



Ciena Corporation Q2 2016 Earnings Call

June 2, 2016
8:30 a.m. EST

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Forward-looking statements and non-GAAP measures

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

Ciena's actual results, performance or events may differ materially from these forward-looking statements made or implied due to a number of risks and uncertainties relating to Ciena's business, including: the effect of broader economic and market conditions on our customers and their business; changes in network spending or network strategy by large communication service providers; seasonality and the timing and size of customer orders, including our ability to recognize revenue relating to such sales; the level of competitive pressure we encounter; the product, customer and geographic mix of sales within the period; supply chain disruptions and the level of success relating to efforts to optimize Ciena's operations; changes in foreign currency exchange rates affecting revenue and operating expense; and the other risk factors disclosed in Ciena's Report on Form 10-Q, which Ciena filed with the Securities and Exchange Commission on March 9, 2016. Ciena assumes no obligation to update any forward-looking information included in this presentation.

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.

With respect to Ciena's expectations under "Business Outlook" below, Ciena is not able to provide a quantitative reconciliation of the adjusted (non-GAAP) gross margin and adjusted (non-GAAP) operating expense guidance measures to the corresponding gross profit and gross profit percentage, and operating expense GAAP measures without unreasonable efforts. Ciena cannot provide meaningful estimates of the non-recurring charges and credits excluded from these non-GAAP measures due to the forward-looking nature of these estimates and their inherent variability and uncertainty. For the same reasons, Ciena is unable to address the probable significance of the unavailable information.

Q2 Fiscal 2016 Financial Highlights

Key Takeaways

1

Revenue of \$640.7 million

2

Adjusted Gross Margin of 45.1%*

3

Adjusted Operating Expense of \$222.6 million*

4

Adjusted Operating Margin of 10.3%*

5

Adjusted Net Income of \$52.4 million, \$0.34 per share*

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

Q2 Fiscal 2016 Balance Sheet and Operating Metrics

Cash and Investments	\$1,242.4 million
Cash Flow from Operations	\$60.7 million
DSO	78 Days
Inventory Turns	6.1
Headcount (as of April 30, 2016)	5,418

Revenue by Segment

(Amounts in millions)

Revenue by Segment						
	Q2 FY 2016		Q1 FY 2016		Q2 FY 2015	
	Revenue	%**	Revenue	%**	Revenue	%**
Networking Platforms						
Converged Packet Optical	\$ 435.2	67.9	\$ 389.2	67.9	\$ 432.9	69.6
Packet Networking	68.5	10.7	48.2	8.4	53.3	8.6
Optical Transport	8.5	1.3	12.1	2.1	16.5	2.7
Total Networking Platforms	512.2	79.9	449.5	78.4	502.7	80.9
Software and Software-Related Services						
Software Platforms	11.8	1.9	8.1	1.4	9.2	1.5
Software-Related Services	18.7	2.9	17.3	3.0	14.7	2.4
Total Software and Software-Related Services	30.5	4.8	25.4	4.4	23.9	3.9
Global Services						
Maintenance Support and Training	57.1	8.9	56.1	9.8	53.1	8.5
Installation and Deployment	30.2	4.7	30.8	5.4	30.7	4.9
Consulting and Network Design	10.7	1.7	11.3	2.0	11.2	1.8
Total Global Services	98.0	15.3	98.2	17.2	95.0	15.2
Total	\$ 640.7	100.0%	\$ 573.1	100.0%	\$ 621.6	100.0%

U.S. and International Revenue

(Amounts in millions)

Revenue

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
United States	\$ 367.1	\$ 365.2	\$ 453.4	\$ 360.7	\$ 367.6
International	\$ 273.6	\$ 207.9	\$ 238.6	\$ 242.2	\$ 254.0
Total	\$ 640.7	\$ 573.1	\$ 692.0	\$ 602.9	\$ 621.6

