

Ciena

Solid 1Q results, yet weaker guide as SPs continue to digest elevated inventories

Reiterate Rating: BUY | PO: 59.00 USD | Price: 53.78 USD

Strong 1Q24 results but service provider risk lingers

Solid 1Q24 results with revenues of \$1.04bn beating Street's \$1.02bn, driven by continued strong bandwidth demand and growing network traffic. Gross and operating margins of 46%/13% came in above consensus' 44%/10%, from mix shift and better volumes, which also drove EPS of 66c to beat by 18c. However, the focal point of the quarter is that management reduced its FY24 revenue guidance to \$4.15bn (at the midpoint), vs. prior \$4.50bn, due to weaker service provider growth. Lead times have mostly normalized from 52 weeks during peak-Covid back to roughly five weeks now, yet Ciena continues to face headwinds as SPs work through elevated inventory levels. We tweak our estimates, and reiterate our Buy and \$59 PO as we see durable long-term secular drivers from mobility, Cloud, automation, and AI, and believe Ciena remains well-positioned to continue gaining market share.

Revenue growth impacted by tough comps and SPs

Total revenues fell -1.8% YoY in 1Q due to tough comps from 1Q23 when revenues grew 25% YoY on strong bandwidth demand and backlog drawdowns. Ciena saw tough comps and service provider deal flow impacts across all key segments. Networking Platforms was down -6% YoY, with Optical declining -5% and Routing/Switching falling -7% in 1Q24. On the positive side, platform software continues to remain a bright spot and grew 22% YoY to 9% of total revenues in 1Q, up from 7% last year. We also flag that non-telco revenues reached \$560mn (54% of total) and direct cloud providers accounted for 34% of total revenues, at \$349mn, up from 24% in 1Q23. In our view, this suggests that Ciena continues to see strong cloud and content customer expansions, and we expect direct Webscale revenues could be up slightly YoY in 2024, despite outsized growth in 2023.

Ciena is well-positioned and backlog remains strong

Ciena continues to gain share and is well positioned to benefit from several durable long-term growth drivers. Backlog remains robust, at \$2.2bn, down from \$2.6bn last quarter, and should support topline growth as orders normalize in 2H24 and throughout 2025. Broadband buildouts in India should continue to support growth over the long-term, though management expects flat growth in India this year after strong growth last year. Ciena still has limited visibility on benefits of AI investments, which are still in the early inning, yet AI infrastructure spend should support growth over the next few years.

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.90	2.72	2.11	2.82	3.63
GAAP EPS	1.00	1.71	0.69	1.34	2.11
EPS Change (YoY)	-34.7%	43.2%	-22.4%	33.6%	28.7%
Consensus EPS (Bloomberg)			2.91	3.56	4.12
DPS	0	0	0	0	0
Valuation (Oct)					
P/E	28.3x	19.8x	25.5x	19.1x	14.8x
GAAP P/E	53.8x	31.5x	77.9x	40.1x	25.5x
EV / EBITDA*	17.3x	13.0x	16.0x	13.1x	10.9x
Free Cash Flow Yield*	-3.1%	0.7%	3.4%	3.7%	4.5%

* For full definitions of *IQmethod*SM measures, see page 6.

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,500.9	4,150.9
2025E Rev (m)	4,994.2	4,448.4
2026E Rev (m)	NA	4,749.5
2024E EPS	2.98	2.11
2025E EPS	3.96	2.82
2026E EPS	NA	3.63

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Stock Data

Price	53.78 USD
Price Objective	59.00 USD
Date Established	16-Jun-2023
Investment Opinion	B-1-9
52-Week Range	39.94 USD - 63.24 USD
Mkt Val (mn) / Shares Out (mn)	8,345 USD / 155.2
Free Float	98.5%
Average Daily Value (mn)	106.11 USD
BofA Ticker / Exchange	CIE / NYS
Bloomberg / Reuters	CIE US / CIE.N
ROE (2024E)	10.2%
Net Dbt to Eqty (Oct-2023A)	26.3%
ESGMeter™	High

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Timestamp: 07 March 2024 01:36PM EST

