

Ciena

F2Q25 Preview: Strong Momentum of Orders and Another Raise to FY25 Guide to Run Into High Bar of Expectations Priced Into the Shares

2025 - Extel Institutional Investor
All-America Equity Research Survey

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Voting Opens June 2nd - June 27th
Please vote for J.P. Morgan (5 stars)



We are optimistic in relation to the momentum of orders from Telecom and Cloud customers to continue in F2Q and support further revenue and earnings revisions relative to expectations outlined on the last earnings call, which already highlighted the momentum to support revenue growth in FY25 ahead of medium-term guidance of 8%-11% revenue growth. While macro concerns have driven challenges to investor sentiment on hardware companies for the most part of this year, the recent moderation in concerns has led the stock to rebound again to a premium multiple, which is setting up the need of reaffirmation of upsides through the year for further upsides to the shares. That said, while earnings revisions are most likely to surpass sell-side consensus earnings revisions for FY25, we believe the the high bar of buy-side expectations embedded in the share price might be tougher to overcome for the shares in the near-term out of the earnings print. We forecast the momentum in relation to demand to drive the company to outline an updated outlook for 13% revenue growth in FY25, as well as better gross margins than prior (impact of tariffs being limited along with continued better product mix), but the implied earnings expectations for the company for FY25 to still imply that CIEN shares trade at 30x P/E and limit upside to the shares till we see greater magnitude of earnings revisions. We expect the demand momentum to set up for greater magnitude of raises to revenue expectations, but the management team to look for steady increases in the outlook, keeping the the uncertain macro backdrop in mind. We are raising our earnings expectations to incorporate the 13% revenue growth and 43% gross margins we outlined earlier, and are raising our Dec-25 price target to \$86 on our higher estimates, but the modest 7% upside from the current share price represents the high bar in buy-side expectations priced-in already.

- FY25 expectations: Forecast another raise, but buy-side expectations are pricing more than the company management might be willing to outline in an uncertain macro.** We are forecasting another raise to the revenue growth outlook for the year, with our updated forecast for 13% revenue growth in FY25 relative to the prior guidance for revenue growth at the high-end of the 8%-11% range. At the same time, we expect investor expectations for FY25 gross margins to improve following another quarter of robust margins. However, we expect the company to remain conservative even in relation to the magnitude of the increases in the outlook despite strong momentum, given the macro backdrop and look for higher confidence through the year to raise expectations further. Despite our expectations for a stronger outlook, we expect the high bar

Overweight

CIEN, CIEN US
Price (23 May 25):\$80.22

▲ Price Target (Dec-25):\$86.00
Prior (Dec-25):\$76.00

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Key Changes (FYE Oct)

	Prev	Cur
Adj. EPS - 25E (\$)	2.43	2.75
Adj. EPS - 26E (\$)	3.45	3.60

Quarterly Forecasts (FYE Oct)

Adj. EPS (\$)	2024A	2025E	2026E
Q1	0.66	0.64A	0.58
Q2	0.27	0.62	0.81
Q3	0.35	0.70	1.00
Q4	0.54	0.80	1.21
FY	1.83	2.75	3.60

Style Exposure

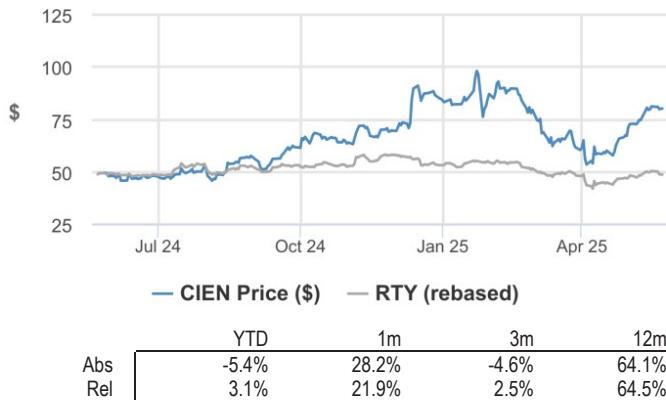
Quant Factors	Current %Rank	Hist %Rank (1=Top)				
		6M	1Y	3Y	5Y	
Value	51	39	23	28	56	
Growth	81	34	33	57	26	
Momentum	21	37	74	42	12	
Quality	32	45	20	5	9	
Low Vol	54	29	29	21	29	
ESGQ	23	87	78	78	18	

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 8 for analyst certification and important disclosures.

