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# Infinera Transmode Combination

## Establishes an End-to-End Optical Leader

Transmode Investor Briefing  
May 2015



# Safe Harbor

This presentation contains "forward-looking" statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, any projections of financial information, including statements about revenue growth, the potentially accretive nature of the transaction and similar statements; any statements about market liquidity following the transaction; 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, or enforceability of our intellectual property rights; and any statements of assumptions underlying any of the items mentioned.

These statements are based on estimates and information available to us at the time of this presentation and are not guarantees of future performance. These risks and uncertainties include, but are not limited to, the risk that Transmode shareholders fail to tender more than 90% of Transmode's outstanding shares, that any other closing conditions are not satisfied, and that the transaction may not close; the risk that Transmode's and Infinera's businesses will not be integrated successfully; the risk that synergies will not be realized or realized to the extent anticipated; the risk that the combined company will not realize on its financing or operating strategies; the risk that litigation in respect of either company or the transaction could arise; the risk that disruption caused by the combined company would make it difficult to maintain certain strategic relationships; the risks of competitive responses and shifts in the market; delays in the release of new products; fluctuations in customer demand, changes in industry trends, and changes in the macro economic market. These risks and uncertainties also include those risks and uncertainties discussed in the offer document to be filed with the Swedish Financial Supervisory Authority and in the Registration Statement on Form S-4 to be filed with the SEC, those risks and uncertainties identified under the heading "Risk Factors" in the Infinera Quarterly Report on Form 10-Q for the quarter ended March 28, 2015, filed with the SEC, and those risks and uncertainties identified in any subsequent reports filed with the SEC by Infinera. Our SEC filings are available on our website at [www.infinera.com](http://www.infinera.com) and the SEC's website at [www.sec.gov](http://www.sec.gov). We assume no obligation to, and do not currently intend to, update any such forward - looking statements.

# Agenda

- ▶ Overview of Infinera
- ▶ Transaction Rationale
  - Advantages for All Stakeholders
- ▶ Deal Logic
- ▶ Industry Evolution
- ▶ A Fair Deal for Transmode

# Overview of Infinera



# Infinera is an Optical Leader

## ► Innovator & Long Haul DWDM Leader ► Global

- Founded 2000, IPO as "INFN" 2007
- Unique Photonic Integrated Circuits (PICs)
- DWDM platforms, Intelligent Transport Networks
- 400+ Patents Filed/Granted
- #1 Optical company rated by Infonetics 2014




- ~ 1,500 employees
- Headquarters Sunnyvale, CA, USA
- Global presence



# Infinera's Journey



- 
- 2014: Introduced Cloud Xpress for Metro Cloud
  - **2014: #1 in 100G WDM, ex China\***
  - 2012: Shipped 500G PIC-based DTN-X
  - **2010: Leapfrogs 40G, invests in 100G**
  - 2008: #1 market share in NA LH\*
  - **2007: 10G wave market leader (47%)\*, completed IPO**
  - 2005: Shipped 10G PIC-based DTN, rapidly reaches \$100M
  - **2004: Introduced industry's first large scale PIC**
  - 2000: Infinera founded, promised to do the impossible: PICs

\* Source: Dell'Oro DWDM Long Haul Vendor Table 2015



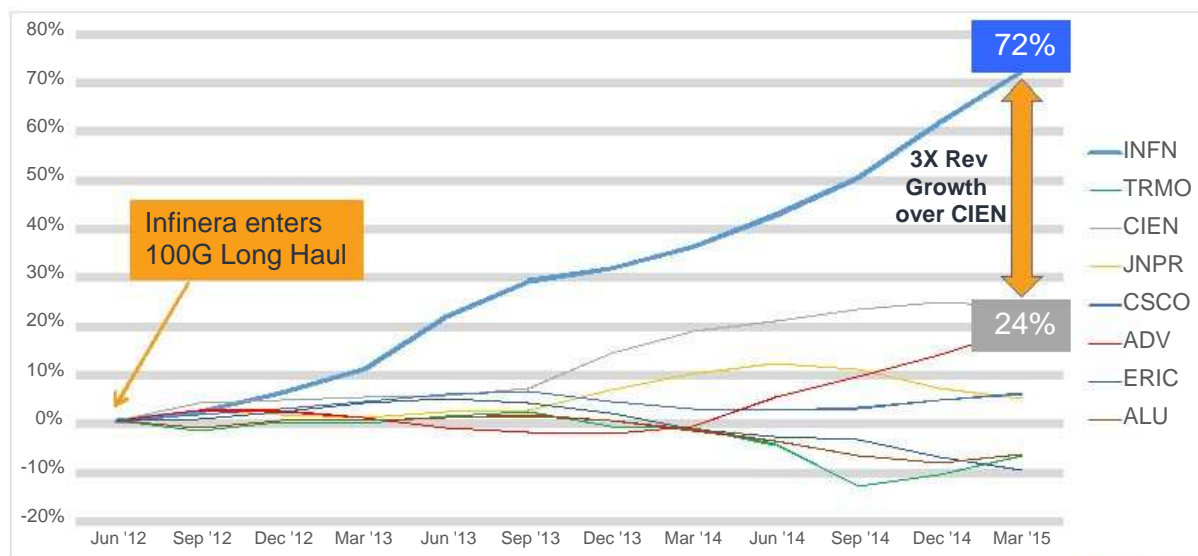
# Infinera Today

- A leader in Intelligent Transport Network Solutions
- 144 customers in 73 countries; 62 DTN-X customers
- Diversified customer base across multiple verticals
  - 17 Tier 1s globally
  - 4 of top 5 NA Cable/MSOs
  - 3 of top 4 Internet Content Providers
  - Multiple top Wholesale and Enterprise Carriers



