



ciena

Ciena Corporation Q2 Fiscal 2015 Earnings Call

June 4, 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.

Ciena's actual results, performance or events may differ materially from these forward-looking statements made or implied due 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 12, 2015. Ciena assumes no obligation to update any forward-looking information included in this press release.

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

Our outstanding Q2'15 reflects Ciena's industry-leading ability to address key market dynamics

- The shift to on-demand and the importance of having trusted relationships with both Tier 1 SPs and web-scale providers
- Adjusted operating margin of 11% is nearly double the 6% posted in the year-ago period
- Results illustrate the strategic value of our portfolio, the effectiveness of our operating model, and the strength of our execution

2

Strong market momentum

- Record orders booked in Q2'15 at a level meaningfully greater than revenue
- Broad strength across geographies especially in North America
 - We continue to believe that shifts within capex budgets to next-gen solutions are a better indicator of Ciena's market opportunity than overall capex envelope

3

Progress in the continued diversification of our business

- Named #1 global leader in Data Center Interconnect (DCI) and Internet Content Providers (ICP) by Ovum and Dell'Oro, respectively
- 33% non-telco revenue in Q2'15, with cable operators an area of particular strength
- We now count 3 of the Top 5 web-scale providers as Ciena customers
- #1 globally in strategically important and growing metro segment (Dell'Oro)

4

Making investments in key growth areas

- Launched Waveserver, a new stackable platform that positions us to extend our market leadership in DCI
- Waveserver joins WL3 Extreme, WL3 Nano and two small cell backhaul platforms as new offerings so far this year
- Investing in SDN/NFV software with the pending acquisition of Cyan; integration planning

Q2 Fiscal 2015 Financial Highlights

Key Takeaways

1

Revenue of \$621.6 million

2

Adjusted Gross Margin of 44.4%*

3

Adjusted Operating Expense of \$207.9 million*

4

Adjusted Operating Margin of 10.9%*

5

Adjusted Net Income of \$47.3 million, \$0.35 per share*

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

Q2 Fiscal 2015 Balance Sheet and Operating Metrics

Cash and Investments	\$816.7 million
Cash Flow from Operations	\$37.8 million
DSO	80 Days
Inventory Turns	5.3
Headcount (as of April 30, 2015)	5,108

Revenue by Segment

(Amounts in millions)

Revenue by Segment

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
Converged Packet Optical	\$ 432.9	\$ 336.6	\$ 383.3	\$ 382.0	\$ 356.8
Packet Networking	\$ 53.3	\$ 55.0	\$ 56.4	\$ 69.5	\$ 66.6
Optical Transport	\$ 16.5	\$ 22.3	\$ 26.5	\$ 31.0	\$ 29.6
Software and Services	\$ 118.9	\$ 115.3	\$ 124.8	\$ 121.1	\$ 107.1
Total	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6	\$ 560.1

% of Total Revenue

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
Converged Packet Optical	69.6%	63.6%	64.9%	63.3%	63.7%
Packet Networking	8.6%	10.4%	9.5%	11.5%	11.9%
Optical Transport	2.7%	4.2%	4.5%	5.1%	5.3%
Software and Services	19.1%	21.8%	21.1%	20.1%	19.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

U.S. and International Revenue

(Amounts in millions)

Revenue

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
United States	\$ 367.6	\$ 297.7	\$ 308.5	\$ 368.1	\$ 324.0
International	\$ 254.0	\$ 231.5	\$ 282.5	\$ 235.5	\$ 236.1
Total	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6	\$ 560.1

% of Total Revenue

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
United States	59.1%	56.3%	52.2%	61.0%	57.8%
International	40.9%	43.7%	47.8%	39.0%	42.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
North America	\$ 397.2	\$ 331.5	\$ 340.5	\$ 403.3	\$ 377.8
Europe, Middle East and Africa	\$ 102.2	\$ 111.0	\$ 133.7	\$ 99.9	\$ 95.1
Caribbean and Latin America	\$ 47.9	\$ 42.8	\$ 51.8	\$ 67.2	\$ 40.2
Asia Pacific	\$ 74.3	\$ 43.9	\$ 65.0	\$ 33.2	\$ 47.0
Total	\$ 621.6	\$ 529.2	\$ 591.0	\$ 603.6	\$ 560.1