% of Total Revenue

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
United States	57.3%	63.7%	65.5%	59.8%	59.1%
International	42.7%	36.3%	34.5%	40.2%	40.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
North America	\$ 395.5	\$ 392.7	\$ 480.0	\$ 389.6	\$ 397.2
Europe, Middle East and Africa	\$ 96.2	\$ 80.7	\$ 94.0	\$ 93.2	\$ 102.2
Caribbean and Latin America	\$ 57.9	\$ 43.8	\$ 45.7	\$ 65.1	\$ 47.9
Asia Pacific	\$ 91.1	\$ 55.9	\$ 72.3	\$ 55.0	\$ 74.3
Total	\$ 640.7	\$ 573.1	\$ 692.0	\$ 602.9	\$ 621.6

% of Total Revenue

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
North America	61.7%	68.5%	69.4%	64.6%	63.9%
Europe, Middle East and Africa	15.0%	14.1%	13.6%	15.5%	16.4%
Caribbean and Latin America	9.0%	7.6%	6.6%	10.8%	7.7%
Asia Pacific	14.3%	9.8%	10.4%	9.1%	12.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Business Outlook¹

Q3'16

Revenue	\$655M to \$685M
Adjusted Gross Margin	Mid-40s percentage range
Adjusted Operating Expense	Approximately \$225M

Fiscal 2016

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

Next-stage financial milestone - 3 to 4 years

Adjusted Operating Margin %	15%
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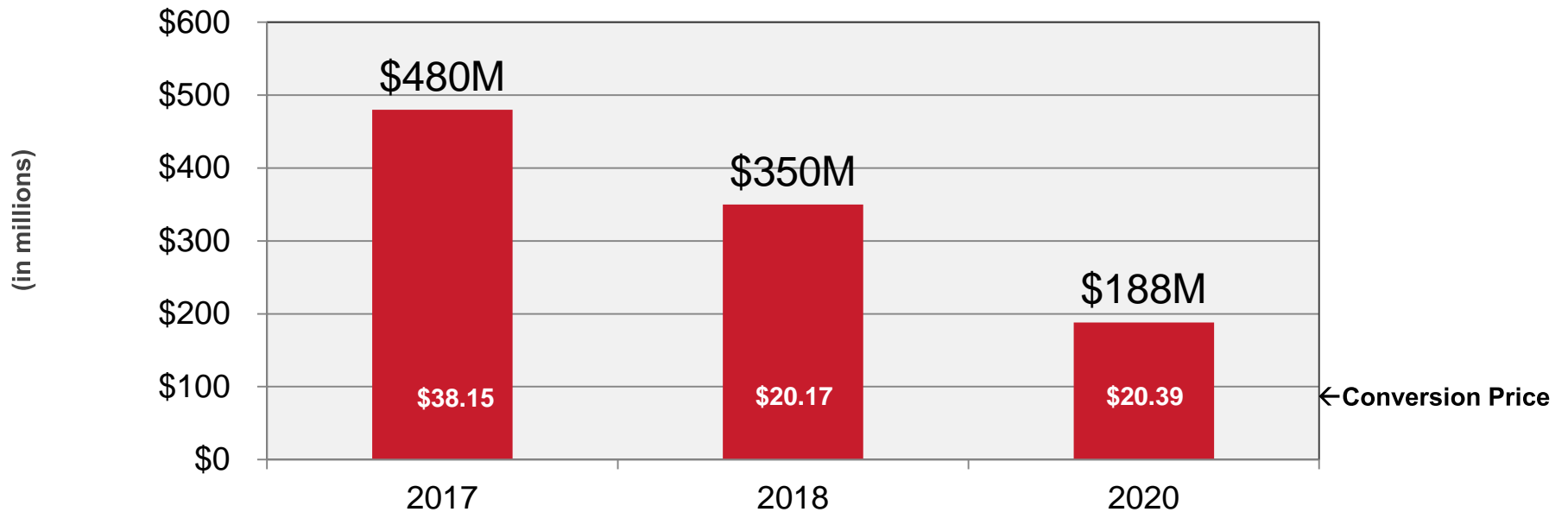
¹ Projections or outlook with respect to future operating results are only as of June 2, 2016 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

A city skyline at night with illuminated skyscrapers and light trails from traffic. A large, semi-transparent orange geometric pattern is overlaid on the bottom half of the image.