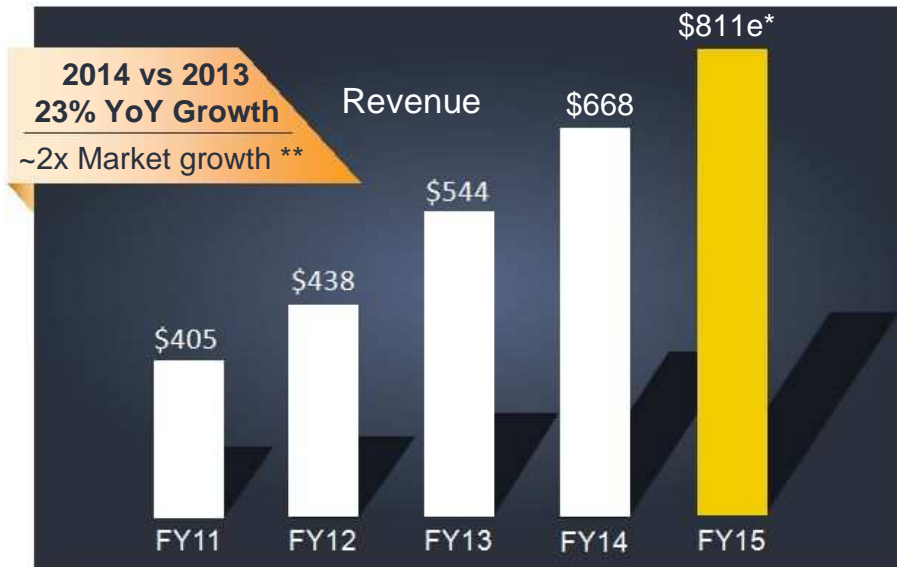
# INFN Outpacing Other SP Networking Players

Revenue Growth: Quarterly Trailing 12 Month Revenue





# Infinera –Financial Performance



Source: Infinera Financial Reporting

\* Wall Street consensus as of May 19, 2015

\*\* Dell 'Oro Group 2014 Optical Transport Report

\*\*\* Figures are Non-GAAP (reconciliation to GAAP numbers may be found at [www.Infinera.com](http://www.Infinera.com))

## Recent 20+% growth

2013: 24%; 2014: 23%; 2015e:21%\*

## Increasingly Profitable\*\*\*

2014 Gross Margin = 44.0%

- Q4 14 = 46.1%
- Q1 15 = 47.8%

2014 Operating Margin = 8.3%

- Q4 14 = 11.0%
- Q1 15 = 12.2%

## Strong Balance Sheet

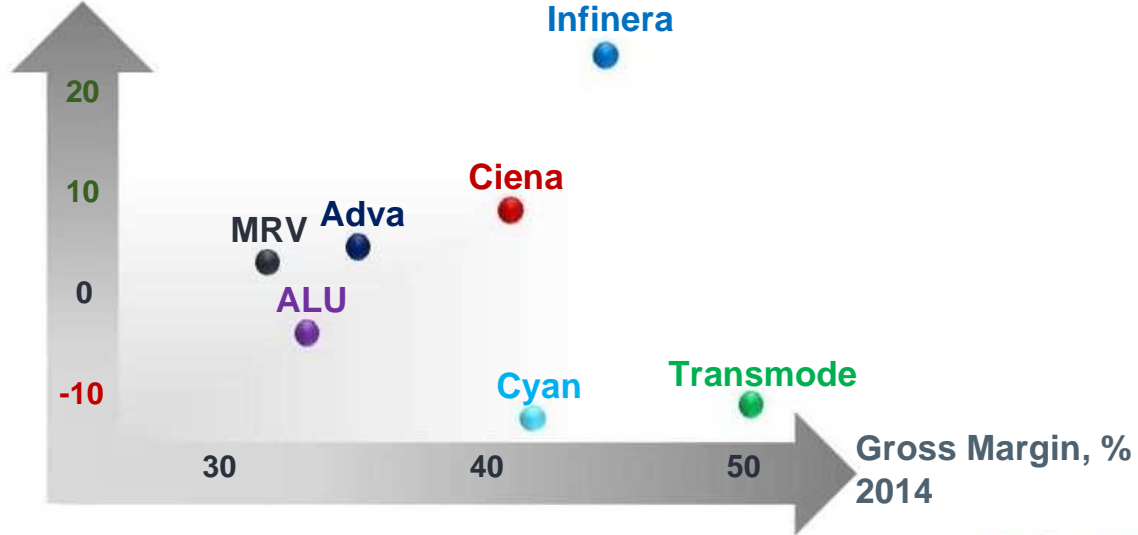
- Nearly \$260 million net cash end of Q1 2015
- Cash Flow from Operations (last four quarters) = \$71 million



