



# Second Quarter 2020 Financial Results

August 5, 2020



# Safe Harbor

## Forward-Looking Statements

This presentation contains forward-looking statements, including those related to Infinera's expectations regarding its business model, market opportunities and customers; its expectations regarding the timing of its new products being available in the market; its ability to win new customers; its visibility into the performance of its business in future quarters based on the unpredictability of the macro-economic environment and the COVID-19 pandemic; and its financial outlook for the third quarter of 2020. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, statements made about future market and financial performance; statements regarding future products or technology as well as the timing to market of any such products or technology; any statements about historical results that may suggest trends for our business; and any statements of assumptions underlying any of the items mentioned.

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# Q2'20 Key Highlights



## CONTINUED COMPANY GROWTH

### Revenue Growth

8% - Q2'20 YoY

10% - 1H'20 vs. 1H'19

20% increase in Tier 1 revenue  
and 2x increase in ICP revenue  
1H'20 vs. 1H'19



## CUSTOMER & MARKET TRACTION

### Advancing Key Solutions

5 new **600G** customers (16 total)  
(Including 1 major ICP)

**ICE6 (800G)** - record-setting trials &  
on track for delivery this year

**Subsea** wins & expansions

Significant YoY growth  
in **metro solutions**



## IMPROVING OPERATIONAL EFFICIENCY

\$31M inventory reduction in  
Q2'20 and \$51M in 1H'20

10% OPEX reduction &  
1000+ basis point  
operating margin  
improvement vs. Q2'19

# Significant Market Opportunity in High End Optics

## GROWING MARKET

**25% CAGR to >\$2B by 2024**

Sources: Ovum, Signal AI

High End Optical Engines (600g+)

## LONG LIFE CYCLE

**8+ Years Significant Revenue**

Source: Light Counting

Each Gen of Embedded Optics Technology

## COMPETITION SHRINKING

**2 Vendors At 5<sup>th</sup> Gen**

Current non-Chinese vendors

From 8+ 3<sup>rd</sup> & 4<sup>th</sup> Gen Vendors



DEMONSTRATED  
SUPERIOR PERFORMANCE



Major North American  
Network Operator

## ICE6 LEADERSHIP

PERFORMANCE VS. OTHER 5<sup>th</sup> GEN COHERENT SOLUTIONS

**4x BETTER**

AT 800G

**2.5x BETTER**

AT 600G

Based on Deployable performance

COVERS

**70%**

OF BACKBONE  
NETWORK LINKS

## ICE6 NETWORK SAVINGS (Estimated)

**65%**

OVER  
**400G**  
(3<sup>rd</sup> Gen)

**35%**

OVER  
**600G**  
(4<sup>th</sup> Gen)

**25%**

OVER  
**Other 800G**  
(5<sup>th</sup> Gen)

# Q2'20 Comparison to Prior Periods

<b>NON-GAAP</b> (in \$ Millions except EPS)	Q2'19	Q1'20	Q2'20	Q2'20 vs. Q2'19	Q2'20 vs. Q1'20
<b>REVENUE</b> Growth %	\$306.9	\$331.4	<b>\$332.6</b>	\$25.7 8.4%	\$1.2 0.4%
<b>GROSS MARGIN %</b>	30.7%	28.3%	<b>33.8%</b>	310 bps	550 bps
<b>OPEX</b> Reduction %	\$131.8	\$124.9	<b>\$118.3</b>	(\$13.5) 10.2%	(\$6.6) 5.3%
<b>OPERATING MARGIN %</b>	(12.3%)	(9.4%)	<b>(1.8%)</b>	1050 bps	760 bps
<b>EPS</b>	(\$0.24)	(\$0.27)	<b>(\$0.09)</b>	\$0.15	\$0.18