SP: Service Providers

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iQprofileSM Ciena

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.1%	10.3%	7.2%	8.2%	8.4%
Return on Equity	10.1%	14.6%	10.2%	11.2%	10.7%
Operating Margin	11.2%	13.1%	10.8%	12.7%	14.7%
Free Cash Flow	(259)	62	281	309	377

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-0.6x	0.4x	1.1x	0.9x	0.8x
Asset Replacement Ratio	0.9x	1.1x	0.7x	0.4x	0.4x
Tax Rate	20.2%	22.0%	22.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	9.8%	26.3%	12.3%	-11.0%	-33.3%
Interest Cover	3.1x	4.6x	3.7x	11.3x	5.8x

Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,633	4,387	4,151	4,448	4,750
% Change	0.3%	20.8%	-5.4%	7.2%	6.8%
Gross Profit	1,584	1,906	1,860	2,020	2,173
% Change	-8.8%	20.4%	-2.4%	8.6%	7.6%
EBITDA	502	666	541	660	796
% Change	-28.5%	32.5%	-18.7%	21.9%	20.5%
Net Interest & Other Income	(44)	(52)	(53)	(53)	(53)
Net Income (Adjusted)	289	406	307	404	511
% Change	-36.6%	40.5%	-24.5%	31.5%	26.7%

Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	152	255	100	192	297
Depreciation & Amortization	96	93	95	96	96
Change in Working Capital	(600)	(397)	(56)	(131)	(171)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	184	217	209	192	194
Capital Expenditure	(91)	(106)	(66)	(40)	(40)
Free Cash Flow	-259	62	281	309	377
% Change	NM	NM	352.6%	9.9%	21.9%
Share / Issue Repurchase	(524)	(249)	95	575	1,055
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	400	0	0	0	0

Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	994	1,011	1,375	2,209	3,591
Trade Receivables	921	1,004	873	894	818
Other Current Assets	1,471	1,561	1,741	1,885	2,197
Property, Plant & Equipment	313	280	258	202	146
Other Non-Current Assets	1,371	1,746	1,642	1,573	1,490
Total Assets	5,070	5,601	5,888	6,763	8,244
Short-Term Debt	7	12	12	12	12
Other Current Liabilities	1,034	920	879	882	905
Long-Term Debt	1,254	1,747	1,752	1,752	1,752
Other Non-Current Liabilities	62	74	78	80	82
Total Liabilities	2,357	2,753	2,720	2,726	2,750
Total Equity	2,713	2,848	3,168	4,037	5,493
Total Equity & Liabilities	5,070	5,601	5,888	6,763	8,244

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Telecom Equipment-Wireline

Company Description

Ciena (CIEN) is a vendor for high capacity optical transport and Ethernet switching equipment to carriers, enterprises, cable operators and governments. It specializes in transitioning legacy communications networks to converged, next generation architectures, capable of efficiently delivering a broader mix of high bandwidth services.

Investment Rationale

Our Buy thesis is based on expectations for a resumption in optical spending by Tier 1 North American Service Providers in FY24 and multiple long-term drivers. Long-term drivers include significant share gain opportunities in EMEA Access and Aggregation networks, a significant internet build-out in India, 800G leadership driving continued success with webscale and subsea, and solid software traction supporting margins.

