest expense on the note would be excluded.

Convertible Notes and Diluted EPS Analysis

Quarterly Assumptions									
Outstanding Notes	Par Value	Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense	Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding	The quarterly net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS
.875% notes due 2017	500,000	1,094	294			1,388	13,108	107,773	\$ 11,517
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	107,773	\$ 23,828
4.0% notes due 2015	187,500	1,875	257		(43)	2,089	9,198	107,773	\$ 26,648
4.0% notes due 2020	187,500	1,875	76	893	361	3,205	9,198	107,773	\$ 44,659
<b>Total</b>	<b>\$ 1,225,000</b>	<b>\$ 8,125</b>	<b>\$ 936</b>	<b>\$ 893</b>	<b>\$ 318</b>	<b>\$ 10,272</b>	<b>48,860</b>		

This spreadsheet is intended to assist people in developing their own assumptions. Ciena assumes no obligation to update the information presented herein, whether as a result of new information, future events or otherwise.

Ciena's outstanding convertible notes are considered anti-dilutive when the related interest expense on a per common share "if converted basis" exceeds Basic EPS for the period.

Over the term of the notes the amount of accretion of principal (included as a non-cash component of interest expense) and amortization of the debt discount will fluctuate by immaterial amounts.

This schedule reflects the quarterly net income required for the inclusion of the common shares underlying each issue in determining Diluted EPS, with each issue considered on a cumulative basis in order from most to least dilutive.

Net income or earnings per share assumptions regarding the convertible notes are for information purposes only and do not reflect Ciena's business outlook. Ciena makes no assumptions as to whether or when the Company could achieve the relevant metrics provided in this presentation.

A night-time photograph of a city skyline with illuminated skyscrapers. In the foreground, a road is shown with light trails from moving vehicles. A large, semi-transparent orange geometric pattern, composed of various triangles and polygons, is overlaid on the bottom half of the image.

# Q1 Fiscal 2015 Appendix

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## Gross Profit Reconciliation

(Amounts in thousands)

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
GAAP gross profit	\$ 230,295	\$ 220,837	\$ 263,973	\$ 237,691	\$ 225,851
Share-based compensation-products	487	547	737	741	506
Share-based compensation-services	519	496	572	568	580
Amortization of intangible assets	2,200	2,201	2,201	2,328	4,451
Total adjustments related to gross profit	3,206	3,244	3,510	3,637	5,537
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$ 233,501</b>	<b>\$ 224,081</b>	<b>\$ 267,483</b>	<b>\$ 241,328</b>	<b>\$ 231,388</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>44.1%</b>	<b>37.9%</b>	<b>44.3%</b>	<b>43.1%</b>	<b>43.4%</b>



## Operating Expense Reconciliation (Amounts in thousands)

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
GAAP operating expense	\$ 226,130	\$ 222,652	\$ 226,971	\$ 230,529	\$ 222,496
Share-based compensation-research and development	2,167	1,960	2,368	2,782	2,572
Share-based compensation-sales and marketing	3,659	2,759	3,890	4,246	4,063
Share-based compensation-general and administrative	3,919	3,025	3,376	3,661	3,506
Amortization of intangible assets	11,019	11,019	11,019	11,493	12,439
Restructuring costs	8,085	171	63	-	115
Settlement of patent litigation	-	-	-	2,000	-
Total adjustments related to operating expense	28,849	18,934	20,716	24,182	22,695
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$ 197,281</b>	<b>\$ 203,718</b>	<b>\$ 206,255</b>	<b>\$ 206,347</b>	<b>\$ 199,801</b>

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

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
GAAP income (loss) from operations	\$ 4,165	\$ (1,815)	\$ 37,002	\$ 7,162	\$ 3,355
Total adjustments related to gross profit	3,206	3,244	3,510	3,637	5,537
Total adjustments related to operating expense	28,849	18,934	20,716	24,182	22,695
<b>Adjusted (non-GAAP) income from operations</b>	<b>\$36,220</b>	<b>\$20,363</b>	<b>\$ 61,228</b>	<b>\$ 34,981</b>	<b>\$ 31,587</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>6.8%</b>	<b>3.4%</b>	<b>10.1%</b>	<b>6.2%</b>	<b>5.9%</b>

## Net Income (Loss) Reconciliation (Amounts in thousands)

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
GAAP net income (loss)	\$ (18,779)	\$ (30,703)	\$ 16,160	\$ (10,158)	\$ (15,936)
Total adjustments related to gross profit	3,206	3,244	3,510	3,637	5,537
Total adjustments related to operating expense	28,849	18,934	20,716	24,182	22,695
Non-cash interest expense	361	351	327	302	293
Change in fair-value of embedded redemption feature	-	-	190	1,460	1,090
<b>Adjusted (non-GAAP) net income (loss)</b>	<b>\$13,637</b>	<b>\$(8,174)</b>	<b>\$ 40,903</b>	<b>\$ 19,423</b>	<b>\$ 13,679</b>
Weighted average basic common shares outstanding	107,773	106,931	106,236	105,451	104,501
Weighted average dilutive potential common shares outstanding	121,896 <sup>1</sup>	106,931	156,561 <sup>3</sup>	120,628 <sup>5</sup>	119,789 <sup>7</sup>

## Net Income (Loss) per Common Share

	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014
GAAP diluted net income ( loss) per common share	\$ (0.17)	\$ (0.29)	\$ 0.15	\$ (0.10)	\$ (0.15)
<b>Adjusted (Non-GAAP) diluted net income (loss) per common share</b>	<b>\$ 0.12<sup>2</sup></b>	<b>\$ (0.08)</b>	<b>\$ 0.32<sup>4</sup></b>	<b>\$ 0.17<sup>6</sup></b>	<b>\$ 0.13<sup>8</sup></b>

# Reconciliation Endnotes

- 1. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2015 includes 1.0 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 2. The calculation of Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2015 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
- 3. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 includes 1.5 million shares underlying certain stock options and restricted stock units, 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018, and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
- 4. The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 requires adding back interest expense of approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018, and \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
- 5. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 includes 2.1 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 6. The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
- 7. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2014 includes 2.2 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 8. The calculation of Adjusted (non-GAAP) diluted net income per common share for the fiscal first quarter of 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

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Thank You

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