# Differentiated Financial Performance

YoY Revenue Growth, %

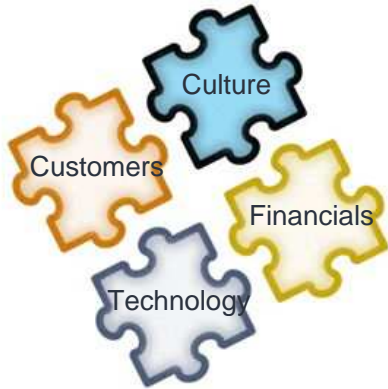
2014



# Transaction Rationale: Advantages for all stakeholders



# Infinera + Transmode



- **End-to-End** portfolio, \$15.3B market\*
- Accelerated **100G market momentum**
- **Technology leadership** in Photonics, Packet-Optical, ASICs and Network Management
- Complementary **customers and geographies**
- Common philosophy of **profitable growth**
- Shared **culture and talent** driving product excellence
- Expected non-GAAP **EPS accretive** in 2016

# Compatible Philosophies



- **Customer First**
  - Top-rated for Services and Support
- **Product Excellence**
  - #1 100G WDM Worldwide, ex-China
  - #1 Packet-Optical EMEA
  - Unique differentiated technologies
- **Profitability Focus**
  - Market leading Operating & Gross Margins

Culture + Talent + Business + Technology

# A Transaction Good for All Stakeholders

## Investors

- Allows combined company to address \$15.3B DWDM TAM (2019)
- Combines two of the most profitable companies in the industry
- Expected accretive to non-GAAP EPS in 2016; neutral to slightly dilutive 2H'15

## Customers

- Combined company would be able to deliver an End-to-End product portfolio
- Shared culture of customer first, strong technology and product excellence
- Scale of combined company allows for further investment in technologies to accelerate & broaden differentiation

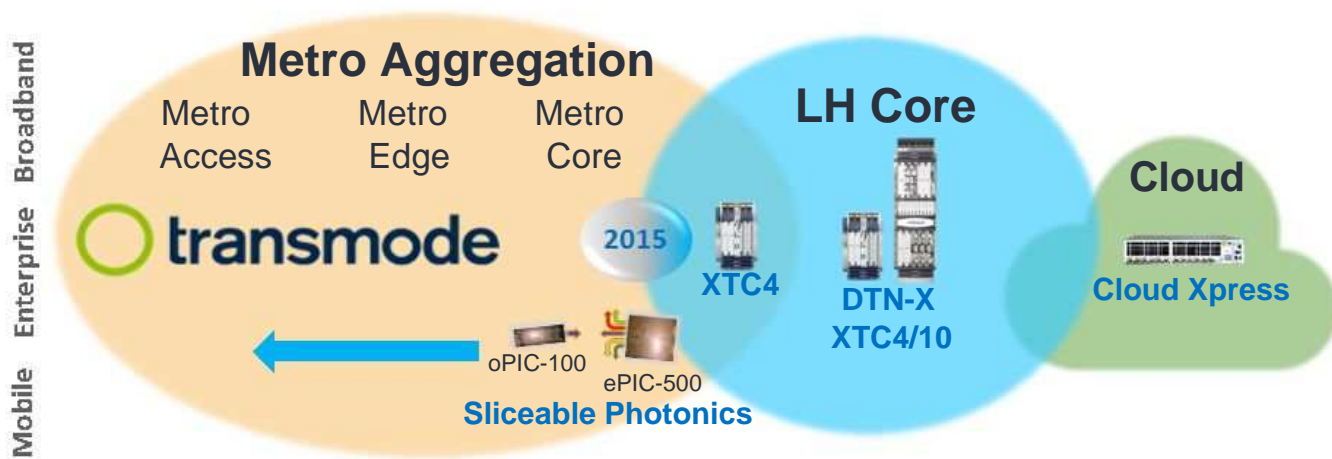
## Employees & Community

- Ability to develop compelling solutions with strong combined knowledge base
- Deal synergies are revenue-based, not on cost cutting
- Intent to invest in Transmode and Swedish engineering talent pool