Stock Data

Average Daily Volume 1,972,971

Quarterly Earnings Estimates

	2023	2024
Q1	0.64A	0.66A
Q2	0.74A	0.11E
Q3	0.59A	0.47E
Q4	0.75A	0.87E

Financial highlights

Exhibit 1: Actual versus estimated results

Ciena posted solid 1Q24 results compared to our expectations

\$mn	Yr Ago			Qtr Ago	Actual	Est.	Delta	QoQ	YoY
Sales	1Q23	2Q23	3Q23	4Q23	1Q24	1Q24			
Converged Packet Optical	\$735.6	\$784.5	\$719.0	\$748.0	\$695.8	\$663.5	32.32	-7.0%	-5.4%
QoQ	13.2%	6.6%	-8.3%	4.0%	-7.0%	-11.3%			
YoY	36.0%	25.5%	27.5%	15.1%	-5.4%	-9.8%			
Packet Networking	\$119.5	\$130.4	\$127.6	\$128.9	\$111.4	\$119.9	-8.48	-13.6%	-6.8%
QoQ	16.2%	9.1%	-2.1%	1.0%	-13.6%	-7.0%			
YoY	39.4%	19.4%	26.7%	25.4%	-6.8%	0.3%			
Platform Software and Services	\$73.4	\$69.4	\$78.9	\$82.1	\$89.7	\$74.7	14.99	9.3%	22.2%
QoQ	2.5%	-5.4%	13.7%	4.1%	9.3%	-9.0%			
YoY	0.7%	0.4%	24.3%	14.7%	22.2%	1.8%			
Blue Planet Automation Software and Services	\$15.4	\$20.6	\$13.1	\$20.0	\$14.0	\$18.0	-4.00	-30.0%	-9.1%
QoQ	-27.4%	33.8%	-36.4%	52.7%	-30.0%	-10.0%			
YoY	-27.0%	21.9%	-24.3%	-5.7%	-9.1%	16.9%			
Global Services	\$112.6	\$127.8	\$129.3	\$150.5	\$126.8	\$144.5	-17.68	-15.7%	12.6%
QoQ	-10.3%	13.5%	1.2%	16.4%	-15.7%	-4.0%			
YoY	-9.0%	-0.7%	5.5%	19.9%	12.6%	28.3%			
Total Sales	\$1,056.5	\$1,132.7	\$1,067.9	\$1,129.5	\$1,037.7	\$1,020.5	17.16	-8.1%	-1.8%
QoQ	8.8%	7.2%	-5.7%	5.8%	-8.1%	-9.6%			
YoY	25.1%	19.3%	23.0%	16.3%	-1.8%	-3.4%			
Total Operating Expenses	\$329.3	\$338.1	\$327.9	\$337.5	\$336.8	\$350.3	-13.42	-0.2%	2.3%
R&D	\$172.5	\$179.3	\$178.4	\$178.0	\$174.4	\$182.5	-8.09	-2.0%	1.1%
S&M	\$115.4	\$116.3	\$109.5	\$114.5	\$117.9	\$115.0	2.82	3.0%	2.1%
G&A	\$41.4	\$42.5	\$40.0	\$53.8	\$44.6	\$52.7	-8.15	-17.1%	7.7%
Operating Income	\$132.9	\$156.9	\$128.0	\$155.5	\$137.2	\$98.6	38.58	-11.8%	3.3%
QoQ	5.6%	18.1%	-18.4%	21.5%	-11.8%	-36.6%			
YoY	32.9%	46.7%	73.7%	23.6%	3.3%	-25.8%			
Financial Income, net	-\$10.4	-\$15.3	-\$13.8	-\$12.9	-\$13.1	-\$12.9	-0.18	-1.4%	-26.8%
Pretax Income	\$122.5	\$141.5	\$114.2	\$142.6	\$124.1	\$85.7	38.40	-13.0%	1.3%
Net Income	\$95.6	\$110.4	\$89.1	\$111.2	\$96.8	\$67.7	29.10	-13.0%	1.3%
EPS	\$0.64	\$0.74	\$0.59	\$0.75	\$0.66	\$0.46	0.20	-11.8%	3.9%
YoY	37.2%	47.5%	82.3%	23.3%	3.9%	-27.6%			
Margin Analysis							bps	bps	bps
Product GM	43.4%	42.6%	40.8%	41.8%	44.7%	42.5%	218	287	123
Services GM	45.2%	49.1%	51.0%	51.0%	49.9%	53.0%	-314	-115	463
Overall Gross Margins (%)	43.7%	43.7%	42.7%	43.7%	45.7%	44.0%	169.72	203	194
R&D expenses	16.3%	15.8%	16.7%	15.8%	16.8%	17.9%	-107.57	104	48
S&M expenses	10.9%	10.3%	10.3%	10.1%	11.4%	11.3%	8.53	122	44
G&A expenses	3.9%	3.7%	3.7%	4.8%	4.3%	5.2%	-87.04	-47	38
Opex as % of Sales	31.2%	29.8%	30.7%	29.9%	32.5%	34.3%	-186.09	258	129
Operating Margin	12.6%	13.8%	12.0%	13.8%	13.2%	9.7%	355.81	-55	65
Net Margin	9.0%	9.7%	8.3%	9.8%	9.3%	6.6%	269.42	-52	28
Effective tax rate (%)	22.0%	22.0%	22.0%	22.0%	22.0%	21.0%	99.98	0	0

