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Infinera Stockholder Letter

July 23, 2018

Dear Stockholders,

Today we are announcing our intent to acquire Coriant, a privately held global supplier of open, hyperscale network solutions. This acquisition effectively doubles Infinera's revenue, creating one of the world's largest optical network equipment providers.

Infinera has always taken a different approach than our competition. We are the most vertically integrated optical systems vendor in the world, manufacturing and designing our own optics and digital signal processors (DSPs) to build optical engines that power our systems. Vertical integration improves many aspects that customers care about, including the quality and reliability of our systems, the space and power required to run them and the cost of our products. As a result, we build the most cost-effective, high-capacity optical engine on the planet, which results in our delivering better value to our customers and better margins than the competition to our stockholders.

This acquisition gives us the scale to operate Infinera at its fullest potential as the only all-in-one optical components and systems company in the world. Adding Coriant's talent, customer relationships, heritage of strong technology and solutions significantly enhances Infinera's reach into customer and application opportunities that will drive growth for the next several years. With Coriant, Infinera can now address most of the largest Tier 1 service providers and internet content providers (ICPs) in the world and, with vertical integration, drive structurally better margins on a much larger revenue base.

Given the comparable sizes of each company's revenue and workforce, we recognize that integration will be challenging and is vital to our ultimate success. We will act decisively to realize synergies, preserve Infinera's culture and continue to deliver the Infinera Experience to an expanded set of customers.

Acquiring Coriant marks a major milestone toward fulfilling our long-held vision of delivering an infinite pool of intelligent bandwidth. **We couldn't be more excited.**

An Introduction to Coriant

Coriant is a privately held optical networking vendor that utilizes commercial componentry to build systems. Its particular strengths are in mobile, network automation through software-defined networking (SDN) and orchestration, metro core, long-haul and Layer 3 IP. The company was formed in 2013 by private equity firm Marlin Equity Partners, combining Nokia Siemens Networks, Tellabs and Sycamore Networks.

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Contrary to what many would assume about a private equity-owned company, Coriant comes to us in solid condition. They are deeply engaged with customers, with whom they have long-standing relationships. What is particularly impressive is their recent innovation and success driving new solutions into the market.

Coriant invested $1 billion in software and systems R&D and has launched several new products and platforms over the past five years. The original investment thesis was that a combination of three unique assets and a full-scale R&D investment, which included investing in vertical integration capabilities and delivering a portfolio of new and refreshed solutions to Coriant's extensive customer base, would drive outperforming financial results for Coriant. To further that thesis, in June 2017 and January 2018, the company received investments from Oaktree Capital Management ("Oaktree"), who ultimately became Coriant's majority stockholder. Despite Coriant's strong innovation and attractive product portfolio, its success ended up stifled as a private-equity owned company. While customers were impressed with the platforms and solutions, the uncertainty of a private-equity backed company's future proved to be challenging in an industry where customers prefer public companies as partners to build long-term networks. This dynamic creates material upside sales potential as Coriant joins Infinera.

Coriant's $1B R&D investment over the past five years is driving solid results today:

- ~70% of product revenue in 2017 (~80% projected in 2018) came from solutions that are new or have been refreshed in the last three years. Most of these products are still in their early or mid-cycle selling phases, with solid continuing momentum expected for the next few years. Key products include:
    - mTera for metro core
    - Groove for data center interconnect (DCI)
    - Vibe for programmable packet
- >80 trials are in progress or have been completed to date in 2018 for Coriant's suite of new products and automation tools.
- Coriant's SDN orchestrator Maestro has been deployed operationally at one of the two largest Tier 1 service providers in North America.
- Coriant has added more than 20 new customers to date in 2018, seven of which are driving more than $1 million in annual revenue.

Overall, Coriant has done an excellent job innovating with great efficiency.

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Infinera + Coriant: Compelling Combination

We have always benefited from our vertical integration, which has enabled us to deliver high-quality, cost-effective products for the market. That said, we have lacked sufficient scale to maximize the potential that vertical integration can drive financially. The combination with Coriant allows us to double our revenue base and significantly broaden our customer and market reach, providing opportunities for us to grow revenue faster than the market. It also enables us to flow significantly higher volumes through our fab which, given its largely fixed cost nature, lowers the entire cost structure of all products.