## KEY DRIVERS

### REVENUE HIGHER

year-over-year and sequentially

### GROSS MARGIN IMPROVEMENT

driven by product mix and lower cost structure

### OPERATING EXPENSE DOWN

due to process improvements and increased automation

### INVENTORY REDUCTION

\$51M in 1H'20 with annual target of \$80M

See reconciliation of GAAP to non-GAAP on last page of slide deck

# Revenue by Region & Revenue by Vertical

BY REGION	Q1'19	Q2'19	Q3'19	Q4'19	FY'19	Q1'20	Q2'20
Americas	45%	45%	49%	52%	48%	52%	50%
APAC	16%	15%	9%	10%	12%	16%	13%
EMEA	34%	31%	35%	30%	32%	27%	29%
Other Americas	5%	10%	6%	7%	7%	6%	8%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>





BY CHANNEL	Q1'19	Q2'19	Q3'19	Q4'19	FY'19	Q1'20	Q2'20
Direct	85%	81%	78%	75%	80%	74%	81%
Reseller	15%	19%	22%	25%	20%	26%	19%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

VERTICAL	Q1'19	Q2'19	Q3'19	Q4'19	FY'19	Q1'20	Q2'20
Tier 1	40%	42%	44%	39%	41%	47%	40%
Other Service Provider	44%	44%	37%	41%	41%	33%	44%
ICP	6%	9%	13%	13%	10%	16%	9%
Cable	10%	6%	6%	8%	8%	4%	7%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Based on GAAP revenue; Some may not add to 100% due to rounding*

# Q3'20 Non-GAAP Outlook

<b>REVENUE</b>	\$325 - \$345 Million	 +2% vs Q3'19 +1% vs Q2'20
<b>GROSS MARGIN %</b>	32.5% - 35.5%	 +90 pts vs Q3'19 +20 pts vs Q2'20
<b>OPEX</b>	\$115 - \$118 Million	 -8% vs Q3'19 -2% vs Q2'20
<b>OPERATING MARGIN %</b>	(1%) +/- 200 bps	 +470 pts vs Q3'19 +80 pts vs Q2'20

\* Growth % uses midpoint of Q3'20 guidance compared to actuals of prior periods

See reconciliation of GAAP to non-GAAP on last page of slide deck

## TAKEAWAYS

**OUR STRATEGY  
REMAINS SOUND**

**CONTINUE TO DRIVE  
OPERATIONAL  
EFFICIENCIES**

**KEY DIFFERENTIATING  
TECHNOLOGIES ARE ON  
TRACK**

**WORKING CAPITAL  
IMPROVEMENT FROM  
REDUCED INVENTORY**

# GAAP to Non-GAAP Reconciliation

(Unaudited)

(in millions, except percentages and per share data)

## Reconciliation of Revenue:

	Q1'19 Actual	Q2'19 Actual	Q3'19 Actual	Q1'20 Actuals	Q2'20 Actuals	Q3'20 Outlook
<b>U.S. GAAP as reported</b>	\$ 292.7	\$ 296.3	\$ 325.3	\$ 330.3	\$ 331.6	\$ 334.0
Acquisition-related deferred revenue adjustment	\$ 2.9	\$ 2.5	\$ 2.3	\$ 1.1	\$ 1.0	\$ 1.0
Other customer related charges	\$ -	\$ 8.1	\$ -	\$ -	\$ -	\$ -
<b>Non-GAAP as adjusted</b>	\$ 295.6	\$ 306.9	\$ 327.6	\$ 331.4	\$ 332.6	\$ 335.0

## Reconciliation of Gross Margin:

	Q1'19 Actual	Q2'19 Actual	Q3'19 Actual	Q1'20 Actuals	Q2'20 Actuals	Q3'20 Outlook
<b>U.S. GAAP</b>	20.7%	26.7%	23.3%	23.3%	29.4%	30.5%
Acquisition-related deferred revenue adjustment	0.8%	0.7%	0.3%	0.3%	0.3%	0.5%
Stock-based compensation	0.5%	0.5%	0.5%	0.5%	0.6%	0.5%
Amortization of acquired intangible assets	2.4%	2.3%	2.6%	2.6%	2.6%	2.0%
Acquisition and integration costs	3.2%	2.5%	0.3%	0.2%	-	-
Other customer related charges	2.4%	-	-	-	-	-
Restructuring and related	0.6%	0.4%	1.2%	0.7%	0.7%	0.5%
<b>Non-GAAP</b>	30.7%	33.1%	28.3%	33.8%	34.0%	34.0%