% of Total Revenue

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
North America	63.9%	62.6%	57.6%	66.8%	67.4%
Europe, Middle East and Africa	16.4%	21.0%	22.6%	16.6%	17.0%
Caribbean and Latin America	7.7%	8.1%	8.8%	11.1%	7.2%
Asia Pacific	12.0%	8.3%	11.0%	5.5%	8.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Business Outlook¹

Q3 2015

Revenue	\$610 to \$640 million
Adjusted Gross Margin	Approximately 43%
Adjusted Operating Expense	Approximately \$210 million range

Fiscal 2015

Revenue Growth	Approximately 5%
Adjusted Operating Expense	Approximately \$205 million average/quarter
Adjusted Operating Margin %	9% to 10%

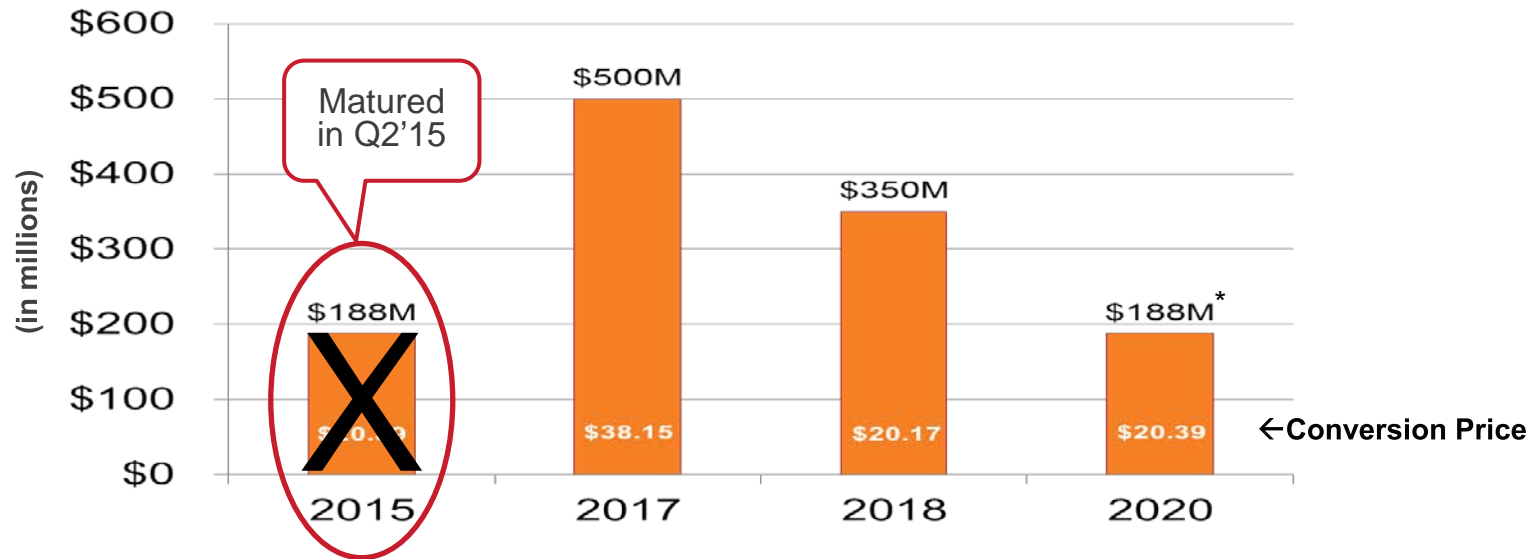
¹ Projections or outlook with respect to future operating results are only as of June 4, 2015 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

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 "Convertible Debt Overview" is overlaid in white.

Convertible Debt Overview

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CONVERTIBLE DEBT PROFILE



- 2015 Notes matured on March 13, 2015 with 96.3% settled in common stock
- \$1.04 B 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	Net Income Threshold for Diluted EPS (in millions)²
0.875% convertible senior notes, due June 15, 2017	\$500	13,108	\$38.15	No	\$12
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$25
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	\$46

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

Outstanding Notes	Par Value	Quarterly Assumptions							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	
		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		
0.875% notes due 2017	500,000	1,094	294			1,388	13,108	113,555	\$	12,165
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	113,555	\$	25,094
4.0% notes due 2020	187,500	1,875	76	899	371	3,221	9,198	113,555	\$	45,929
Total	\$ 1,037,500	\$ 6,250	\$ 679	\$ 899	\$ 371	\$ 8,199	39,662			

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 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 2015 Appendix" is overlaid in white on the left side.