The refreshed Coriant product portfolio will allow us to enter certain new and emerging technology areas of the market which we believe will be important in driving the future growth of the combined company. Coriant has strength in mobile that will be critical as 5G drives significant incremental bandwidth onto the network. In addition, Coriant also has strong capabilities around IP and network automation, which has driven solid early demand, as evidenced by recent wins and strong trial activity. Finally, Coriant has a strong presence in the metro core, which industry analysts believe will grow quickly in upcoming years.

We believe this acquisition is financially very attractive as we paid approximately 0.5 times revenue for an asset from which Infinera can realize, and create, unique value. Specifically, Coriant adds significantly enhanced customer and market traction, complements our product portfolio and will allow us to further leverage our vertical integration. We believe that this transaction will drive immediate synergies, with $100 million to be achieved in 2019. As we begin to realize the full benefits of integrating our optical engines into Coriant's product portfolio, we expect to realize $150 million in additional synergies by 2021. We expect that this combination and its significant synergies will lead to strong cash generation, sufficient to pay back the deal consideration within three years. We believe this acquisition will allow us to achieve our long-term financial model of 50% gross margin and 15% operating margin on a significantly larger revenue base.

Deal at a Glance

Under the terms of the offer, total consideration is $430 million, before deal deductions for certain liabilities are assumed.

- $230 million cash
  - Approximately $150 million will be paid out upon close (expected Q3-18).
  - Approximately $25 million will be paid out over the course of Q4-18 and Q1-19.
  - Approximately $55 million related to longer-term liabilities will be paid out over a period of years.
- $200 million stock

- Equates to approximately 21 million shares based on a 30-day VWAP on announcement date of $9.535 per share.
- Post-transaction, Oaktree will own approximately 12% of the combined company on a fully diluted basis. This is subject to a lockup with 50% of its shares restricted for six months and the other 50% restricted for 12 months post-closing.

We anticipate the transaction will close in the third quarter of fiscal year 2018, subject to regulatory requirements in the United States, Germany and Russia.

We have secured a commitment letter from a lender and are exploring various longer-term financing options to fund the deal.

The Exceptional Value that Coriant Brings to Infinera
We believe that Coriant brings a multitude of valuable elements to Infinera:

- Most immediately, Coriant has a fully refreshed portfolio that is growing much faster than the market and has strong reviews from customers.
- Coriant also has a robust service business which drives approximately $100 million of annual profit.
- Additionally, Infinera will receive a debt-free balance sheet with more than $100 million of net tangible assets.

From a customer and market presence perspective, Coriant brings strong existing relationships with multiple large Tier 1 service providers and internet content providers, which positions Infinera to realize the benefits of incumbency by winning incremental business, and also to avoid the significant investments traditionally required to break into these large accounts.

From a capabilities and talent perspective, Coriant brings many years of strong engineering and operations know-how, which will be invaluable in scaling as a global company. Coriant also brings a hungry, motivated sales and marketing organization which is excited about the opportunity to become a part of a larger organization with a set of leading products.

Given the price we are paying for the assets we will receive in this acquisition, we believe we will deliver exceptional value to our stockholders.

Scale + Vertical Integration: A Powerful Combination
Only Infinera can leverage vertical integration to structurally raise long-term margins:

- We intend to integrate our optical engines across the combined companies' platforms concurrent with the introduction of our ICE engines in 2020. This will drive a step-

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function increase in margins over time as we transition Coriant's platforms to Infinera's ICE engines.

- We also expect a company-wide margin benefit as we expand volumes driven through our fab.

Scale leads to several key advantages:

- Improved purchasing power – the ability to order in larger volume and make commitments with strategic suppliers lowers prices with suppliers.
- In addition, the significantly larger revenue base ensures we are able to fund the appropriate amount of R&D to drive technology leadership but also drive leverage to deliver market-leading operating margins.