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 2: Summary of model changes

We revise down our estimates to reflect management's commentary on FY24 growth/expense forecasts

	SALES			GROSS MARGIN			OPERATING MARGIN			PRO-FORMA EPS		
\$mn	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY23E (Oct)												
1Q23	\$1,056.5	\$1,056.5	\$0.0	43.7%	43.7%	0 bps	12.6%	12.6%	0 bps	\$0.64	\$0.64	\$0.00
2Q23	\$1,132.7	\$1,132.7	\$0.0	43.7%	43.7%	0 bps	13.8%	13.8%	0 bps	\$0.74	\$0.74	\$0.00
3Q23	\$1,067.9	\$1,067.9	\$0.0	42.7%	42.7%	0 bps	12.0%	12.0%	0 bps	\$0.59	\$0.59	\$0.00
4Q23	\$1,129.5	\$1,129.5	\$0.0	43.7%	43.7%	0 bps	13.8%	13.8%	0 bps	\$0.75	\$0.75	\$0.00
Total	\$4,386.5	\$4,386.5	\$0.0	43.5%	43.5%	0 bps	13.1%	13.1%	0 bps	\$2.72	\$2.72	\$0.00
FY24E (Oct)												
1Q24	\$1,020.5	\$1,037.7	\$17.2	44.0%	45.7%	170 bps	9.7%	13.2%	356 bps	\$0.46	\$0.66	\$0.20
2Q24E	\$1,091.4	\$890.2	(\$201.2)	44.8%	42.2%	-259 bps	12.3%	3.7%	-852 bps	\$0.65	\$0.11	(\$0.55)
3Q24E	\$1,153.6	\$1,014.7	(\$138.9)	45.3%	45.3%	0 bps	14.4%	9.9%	-448 bps	\$0.83	\$0.47	(\$0.36)
4Q24E	\$1,235.4	\$1,208.3	(\$27.1)	45.7%	45.6%	-12 bps	16.6%	14.5%	-206 bps	\$1.04	\$0.87	(\$0.17)
Total	\$4,500.9	\$4,150.9	(\$350.0)	45.0%	44.8%	-18 bps	13.4%	10.8%	-265 bps	\$2.98	\$2.11	(\$0.87)