# Deal Logic



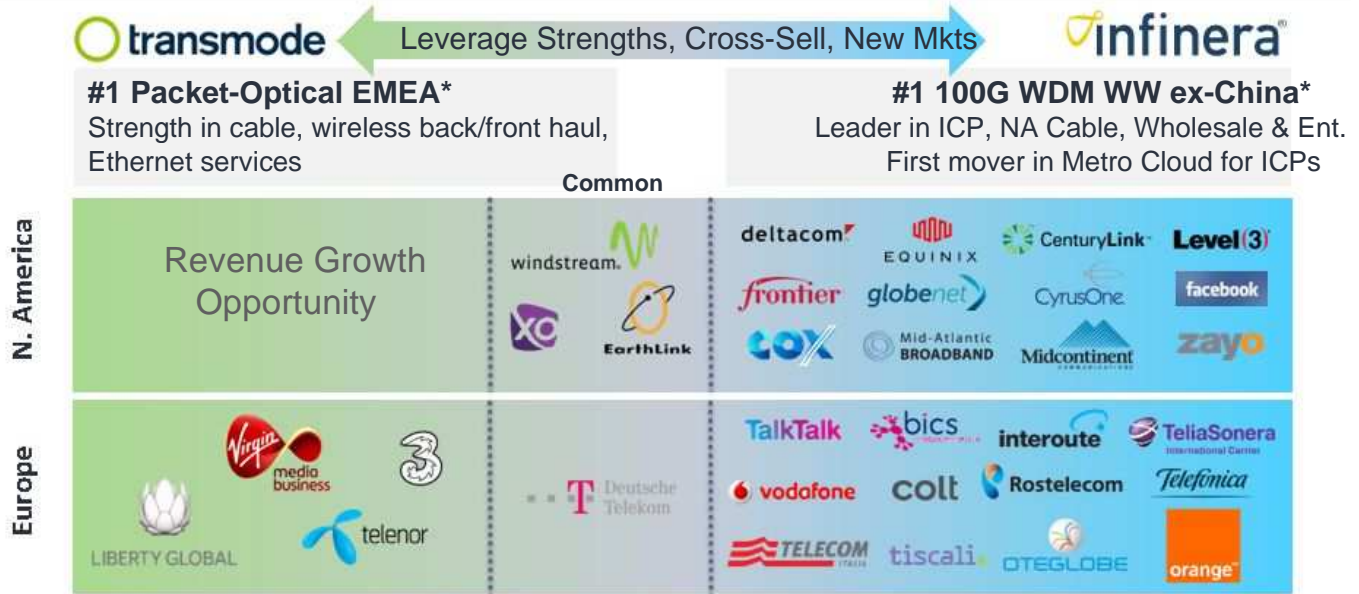
# Delivering a Leading End-to-End Portfolio



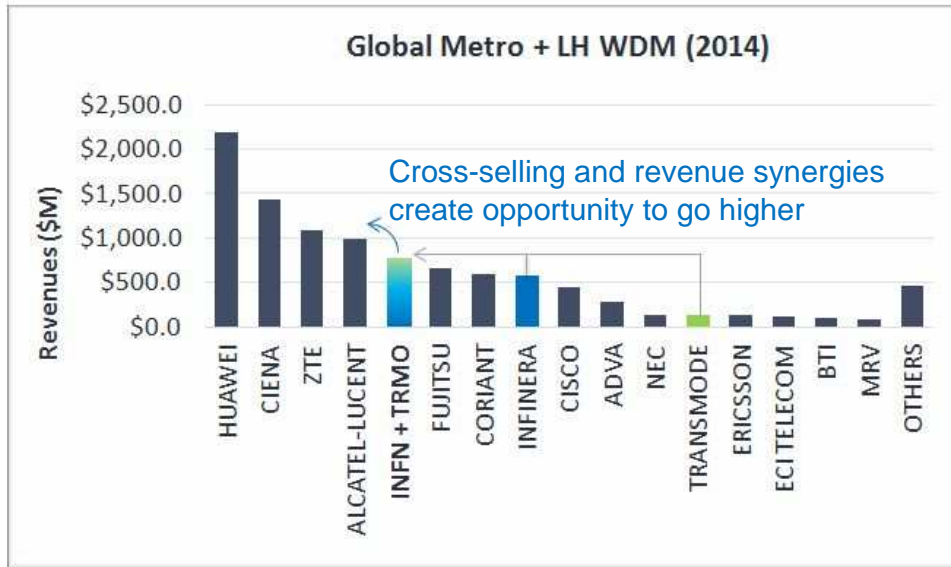
Addresses \$15.3B (2019) Transport Market