A Significant Customer Expansion and Diversification Opportunity

Combined, Infinera and Coriant would count as customers nine of the top 10 global Tier 1s and the top six global ICPs. Geographically, the combination creates a healthy revenue mix of approximately 50% US and 50% international revenue. Given the lack of customer overlap, the combination also reduces customer concentration significantly, which reduces risk related to potential customer consolidation events. Combined, the companies' top 10 customers would only account for approximately 45% of overall revenue.

The two companies also have very *complementary product portfolios.* From an end-market perspective, each company's relative strength is fairly distinct.

  - Combined metro core achieves scale.
  - Subsea is 100% unique to Infinera.
  - Little overlap in long-haul, offset by customer diversity.
  - Mobile 5G and IP edge are unique to Coriant - high growth potential.
  - Services businesses are additive and drive scale.

To be clear, this deal doesn't just make us bigger. Coriant materially enhances Infinera's portfolio and innovation capabilities, bringing a long heritage of packet-rich networking that it has sold into the largest network operators in the world.

Going forward, with both companies bringing a refreshed portfolio of products to the combined company based on over $1.8 billion of R&D spend over the last five years, we expect to have significant new selling opportunities into a much larger base of customers. At revenue of approximately $1.6 billion for the full year 2018, we will be in a position to start driving significant operating leverage and, over time with vertical integration, have a platform to drive a step-function improvement in margins, off of a much larger revenue base.

Ideal Timing - Catching a Wave of Network Transformation and Customer Spending

This acquisition comes at a juncture at which customers are transitioning to new business models. Across our customer verticals, revenue models are shifting. They must transform their networks to cost-effectively manage those transitions. These challenges create opportunities for our industry, specifically driving network transformations around fiber-deep for cable operators and 5G for mobile providers, network automation to decrease unsustainable operating expenses and massive growth of data centers.

To manage massive bandwidth demand growth cost-effectively, customers across all our market verticals are looking for new approaches and differentiated optical solutions. Over the next five years, we believe all our customer verticals – telco, cable, wireless and ICP – will invest substantially in new optical solutions.

While Infinera is already well positioned for this impending wave of network transformation, adding Coriant's talent, relationships and solutions immediately expands Infinera's growth opportunities. Together, we will catch it with the structural margin advantage of vertical integration as well as economies of scale – higher margins from higher revenues.

The Financial Opportunity Going Forward is Strong

- Summarizing Coriant's revenue, out of approximately $750M in 2017 revenue, roughly $525 million, or 70%, is from products and $225 million, 30%, from services:
  - New products: About $350 million (70% of product revenues; nearly 50% of the total), stemmed from products that have been released or refreshed over the past three years. These products grew nearly 10% in 2017. Given the quality of these products and not being constrained by private equity ownership, we expect these products to continue to outgrow the market. In 2018, we expect these products to continue to grow at approximately 20% and account for approximately 80% of total product revenue.
  - Services: About $225 million (~30% of total revenues) was from services. This business drives strong cash flows with services gross margins in 2017 at ~50% and limited operating cost requirements. We expect this segment to grow modestly in 2018, 2019 and beyond and to continue to be a source of strong cash flows.
  - Legacy: The remaining ~$175 million of revenue (~20% of total) in 2017 was from legacy products with revenue that we expect will decline 20%+ annually. This reduction is contemplated in our outlook.
  - In 2018, we expect overall product revenue to be up, as growth in new and refreshed products and services should exceed the decline of legacy products.

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- Coriant's existing gross margins have been around 30% for the past few years. Coriant's margins historically have been challenged by certain issues that we are confident we can significantly improve upon.
    - Coriant has been challenged by not owning its own optical intellectual property. The company has purchased commercial componentry, namely third-party optics and DSPs, which tend to be very expensive and eliminate the ability to drive economies of scale from volume. By incorporating our vertical integration, we can drive <u>step-function improvement</u> to Coriant's cost structure.
    - Coriant has historically purchased components mostly at spot pricing instead of entering into long-term contracts. As a combined larger company, we believe we can meaningfully reduce the cost profile of their products by shifting to more regular, higher-volume supply agreements with suppliers with whom we have strong relationships.
    - Coriant has substantially refreshed their products and has won new business, largely "footprint" business that tends to initially be lower margin. Oftentimes, these wins came at depressed gross margin levels as the company had to price very aggressively to convince customers to take a chance on a private equity-backed company. Going forward, with these initially challenging infrastructure costs already covered, Infinera can benefit from more profitable network capacity "fill" sales.