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Price Performance



Company Data

Shares O/S (mn)	146
52-week range (\$)	101.44-44.69
Market cap (\$ mn)	11,707.63
Exchange rate	1.00
Free float (%)	98.5%
3M ADV (mn)	2.23
3M ADV (\$ mn)	149.4
Volatility (90 Day)	74
Index	RUSSELL 2000
BBG ANR (Buy Hold Sell)	11 5 0

Key Metrics (FY Oct)

	FY24A	FY25E	FY26E	FY27E
Financial Estimates				
Revenue	4,015	4,526	4,973	5,424
Adj. EBIT	388	550	680	834
Adj. EBITDA	481	646	784	948
Adj. net income	266	394	496	616
Adj. EPS	1.83	2.75	3.60	4.60
BBG EPS	1.94	2.53	3.37	4.28
Cashflow from operations	515	412	504	635
FCFF	414	351	440	562
Margins and Growth				
Revenue Growth Y/Y (%)	(8.5%)	12.7%	9.9%	9.1%
EBIT margin	9.7%	12.2%	13.7%	15.4%
EBIT Growth Y/Y (%)	(32.3%)	41.8%	23.5%	22.7%
EBITDA margin	12.0%	14.3%	15.8%	17.5%
EBITDA Growth Y/Y (%)	(27.8%)	34.3%	21.3%	20.9%
Net margin	6.6%	8.7%	10.0%	11.4%
Adj. EPS growth	(32.8%)	50.6%	30.6%	28.0%
Ratios				
Adj. tax rate	22.0%	22.0%	21.9%	21.9%
Interest cover	10.3	14.2	17.3	20.9
Net debt/Equity	0.2	0.2	0.2	0.1
Net debt/EBITDA	1.3	1.0	0.8	0.4
ROE	9.4%	13.9%	16.9%	19.5%
Valuation				
FCFF yield	3.5%	3.1%	4.0%	5.2%
Dividend yield	-	-	-	-
EV/Revenue	3.0	2.7	2.4	2.2
EV/EBITDA	25.0	18.6	15.4	12.7
Adj. P/E	43.9	29.1	22.3	17.4

Summary Investment Thesis and Valuation

Investment Thesis

We rate shares of Ciena Overweight, led by the company's positioning as a technology leader in the optical systems market, where we expect it to benefit from 1) strong investments from Cloud providers in data center interconnect (DCI); 2) recovery of Telecom demand following a period of inventory digestion and slower equipment deployments; and 3) increasing interest from MOFN providers to also participate in DCI investments in conjunction with Cloud providers. Despite the aforementioned driving a stronger growth outlook over the medium term relative to historical targets, shares of Ciena are trading roughly in line with its long-term multiple on CY26E earnings, which in our view creates an attractive opportunity.

Valuation

We are increasing our December 2025 price target to \$86 (vs. \$76 prior) based on a 24x target multiple on our 2026 EPS estimate. We believe that the multiple is justified as it is ahead of its historical average due to robust medium-term growth targets, driven by increasing exposure to demand trends across Cloud and AI through direct webscale customers as well as MOFNs.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.70	0.69
Sect: Technology	0.21	0.02
Ind: Tech Hard Equip	-0.10	-0.22
Macro:		
US 10yr Breakeven	0.24	0.29
US 10yr yield	0.20	0.25
Credit Spread	-0.22	-0.22
Quant Styles:		
Size	-0.05	-0.19
LowVol	-0.15	-0.15
DivYld	-0.26	-0.14

of buy-side expectations priced in CIEN shares at 30x FY25 EPS expectations to set a tough hurdle to overcome near-term.

- **F2Q (Apr-end) results and F3Q (July-end) outlook to track better.** We are forecasting F2Q revenues of \$1.11 bn vs. consensus of \$1.09 bn and guidance of \$1.05-\$1.13 bn, and gross margins of 43% vs. guidance for low-40% margins. Additionally, we forecast F3Q revenue to track \$1.15 bn vs. consensus of \$1.11 bn and gross margins of 43%, in line with consensus.

