



ANALYST QUICK NOTES

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Ciena Corp. (NYSE: CIEN: BUY)

Target Price: \$30

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Thesis

- Ciena's network specialist role differentiates the company from peers that are either over-diversified or are engaging customers with legacy technology.
- The company is benefiting from diversification across geographies and growth in non-traditional customers, which represented more than 30% of revenue in fiscal 2016.

Fiscal 1Q17

- Ciena reported results today 3/8/17.
- Non-GAAP EPS was \$0.26, vs. \$0.29 consensus.
 - EPS were still up 48% year over year.
- 1Q17 revenue was \$622 million, vs. \$632 million consensus.
 - That was at the low end of \$615-\$645 million guidance.
 - Revenue was up 9%, far ahead of peers in a flat-to-down market for communications equipment gear.

Bounce-back Guidance for 2Q17

- Guiding for \$680-\$710 million revenue, or \$695 million at the midpoint.
 - Street had been looking for \$690 million.
- Gross-margin, operating-cost guidance point to non-GAP EPS in the \$0.40 range.
 - That would be up 22% year-over-year.

Growth Across Geographies, Non-Traditional Markets

- At a time when the overall network equipment market remains in slow-growth mode and amid disruptive M&A, Ciena is outperforming peers and gaining market share.
- Non-traditional customers represented more than 30% of revenue in fiscal 2016; the company is on track to increase or maintain that percentage (until telco spending recovers with 5G).
- Ciena's Blue Planet SDN/NFV orchestration platform is in multiple trials and pilots; it should begin to ramp revenue in fiscal 2017 while contributing to margin expansion.

Valuation

- Trading at 16.4-times 2017, 14.3-times 2018.
 - Two-year average forward P/E of 15.3-times.
 - 5-yr historical is 27.3-times.
 - In a rising market, relative P/E (2-yr forward) of 0.87 vs. historical relative P/E of 1.73.
 - Buy to \$30
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