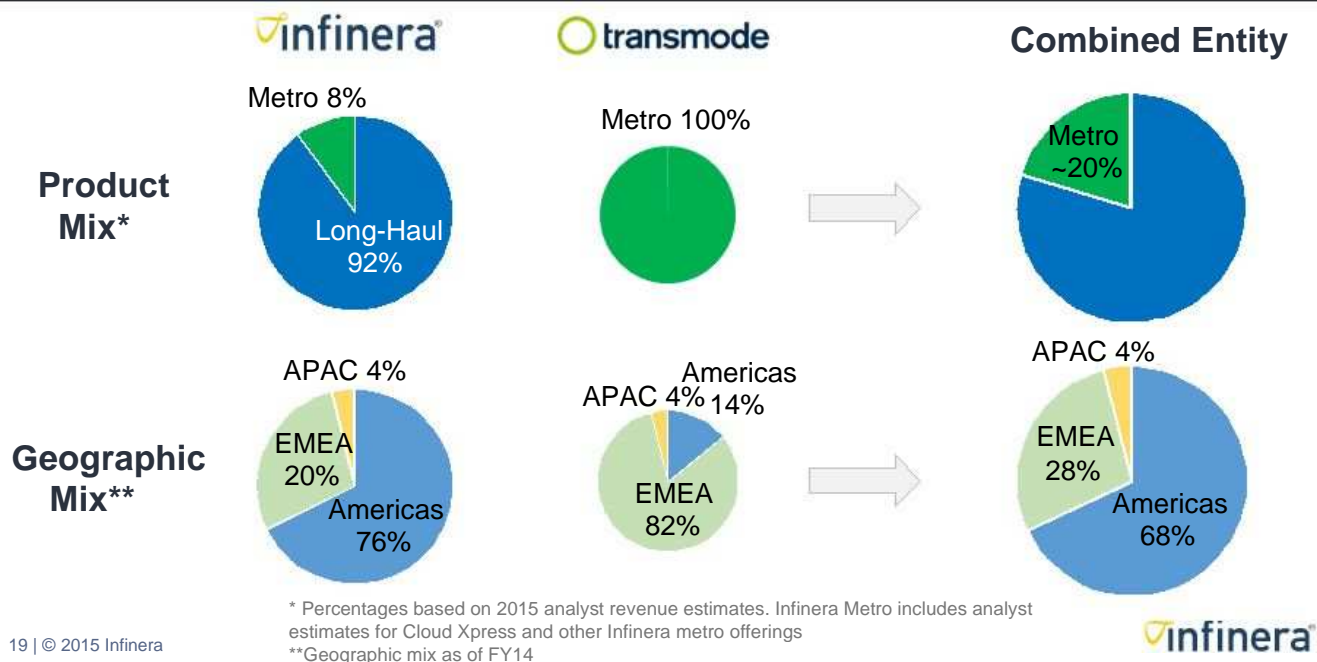
# Complementary Customers



# Infinera + Transmode enter Top 5 in WDM



# Complementary Market Offerings



# Industry Evolution



# WDM Supplier Evolution

*Circa 2000-2002*

*Today*

**Metro Specialists**



**End-to-End Suppliers**

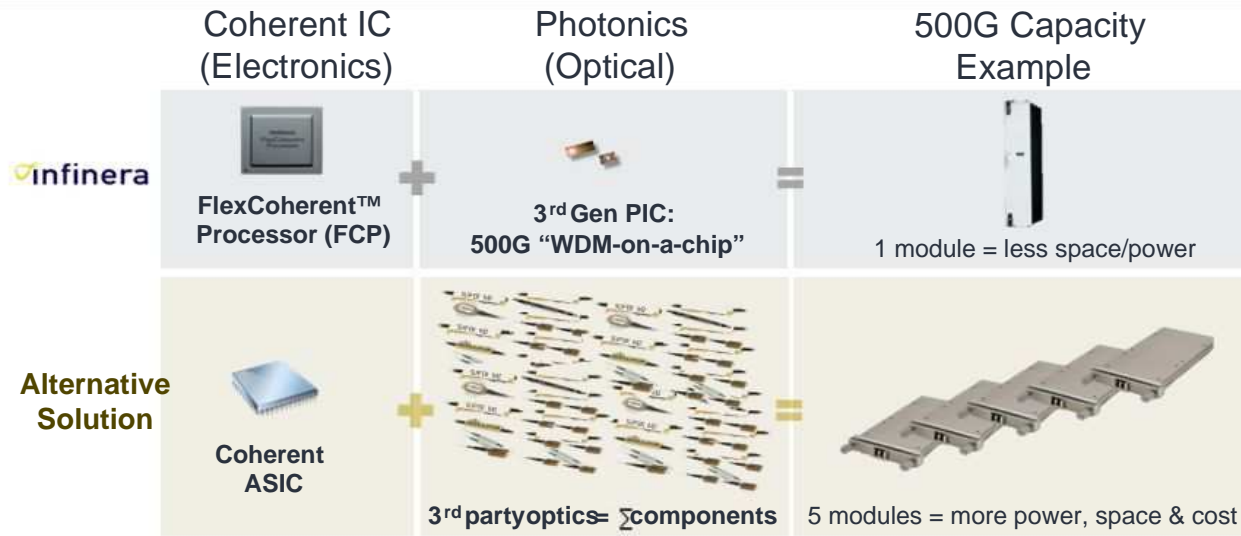


**Long-Haul Specialists**



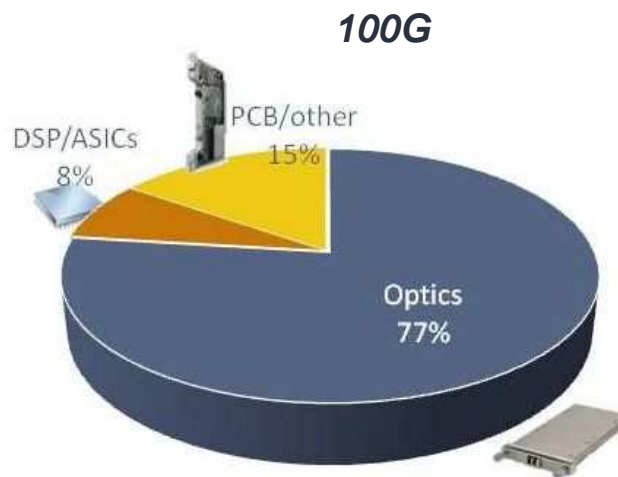
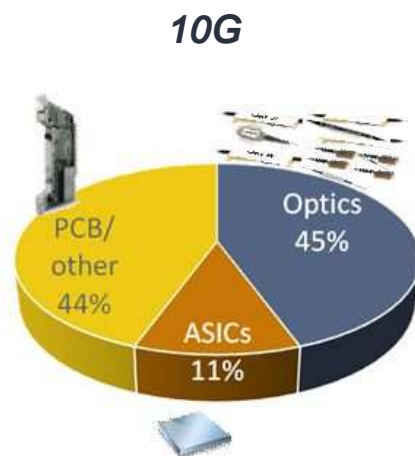
**Consolidation towards end-to-end WDM suppliers underway**