Convertible Debt Overview

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Convertible debt profile*



\$1.02B aggregate principal amount outstanding; \$538M has a conversion price of slightly above \$20

Once Ciena stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion, or to exercise a redemption right, in an effort to cause a conversion.

Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue and correspondingly, the interest expense is removed for the respective issue(s).

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

HIGHLIGHTED TERMS PER ISSUE¹

	Par Value (in millions)	Underlying Shares (in thousands)	Conversion Price	Additional Redemption / Conversion Provisions	Total Interest Expense (in millions)		Net Income Threshold for Diluted EPS (in millions) ²	
					Quarterly	Annual	Quarterly	Annual
0.875% convertible senior notes, due June 15, 2017	\$480	12,583	\$38.15	No	\$1.3	\$5.3	\$14.6	\$58.5
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$3.6	\$14.4	\$30.0	\$120.0
4.0% convertible senior notes, due March 15, 2020	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is \geq \$26.51 for 20 of 30 consecutive trading days	\$3.3	\$13.3	\$56.1	\$224.2

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

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

Convertible Notes and Diluted EPS Analysis

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
0.875% notes due 2017	479,985	1,050	276			1,326	12,583	137,950	\$ 14,636
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	137,950	\$ 30,008
4.0% notes due 2020	187,500	1,875	76	911	460	3,322	9,198	137,950	\$ 56,058
Total	\$ 1,017,485	\$ 6,206	\$ 661	\$ 911	\$ 460	\$ 8,238	39,137		

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

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

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

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

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

Convertible Notes and Diluted EPS Analysis

Annual 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 annual 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
0.875% notes due 2017	479,985	4,200	1,104			5,304	12,583	137,950	\$ 58,543
3.75% notes due 2018	350,000	13,125	1,236			14,361	17,356	137,950	\$ 120,033
4.0% notes due 2020	187,500	7,500	304	3,644	1,840	13,288	9,198	137,950	\$ 224,234
Total	\$ 1,017,485	\$ 24,825	\$ 2,644	\$ 3,644	\$ 1,840	\$ 32,953	39,137		

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A nighttime cityscape with illuminated skyscrapers and light trails from traffic. The foreground is dominated by a large, semi-transparent orange geometric pattern. The text 'Q2 Fiscal 2016 Appendix' is overlaid in white on the left side.

Q2 Fiscal 2016 Appendix

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Gross Profit Reconciliation

(Amounts in thousands)

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
GAAP gross profit	\$ 283,093	\$ 251,450	\$ 302,988	\$ 269,869	\$ 272,411
Share-based compensation-products	629	571	589	671	653
Share-based compensation-services	693	592	573	490	574
Amortization of intangible assets	4,315	3,438	3,438	2,200	2,201
Fair value adjustment of acquired inventory	-	-	3,069*	-	-
Total adjustments related to gross profit	5,637	4,601	7,669	3,361	3,428
Adjusted (non-GAAP) gross profit	\$ 288,730	\$ 256,051	\$ 310,657	\$ 273,230	\$ 275,839
Adjusted (non-GAAP) gross margin	45.1%	44.7%	44.9%	45.3%	44.4%

*Fair value adjustment of acquired inventory - an infrequent charge required by acquisition accounting rules resulting from the required revaluation of inventory acquired from Cyan to estimated fair value. This revaluation resulted in a net increase in inventory carrying value and an increase in cost of goods sold for the periods indicated.

Operating Expense Reconciliation (Amounts in thousands)

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
GAAP operating expense	\$ 254,860	\$ 240,211	\$ 293,570	\$ 225,418	\$ 229,997
Share-based compensation-research and development	3,791	3,428	3,850	2,114	2,534
Share-based compensation-sales and marketing	3,923	4,735	4,468	3,571	3,841
Share-based compensation-general and administrative	4,968	5,129	5,860	3,516	3,723
Share-based compensation-acquisition and integration	697*	-	7,588*	-	-
Acquisition and integration costs, excluding share-based compensation	1,588	1,299	14,496	2,435	1,020
Amortization of intangible assets	15,566	16,862	36,454	11,019	11,019
Restructuring costs	535	384	366	192	(17)
Settlement of patent litigation	1,200**	-	-	500**	-
Total adjustments related to operating expense	\$ 32,268	\$ 31,837	\$ 73,082	\$ 23,347	\$ 22,120
Adjusted (non-GAAP) operating expense	\$ 222,592	\$ 208,374	\$ 220,488	\$ 202,071	\$ 207,877