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 3: Income statement

We model FY24 revenues and EPS to reach \$4.15bn/\$2.11, respectively

FY Ends Oct	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E		FY23	FY24E	FY25E
Sales in \$mn	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25		Oct-23	Oct-24	Jan-25
Converged Packet-Optical	735.6	784.5	719.0	748.0	695.8	556.6	657.4	821.7	764.2	687.8	708.4	743.9		2,987.1	2,731.6	2,904.3
Packet Networking	119.5	130.4	127.6	128.9	111.4	91.3	105.1	128.2	117.9	114.4	113.2	122.3		506.4	436.0	467.8
Software & Services	201.4	217.8	221.3	252.6	230.5	242.2	252.3	258.4	248.2	267.5	277.8	282.9		893.1	983.4	1,076.3
Total Sales	\$1,056.5	\$1,132.7	\$1,067.9	\$1,129.5	\$1,037.7	\$890.2	\$1,014.7	\$1,208.3	\$1,130.3	\$1,069.7	\$1,099.4	\$1,149.0		\$4,386.5	\$4,150.9	\$4,448.4
QoQ growth (%)	8.8%	7.2%	-5.7%	5.8%	-8.1%	-14.2%	14.0%	19.1%	-6.5%	-5.4%	2.8%	4.5%				
Gross Profits	462.2	494.9	455.9	493.1	474.1	376.0	459.5	550.7	510.5	486.0	500.2	523.1		1,906.1	1,860.3	2,019.7
Total Opex	329.3	338.1	327.9	337.5	336.8	342.7	358.7	375.6	360.3	354.9	362.7	377.9		1,332.8	1,413.8	1,455.7
Operating Income	132.9	156.9	128.0	155.5	137.2	33.3	100.8	175.1	150.2	131.1	137.5	145.3		573.3	446.5	564.0
Operating Margin	12.6%	13.8%	12.0%	13.8%	13.2%	3.7%	9.9%	14.5%	13.3%	12.3%	12.5%	12.6%		13.1%	10.8%	12.7%
Net Financial Income	(10.4)	(15.3)	(13.8)	(12.9)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)	(13.1)		(52.4)	(52.5)	(52.5)
Income Taxes	27.0	31.1	25.1	31.4	27.3	4.4	19.3	35.6	28.8	24.8	26.1	27.7		114.6	86.7	107.4
Net Income	95.6	110.4	89.1	111.2	96.8	15.8	68.4	126.3	108.3	93.2	98.3	104.4		406.3	307.3	404.1
Non-GAAP EPS	\$0.64	\$0.74	\$0.59	\$0.75	\$0.66	\$0.11	\$0.47	\$0.87	\$0.75	\$0.65	\$0.69	\$0.73		\$2.72	\$2.11	\$2.82
GAAP EPS	\$0.51	\$0.38	\$0.20	\$0.62	\$0.34	(\$0.26)	\$0.11	\$0.51	\$0.39	\$0.28	\$0.32	\$0.36		\$1.71	\$0.69	\$1.34
Shares inc. convert (mn)	149.6	150.1	150.0	147.9	145.8	145.6	145.3	145.0	143.5	143.2	143.0	142.7		149.4	145.4	143.1
Operating Cash Flow	(265.6)	229.8	8.7	195.5	266.1	86.8	(64.2)	59.0	(83.5)	249.4	(14.3)	197.4		168.3	347.6	349.1
OCF Margin	-25.1%	20.3%	0.8%	17.3%	25.6%	9.7%	-6.3%	4.9%	-7.4%	23.3%	-1.3%	17.2%		3.8%	8.4%	7.8%
Free Cash Flow	(295.7)	201.8	(16.7)	172.7	249.5	70.2	(80.8)	42.4	(93.5)	239.4	(24.3)	187.4		62.1	281.2	309.1
FCF Margin	-28.0%	17.8%	-1.6%	15.3%	24.0%	7.9%	-8.0%	3.5%	-8.3%	22.4%	-2.2%	16.3%		1.4%	6.8%	6.9%
Cash and Equivalents	1,155.0	1,318.2	1,259.8	1,115.4	1,371.4	1,437.9	1,383.3	1,482.0	1,474.8	1,830.4	1,952.4	2,316.1		1,115.4	1,482.0	2,316.1
Total debt	1,749.4	1,741.2	1,738.6	1,747.1	1,751.8	1,751.8	1,751.8	1,751.8	1,751.8	1,751.8	1,751.8	1,751.8		1,747.1	1,751.8	1,751.8
Net Cash	(594.4)	(423.1)	(478.8)	(631.7)	(380.4)	(314.0)	(368.6)	(269.9)	(277.1)	78.6	200.6	564.2		(631.7)	(269.9)	564.2
Margin Analysis (%)																
Overall Gross Margins (%)	43.7%	43.7%	42.7%	43.7%	45.7%	42.2%	45.3%	45.6%	45.2%	45.4%	45.5%	45.5%		43.5%	44.8%	45.4%
R&D expenses	16.3%	15.8%	16.7%	15.8%	16.8%	19.9%	18.5%	16.4%	17.0%	17.3%	17.0%	16.9%		16.1%	17.8%	17.0%
S&M expenses	10.9%	10.3%	10.3%	10.1%	11.4%	13.5%	12.2%	10.7%	11.3%	12.0%	12.1%	12.1%		10.4%	11.8%	11.9%
G&A expenses	3.9%	3.7%	3.7%	4.8%	4.3%	5.1%	4.6%	4.0%	3.6%	3.9%	3.9%	3.9%		4.1%	4.5%	3.8%
Opex as % of Sales	31.2%	29.8%	30.7%	29.9%	32.5%	38.5%	35.3%	31.1%	31.9%	33.2%	33.0%	32.9%		30.4%	34.1%	32.7%