A significant portion of our diligence was spent determining how and to what extent we could improve Coriant's margin profile. We are confident we can improve margins and have developed a detailed plan to do so by realizing significant synergies of this combination.

We expect to begin to realize significant synergies soon after the deal closes.

- In 2019, with a much larger revenue base, we intend to drive more than <u>$100 million</u> in synergies:
    - ~30% COGS from reductions in materials spending and cost rationalization
    - ~70% OpEx from spend rationalization
- In 2020, we intend to drive an additional <u>$75 million</u> in synergies:
    - COGS (~30%): We intend to drive further benefits from reductions in materials spending and anticipate beginning to see lower costs from vertical integration, concurrent with the introduction of new ICE optical engines. We also anticipate benefiting from value engineering efforts on existing products.

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- OpEx (~70%): We see a path to continue driving ~$50 million in OpEx-based synergies, with continued cost rationalization in achieving better operating leverage from scale.

- In 2021 and beyond, we intend to drive more than $75 million of additional reductions in COGS from incorporating vertical integration across the combined companies' platforms. From here, we expect to realize substantial positive impact in our gross margins as we launch and ramp our next major optical engines.

Taken together, we believe that we can achieve our target financial model. On gross margin, we feel confident that we can achieve a 50% gross margin by capturing the benefits of these initiatives and vertical integration.

On the bottom line, given these benefits and operating leverage, we believe we can consistently deliver 15% operating margins.

Conclusion

With this transaction, the optical industry has gone from a consolidating market to a mostly consolidated one. Infinera is clearly positioned as one of the long-term winners. Now, at scale, we are the player with the strongest technology differentiation, operating leverage and potential for further share gains in the industry.

We are very excited about this opportunity and intend to act decisively to realize synergies, preserve Infinera's culture and deliver the Infinera Experience to an expanded set of customers.

Forward Looking Statements

This letter contains forward-looking statements related to the Infinera, Coriant and the acquisition of Coriant by the Infinera that involves substantial risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed or implied by such statements. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, any statements about future market and financial performance and similar statements; anticipated cost savings from the combined company; statements regarding future products or technology as well as the timing to market of any such products or technology; any projections of financial information or anticipated benefits from cost synergies; any statements about historical results that may suggest trends for our business; any statements of the plans, strategies, and objectives of management for future operations; any statements of expectation or belief regarding future events, potential markets or market size, technology developments, customers or enforceability of our intellectual property rights; expectations regarding anticipated closing of the acquisition and timing of the debt financing; and any statements of assumptions underlying any of the items mentioned.

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These statements are subject to numerous risks and uncertainties. These risks and uncertainties include, but are not limited to, the following: the timing to consummate the proposed acquisition; the risk that a condition to closing of the proposed acquisition may not be satisfied; the risk that a regulatory approval that may be required for the proposed acquisition is not obtained or is obtained subject to conditions that are not anticipated; the parties' ability to achieve the synergies and value creation contemplated by the proposed acquisition; the parties' ability to promptly and effectively integrate the businesses of Infinera and Coriant, including unexpected transaction costs, and the costs of integrating operations, severance, professional fees and other expenses; the diversion of management time on issues related to the acquisition; the failure to consummate or any delay in consummating the acquisition for other reasons; changes in laws or regulations; the risks of customer and employee loss and business disruption, including, without limitation, as the result of difficulties in maintaining relationships with employees; increased competitive pressures and solicitations of customers and employees by competitors; the difficulties and risks inherent with entering new markets; and changes in general economic conditions. For additional information concerning factors that could cause actual conditions, events or results to materially differ from those described in the forward-looking statements, please refer to the factors set forth under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Infinera's most recent Form 10-K report, filed with the SEC on February 28, 2018 and its quarterly report on Form 10-Q filed with the SEC on May 10, 2018. Additional information will also be set forth in Infinera's future quarterly reports on Form 10-Q, annual reports on Form 10-K and other filings that Infinera makes with the SEC. Infinera disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.