Income from Operations Reconciliation (Amounts in thousands)

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
GAAP income from operations	\$ 28,233	\$ 11,239	\$ 9,418	\$ 44,451	\$ 42,414
Total adjustments related to gross profit	5,637	4,601	7,669	3,361	3,428
Total adjustments related to operating expense	32,268	31,837	73,082	23,347	22,120
Adjusted (non-GAAP) income from operations	\$ 66,138	\$ 47,677	\$ 90,169	\$ 71,159	\$ 67,962
Adjusted (non-GAAP) operating margin	10.3%	8.3%	13.0%	11.8%	10.9%

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

**Settlement of patent litigation – included in general and administrative expense during the second quarter of fiscal 2016 and the third quarter of fiscal 2015.

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
GAAP net income (loss)	\$ 13,997	\$ (11,546)	\$ (13,832)	\$ 23,625	\$ 20,653
Total adjustments related to gross profit	5,637	4,601	7,669	3,361	3,428
Total adjustments related to operating expense	32,268	31,837	73,082	23,347	22,120
Non-cash (gain) expense associated with the conversion of convertible notes	-	(106)*	-	-	768**
Non-cash interest expense	460	441	362	397	371
Adjusted (non-GAAP) net income	\$ 52,362	\$ 25,227	\$ 67,281	\$ 50,730	\$ 47,340
Weighted average basic common shares outstanding	137,950	136,675	134,097	118,413	113,555
Weighted average dilutive potential common shares outstanding	178,026 ¹	151,408 ³	177,054 ⁵	159,787 ⁷	158,917 ⁹

Net Income (Loss) per Common Share

	Q2 FY2016	Q1 FY2016	Q4 FY2015	Q3 FY2015	Q2 FY2015
GAAP diluted net income (loss) per common share	\$ 0.10	\$ (0.08)	\$ (0.10)	\$ 0.19	\$ 0.17
Adjusted (Non-GAAP) diluted net income per common share	\$ 0.34²	\$ 0.18⁴	\$ 0.42⁶	\$ 0.37⁸	\$ 0.35¹⁰

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

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

Reconciliation Endnotes

1. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2016 includes 0.9 million shares underlying certain stock options and restricted stock units, 12.6 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.*
2. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2016 requires adding back interest expense of approximately \$1.3 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.9 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.*
3. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2016 includes 1.8 million shares underlying certain stock options and restricted stock units and 12.9 million shares underlying Ciena's 0.875% convertible senior notes.*
4. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2016 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
5. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2015 includes 2.7 million shares underlying certain stock options and restricted stock units, 13.0 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018, 0.7 million shares underlying the 8.0% convertible senior notes, due December 15, 2019 assumed from the Cyan acquisition and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
6. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2015 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018, approximately \$0.1 million associated with Ciena's 8.0% convertible senior notes, due December 15, 2019 assumed from the Cyan acquisition and approximately \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
7. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2015 includes 1.7 million shares underlying certain stock options and restricted stock units, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
8. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2015 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
9. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2015 includes 1.4 million shares underlying certain stock options and restricted stock units, 4.3 million shares underlying Ciena's 4.0% convertible senior notes, notes (which were paid at maturity during the second quarter of fiscal 2015), 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018 and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
10. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2015 requires adding back interest expense of approximately \$1.1 million associated with Ciena's 4.0% convertible senior notes, (which were paid at maturity during the second quarter of fiscal 2015), approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 and approximately \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*

A nighttime cityscape with illuminated skyscrapers and light trails from traffic. The foreground is dominated by a large, semi-transparent orange geometric pattern. The text "Thank You" is centered in white.

Thank You

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