Q2 Fiscal 2015 Appendix

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Gross Profit Reconciliation

(Amounts in thousands)

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
GAAP gross profit	\$ 272,411	\$ 230,295	\$ 220,837	\$ 263,973	\$ 237,691
Share-based compensation-products	653	487	547	737	741
Share-based compensation-services	574	519	496	572	568
Amortization of intangible assets	2,201	2,200	2,201	2,201	2,328
Total adjustments related to gross profit	3,428	3,206	3,244	3,510	3,637
Adjusted (non-GAAP) gross profit	\$ 275,839	\$ 233,501	\$ 224,081	\$ 267,483	\$ 241,328
Adjusted (non-GAAP) gross margin	44.4%	44.1%	37.9%	44.3%	43.1%

Operating Expense Reconciliation (Amounts in thousands)

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
GAAP operating expense	\$ 229,997	\$ 226,130	\$ 222,652	\$ 226,971	\$ 230,529
Share-based compensation-research and development	2,534	2,167	1,960	2,368	2,782
Share-based compensation-sales and marketing	3,841	3,659	2,759	3,890	4,246
Share-based compensation-general and administrative	3,723	3,919	3,025	3,376	3,661
Acquisition and integration costs	1,020	-	-	-	-
Amortization of intangible assets	11,019	11,019	11,019	11,019	11,493
Restructuring costs	(17)	8,085	171	63	-
Settlement of patent litigation	-	-	-	-	2,000
Total adjustments related to operating expense	22,120	28,849	18,934	20,716	24,182
Adjusted (non-GAAP) operating expense	\$ 207,877	\$ 197,281	\$ 203,718	\$ 206,255	\$ 206,347

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

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
GAAP income (loss) from operations	\$ 42,414	\$ 4,165	\$ (1,815)	\$ 37,002	\$ 7,162
Total adjustments related to gross profit	3,428	3,206	3,244	3,510	3,637
Total adjustments related to operating expense	22,120	28,849	18,934	20,716	24,182
Adjusted (non-GAAP) income from operations	\$67,962	\$36,220	\$20,363	\$ 61,228	\$ 34,981
Adjusted (non-GAAP) operating margin	10.9%	6.8%	3.4%	10.1%	6.2%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
GAAP net income (loss)	\$ 20,653	\$ (18,779)	\$ (30,703)	\$ 16,160	\$ (10,158)
Total adjustments related to gross profit	3,428	3,206	3,244	3,510	3,637
Total adjustments related to operating expense	22,120	28,849	18,934	20,716	24,182
Non-cash expense associated with the conversion of convertible notes	768	-	-	-	-
Non-cash interest expense	371	361	351	327	302
Change in fair-value of embedded redemption feature	-	-	-	190	1,460
Adjusted (non-GAAP) net income (loss)	\$47,340	\$13,637	\$(8,174)	\$ 40,903	\$ 19,423
Weighted average basic common shares outstanding	113,555	107,773	106,931	106,236	105,451
Weighted average dilutive potential common shares outstanding	158,917 ¹	121,896 ³	106,931	156,561 ⁵	120,628 ⁷

Net Income (Loss) per Common Share

	Q2 FY2015	Q1 FY2015	Q4 FY2014	Q3 FY2014	Q2 FY2014
GAAP diluted net income (loss) per common share	\$ 0.17	\$ (0.17)	\$ (0.29)	\$ 0.15	\$ (0.10)
Adjusted (Non-GAAP) diluted net income (loss) per common share	\$ 0.35²	\$ 0.12⁴	\$ (0.08)	\$ 0.32⁶	\$ 0.17⁸

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 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, 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.*

2. *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, due March 15, 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.*

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 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.*

4. *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.*

5. *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.*

6. *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.*

7. *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.*

8. *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.*



Thank You

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