## Reconciliation of Operating Expenses:

	Q1'19 Actual	Q2'19 Actual	Q3'19 Actual	Q1'20 Actuals	Q2'20 Actuals	Q3'20 Outlook
<b>U.S. GAAP</b>	\$ 169.6	\$ 156.1	\$ 153.8	\$ 142.0	\$ 142.0	\$ 137.0
Stock-based compensation	\$ (11.5)	\$ (8.2)	\$ (9.6)	\$ (10.7)	\$ (10.7)	\$ (11.0)
Amortization of acquired intangible assets	\$ (6.7)	\$ (6.9)	\$ (4.6)	\$ (4.6)	\$ (4.6)	\$ (4.0)
Acquisition and integration costs	\$ (12.2)	\$ (12.0)	\$ (9.2)	\$ (3.3)	\$ (3.3)	\$ (1.5)
Restructuring and related	\$ (3.5)	\$ (2.2)	\$ (5.6)	\$ (5.1)	\$ (5.1)	\$ (4.0)
Litigation Charges	\$ (4.1)	\$ (0.1)	\$ -	\$ -	\$ -	\$ -
<b>Non-GAAP</b>	\$ 131.8	\$ 126.9	\$ 124.9	\$ 118.3	\$ 118.3	\$ 116.5

## Reconciliation of Operating margin:

	Q1'19 Actual	Q2'19 Actual	Q3'19 Actual	Q1'20 Actuals	Q2'20 Actuals	Q3'20 Outlook
<b>U.S. GAAP</b>	-36.6%	-21.3%	-23.3%	-23.3%	-13.5%	-11.0%
Acquisition-related deferred revenue adjustment	0.9%	0.7%	0.3%	0.3%	0.3%	0.5%
Other customer related charges	2.8%	-	-	-	-	-
Stock-based compensation	4.5%	3.1%	3.5%	3.5%	3.9%	4.0%
Amortization of acquired intangible assets	5.1%	4.5%	4.0%	4.0%	4.0%	3.0%
Acquisition and integration costs	7.8%	6.3%	3.1%	1.2%	1.2%	0.5%
Restructuring and related	1.8%	1.0%	2.0%	2.0%	2.0%	2.0%
Litigation charges	1.4%	-	-	-	-	-
COVID-19 and Related	-	-	0.9%	0.2%	0.2%	-
<b>Non-GAAP</b>	-12.3%	-5.7%	-9.4%	-1.8%	-1.8%	-1.0%

## Net Loss per Common Share:

	Q1'19 Actual	Q2'19 Actual	Q3'19 Actual	Q1'20 Actuals	Q2'20 Actuals	Q3'20 Outlook
<b>U.S. GAAP</b>	\$ (0.64)	\$ (0.47)	\$ (0.55)	\$ (0.55)	\$ (0.33)	\$ (0.33)
Acquisition-related deferred revenue adjustment	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Stock-based compensation	\$ 0.07	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.07	\$ 0.07
Amortization of acquired intangible assets	\$ 0.08	\$ 0.08	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.07
Acquisition and integration costs	\$ 0.13	\$ 0.11	\$ 0.06	\$ 0.06	\$ 0.02	\$ 0.02
Restructuring and related	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04
Litigation charges	\$ 0.02	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization of debt discount	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.04
Gain/Loss on non-marketable equity investment	\$ (0.01)	\$ -	\$ -	\$ -	\$ -	\$ -
Other customer related charges	\$ 0.05	\$ -	\$ -	\$ -	\$ -	\$ -
COVID	\$ -	\$ -	\$ 0.02	\$ -	\$ -	\$ -
Tax effects	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
<b>Non-GAAP</b>	\$ (0.24)	\$ (0.17)	\$ (0.27)	\$ (0.27)	\$ (0.09)	\$ (0.09)

## NOTES:

1. Totals may not foot due to rounding
2. COVID included in 'Restructuring and related' in reconciliation of gross margin
3. Q3'20 Outlook represents the midpoints of the expected ranges
4. Non-GAAP metrics are reconciled to the most directly comparable GAAP financial metric
5. For a complete reconciliation of other period results, see prior quarterly earnings releases



Thank You