# Moving from 10G to 100G = Greater Complexity



10G → 100G: Increasing advantage for vertically integrated suppliers

# Key to Long-Term Differentiation Cost Structure



Infinera Internal Estimates

***Infinera Optics/ASICs + Transmode Metro = Competitive advantage***

# A Fair Deal for Transmode





# Quarterly Sales Growth Comparison

## Transmode

SEKm



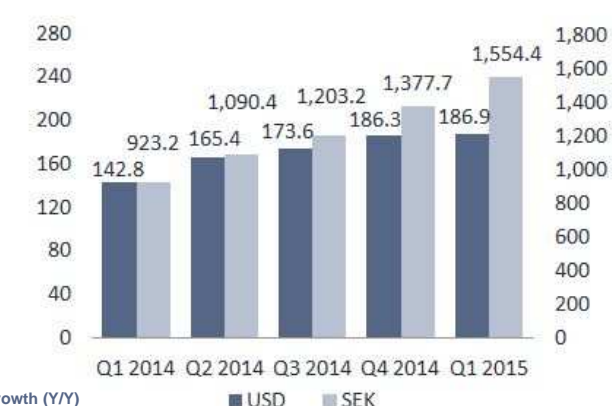
Growth (Y/Y)

In SEK (As Reported) <sup>1</sup>	-4%	-15%	-29%	15%	25%
Constant Currency <sup>1</sup>	-7%	-20%	-35%	7%	11%

## Infinera

USDm

SEKm<sup>(3)</sup>



Growth (Y/Y)

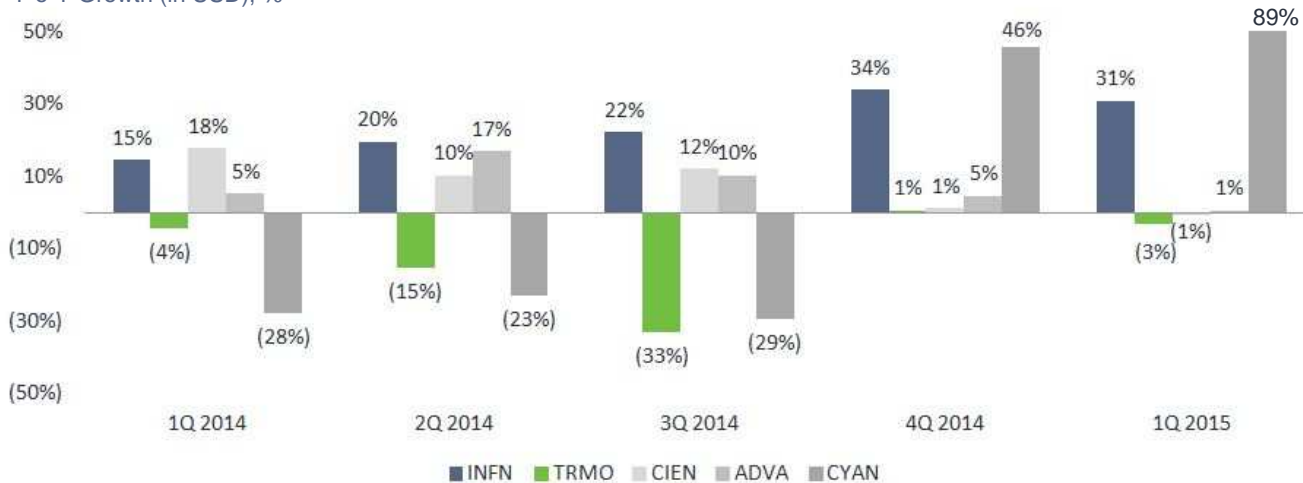
In USD (As Reported) <sup>1</sup>	15%	20%	22%	34%	31%
Constant Currency <sup>2</sup>	14%	19%	22%	36%	35%

- Source: Transmode Quarterly Reports
- Source: Infinera Quarterly Reports; constant currency growth uses the same foreign exchange rates that were in effect during the corresponding period in the prior year
- Represents Infinera revenue converted to SEKm based on average exchange rate during the corresponding quarter

# Quarterly Sales Growth Comparison (Cont'd)

## Sales Growth of Key Comparables in USD

Y-o-Y Growth (in USD), %



Morgan Stanley Analysis

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Source: Company Quarterly Reports; TRMO and ADVA converted to USD at average SEK / USD and EUR / USD exchange rates, respectively, in effect during the corresponding quarter