Operating Margin	12.6%	13.8%	12.0%	13.8%	13.2%	3.7%	9.9%	14.5%	13.3%	12.3%	12.5%	12.6%		13.1%	10.8%	12.7%
Net Margin	9.0%	9.7%	8.3%	9.8%	9.3%	1.8%	6.7%	10.5%	9.6%	8.7%	8.9%	9.1%		9.3%	7.4%	9.1%
Effective tax rate (%)	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	21.0%	21.0%	21.0%	21.0%		22.0%	22.0%	21.0%
YoY % Change																
Converged Packet-Optical	36.0%	25.5%	27.5%	15.1%	-5.4%	-29.0%	-8.6%	9.9%	9.8%	23.6%	7.8%	-9.5%		25.5%	-8.6%	6.3%
Packet Networking	39.4%	19.4%	26.7%	25.4%	-6.8%	-29.9%	-17.7%	-0.6%	5.8%	25.2%	7.8%	-4.6%		27.1%	-13.9%	7.3%
Optical Transport																
Software & Services	-7.5%	1.4%	8.8%	15.7%	14.4%	11.2%	14.0%	2.3%	7.7%	10.4%	10.1%	9.5%		4.6%	10.1%	9.4%
Total Sales	25.1%	19.3%	23.0%	16.3%	-1.8%	-21.4%	-5.0%	7.0%	8.9%	20.2%	8.3%	-4.9%		20.8%	-5.4%	7.2%
Total Opex	13.6%	12.3%	20.1%	7.9%	2.3%	1.4%	9.4%	11.3%	7.0%	3.5%	1.1%	0.6%		13.2%	6.1%	3.0%
Operating Income	32.9%	46.7%	73.7%	23.6%	3.3%	-78.8%	-21.2%	12.6%	9.4%	293.4%	36.4%	-17.0%		41.0%	-22.1%	26.3%
EPS	37.2%	47.5%	82.3%	23.3%	3.9%	-85.3%	-20.7%	15.9%	13.7%	501.1%	46.0%	-16.0%		43.2%	-22.3%	33.6%
QoQ % Change																
Converged Packet-Optical	13.2%	6.6%	-8.3%	4.0%	-7.0%	-20.0%	18.1%	25.0%	-7.0%	-10.0%	3.0%	5.0%				
Packet Networking	16.2%	9.1%	-2.1%	1.0%	-13.6%	-18.0%	15.0%	22.0%	-8.0%	-3.0%	-1.0%	8.0%				
Optical Transport																
Software & Services	-7.7%	8.1%	1.6%	14.1%	-8.7%	5.1%	4.2%	2.4%	-4.0%	7.8%	3.8%	1.8%				
Total Sales	8.8%	7.2%	-5.7%	5.8%	-8.1%	-14.2%	14.0%	19.1%	-6.5%	-5.4%	2.8%	4.5%				
Total Opex	5.3%	2.7%	-3.0%	2.9%	-0.2%	1.7%	4.7%	4.7%	-4.1%	-1.5%	2.2%	4.2%				
Operating Income	5.6%	18.1%	-18.4%	21.5%	-11.8%	-75.7%	202.6%	73.7%	-14.2%	-12.7%	4.9%	5.6%				
EPS	4.8%	15.1%	-19.2%	26.6%	-11.8%	-83.7%	335.1%	85.1%	-13.4%	-13.8%	5.7%	6.4%				

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

Ciena (CIEN)

Our \$59 PO is based on roughly 21x our FY25E P/E, in-line with the company's historical range and peers. We believe the multiple expansion is warranted as Ciena is a market leader and should continue to benefit from the 400G+ upgrade cycle, fiber buildouts ahead of 5G, share gain opportunities in EMEA, and Huawei displacement in India. While the optical market is undergoing a digestion period currently, we believe there will be a resumption in spending throughout 2024 given optical's growing importance as a means to meet rising bandwidth demands. The potential spending return and Ciena's ongoing revenue diversification warrant the multiple expansion to the high end of its typical range, in our view.

Downside risks to our price objective are: sustained weakness in carrier spending on optical infrastructure, lower-than-expected traction with new and 800G products or increased competition from Infinera, and more muted gross and operating margin expansion than currently embedded into our and consensus views.

Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	SecureWorks	SCWX	SCWX US	Tal Liani



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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Important Disclosures

Ciena (CIEN) Price Chart



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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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