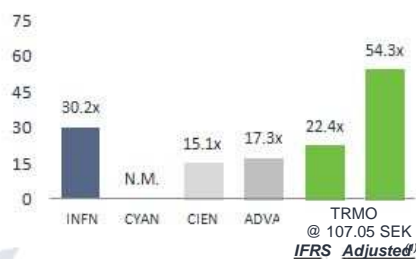


# Valuation Comparison 2014

EV/Revenue - 2014



EV/EBITDA - 2014



P/E - 2014



## IFRS to US GAAP Adjustments 2014 (SEKm)

IFRS (as reported)		Adjusted <sup>1</sup>	
EBITDA	119.5	EBITDA (IFRS)	119.5
Less: Amortized R&D	(33.0)	Less: Cap R&D Adjustment	(70.3)
Less: Depreciation / Other	(15.9)	EBITDA (Adjusted)	49.2
EBIT	70.6	Less: Depreciation	(15.9)
Margin (%)	7.6%	EBIT (Adjusted)	33.3
		Margin (%)	3.6%

- Transmode reports based on IFRS, which allows for capitalization of development expenses (i.e. expenses not deducted for calculating EBITDA)
- When adjusting for capitalized R&D, which is not allowed under US GAAP, Transmode's EBITDA and EBIT margins are lower

Morgan Stanley Analysis

Source: Data derived from company annual reports; ADVA adjusted for R&D capitalization, which is not allowed under US GAAP

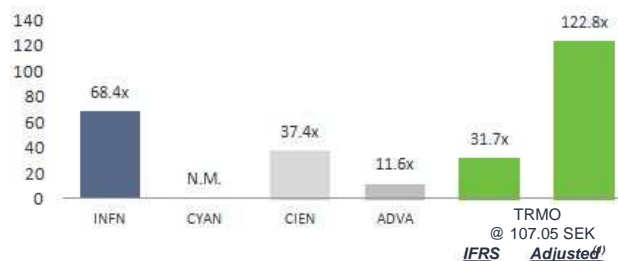
1. After adjusting for the capitalization of R&D, which is not allowed under US GAAP

# Valuation Comparison 2014 (cont'd)

EV/EBIT - 2014



EV/Op CF - 2014



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EBIT	70.6	Less: Depreciation	(15.9)
Margin (%)	7.6%	EBIT (Adjusted)	33.3
		Margin (%)	3.6%

Morgan Stanley Analysis

Source: Data derived from company publicly available reports; ADVA adjusted for R&D capitalization, which is not allowed under US GAAP

1. After adjusting for the capitalization of R&D, which is not allowed under US GAAP

# Valuation Comparison 2015

EV/Revenue - 2015



EV/EBITDA - 2015



P/E - 2015



## IFRS to US GAAP Adjustment 2015 (SEKm)

IFRS		Adjusted <sup>(1)</sup>	
EBITDA	185.3	EBITDA (IFRS)	185.3
Less: Amortized R&D	(33.7)	Less: Cap R&D Adjustment	(71.0) <sup>(2)</sup>
		EBITDA (Adjusted)	114.3
Less: Depreciation	(16.3)		
EBIT	135.3	Less: Depreciation	(16.3)
Margin (%)	12.4%	EBIT (Adjusted)	98.0
		Margin (%)	9.0%

- Transmode reports based on IFRS, which allows for capitalization of development expenses (i.e. expenses not deducted for calculating EBITDA)
- When adjusting for capitalized R&D, which is not allowed under US GAAP, Transmode's EBITDA and EBIT margins are lower

Morgan Stanley Analysis

Source: Based on analyst estimates as of May 22, 2015

1. Assumes capitalized R&D adjustment of 71.0 SEKm based on the estimated amortization of capitalized R&D of 33.7 SEKm (assumes same proportion of depreciation and amortization as in 2014) and (b) the increase in capitalized development costs of 37.3 SEKm (assumed equal to 2014 amount)

2. ADVA adjusted for R&D capitalization, which is not allowed under US GAAP

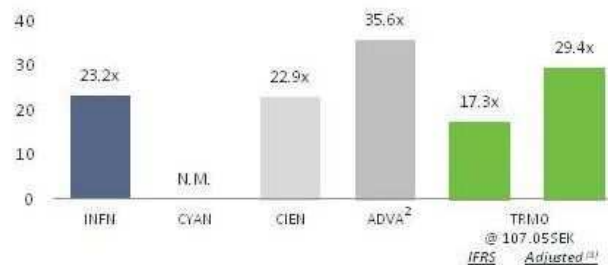
3. After adjusting for the capitalization of R&D, which is not allowed under US GAAP

# Valuation Comparison 2015 (cont'd)

EV/EBIT - 2015



EV/Op CF - 2015



## IFRS to US GAAP Adjustment 2015 (SEKm)

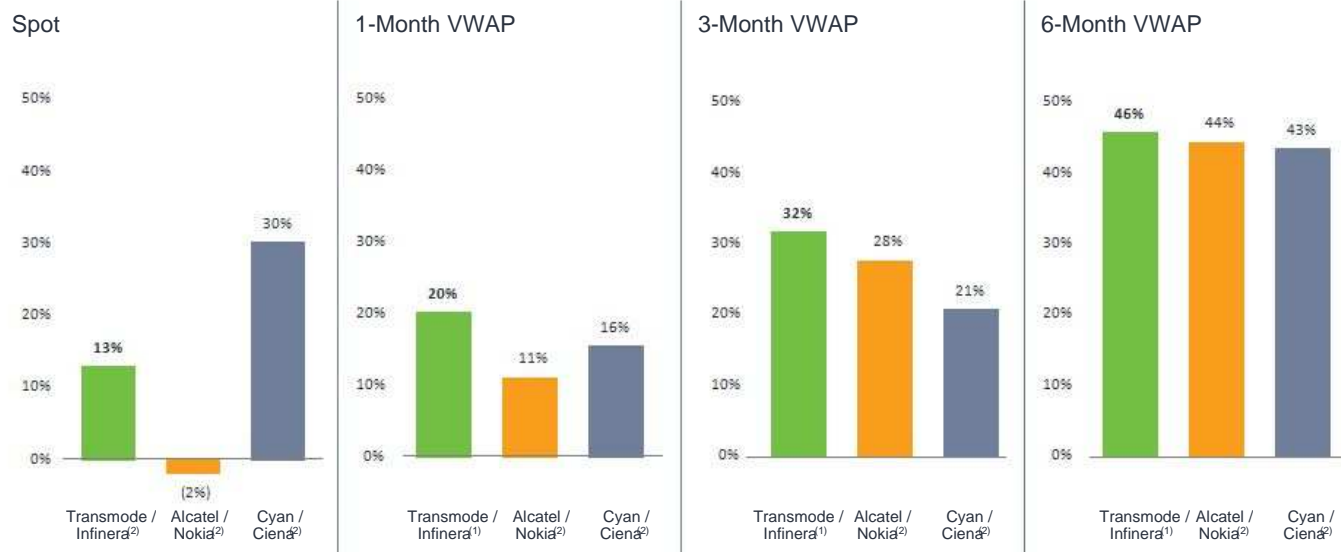
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- After adjusting for the capitalization of R&D, which is not allowed under US GAAP

# Comparison of Transaction Premiums



Morgan Stanley Analysis

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1. As disclosed
2. As calculated based on market data from Bloomberg



# Analysts Views on Infinera

Broker	Target Price	Rating
Jefferies	\$27.00	Buy
Barrington	\$26.50	Buy
MKM Partners	\$26.00	Buy
JP Morgan	\$26.00	Buy
Deutsche Bank	\$25.00	Buy
Stifel Nicolaus	\$25.00	Buy
Juda Group	\$24.00	Buy
William Blair	No target	Buy
Goldman Sachs	\$23.00	Hold
Wedbush	\$18.00	Hold
Needham	No target	Hold

**Consensus Target Price = \$24.50**

**Price (5/19/15) = \$20.20**





# Significant Increase in Liquidity

Average Trading Volume YTD vs. Expected Post Deal<sup>1</sup>

35K Shares / Day  
~SEK3.0 MM / Day  
(~US\$365 K / Day)  
~0.1% TSO

Transmode YTD

~75x  
Greater  
Liquidity

1.9MM Shares / Day  
~US\$26.5 MM / Day  
~1.5% TSO

Infinera YTD

► Significant increase in Transmode's stock liquidity expected

- 28.05 SEK cash per share at closing
- Full liquidity – No single investor (x-POD) expected to hold more than 1 day of trading volume  
– ALL investors (x-POD) expected to hold less than 5 days of trading volume
- A 1% stake in Transmode currently takes ~8 weeks to liquidate based on average volume, whereas post-transaction equivalent stake would take <1 day to liquidate
- Exploring Stockholm listing

Morgan Stanley Analysis

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1. Assumes sell-down at 20% of average daily volume traded (based on assumption that future trading volume is similar to YTD volume)
2. As of May 22, 2015; market data from Bloomberg
3. Liquidity based on average daily trading volume year-to-date



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In connection with the proposed combination of Infinera and Transmode, Infinera will file an offer document with the Swedish Financial Supervisory Authority and a prospectus and a Registration Statement on Form S-4 with the SEC.

Shareholders of Transmode should read the above referenced documents and materials carefully when such documents and materials become available because they contain important information about the transaction.

Shareholders of Transmode may obtain free copies of these documents and materials, any amendments or supplements thereto and other documents containing important information about Infinera and the transaction, once such documents and materials are filed or furnished, as applicable, with the SEC, through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). Copies of the documents and materials filed with the SEC by Infinera will also be available free of charge on Infinera's website at [www.infinera.com](http://www.infinera.com) under the heading "SEC Filings" in the "Company—Investor Relations" portion of Infinera's website. More information about the exchange offer, including the formal announcement of the offer and the offer document to be filed with and approved by the Swedish Financial Supervisory Authority, can be found on [www.infinera.se](http://www.infinera.se).

# Thank You

[www.infinera.com](http://www.infinera.com)