Investment Thesis, Valuation and Risks

Ciena (*Overweight*; Price Target: \$86.00)

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CIEN P/E-Based Valuation

\$ mns, except per share amount

	NTM Qtrs 1-4	2026E
JPM Net Income	381	496
JPM EPS	\$2.69	\$3.60
P/E Multiple	30.8x	
JPM P/E Multiple		24x
Total Equity Value	11,708	11,896
Average Diluted Share Count	145.9	137.8
Implied Share Price	\$80.2	\$86.0
Current Value per Share	\$80.22	\$80.22
Upside vs. Current		7%
Memo:		
(-) Net Cash/(Debt)	(332)	(265)
Enterprise Value	12,040	12,161
JPM EBITDA	630	784
<i>Implied EV/EBITDA</i>	<i>19.1x</i>	<i>15.5x</i>

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Industry Downside Risks

Spend recovery relative to Telcos may not be as broad based as expected. Although there are signs for recovery relative to telecom spending, it may be confined to MOFNs, with no or lower than expected broad-based recovery in the market.

Company-Specific Downside Risks

Customer concentration risk could lead to volatility in earnings. The two leading US telecom service providers, AT&T and Verizon, together account for a very significant part of Ciena's revenues. While sizable revenue exposure to the two leading service providers is a positive for the company, it could also lead to volatility in revenues, led by the spending decisions of the top two service providers.

Delays in the product cycle could drive market share losses. Ciena has been ahead of Infinera (now acquired by Nokia), its closest competitor in North America, in relation to the product cycle. The market remains fiercely competitive in relation to the product cycle, with hyperscale customers looking to adopt the best technology available in the market. Any delays in relation to competitive product launches are likely to hurt revenues.

Figure 1: Ciena Summary Table

\$ in Millions, except EPS

October Fiscal Year End	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25E	3Q25E	4Q25E	2025E	1Q26E	2Q26E	3Q26E	4Q26E	2026E
Revenue by End-Market																
Direct Webscale	1,165	342	228	254	382	1,207	343	374	407	433	1,558	406	450	480	504	1,840
Cable	340	104	64	57	67	292	54	55	56	57	222	54	56	58	60	227
Government, Enterprise	472	114	128	122	90	454	129	125	125	127	505	122	131	139	149	541
Telecom	2,410	477	492	509	585	2,063	547	558	565	572	2,241	534	561	610	660	2,365
Total Revenue	4,387	1,038	911	942	1,124	4,015	1,072	1,112	1,153	1,189	4,526	1,116	1,197	1,287	1,373	4,973
% chg y/y	20.8%	-1.8%	-19.6%	-11.8%	-0.5%	-8.5%	3.3%	22.1%	22.3%	5.7%	12.7%	4.1%	7.7%	11.6%	15.5%	9.9%
Gross Margin	43.5%	45.7%	43.5%	43.7%	41.6%	43.6%	44.7%	43.0%	43.0%	43.1%	43.4%	42.5%	43.2%	43.6%	44.1%	43.4%
Opex	1,333	337	334	336	355	1,362	347	352	358	356	1,414	359	363	374	382	1,478
as % of sales	30.4%	32.5%	36.7%	35.7%	31.6%	33.9%	32.4%	31.7%	31.0%	30.0%	31.2%	32.2%	30.3%	29.0%	27.8%	29.7%
Operating Income (COI)	573	137	63	76	113	388	132	125	138	155	550	115	154	188	223	680
operating margin	13.1%	13.2%	6.9%	8.0%	10.0%	9.7%	12.3%	11.3%	12.0%	13.1%	12.2%	10.3%	12.9%	14.6%	16.2%	13.7%
Net Income	406	97	39	51	79	266	94	89	98	112	394	81	112	138	165	496
Diluted EPS	\$2.72	\$0.66	\$0.27	\$0.35	\$0.54	\$1.83	\$0.64	\$0.62	\$0.70	\$0.80	\$2.75	\$0.58	\$0.81	\$1.00	\$1.21	\$3.60
Diluted Shares (avg.)	149	146	145	145	146	146	146	144	141	140	143	139	138	137	136	138
Cash	1,115	1,371	1,257	1,101	1,251	1,251	1,212	1,229	1,216	1,204	1,204	1,305	1,377	1,293	1,279	1,279
Debt	1,555	1,555	1,557	1,554	1,548	1,548	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544
Gross Leverage (ttm)	2.3x	2.3x	1.4x	3.0x	3.2x	3.2x	3.2x	2.9x	2.6x	2.4x	2.4x	2.5x	2.3x	2.2x	2.0x	2.0x
Net Debt	440	183	300	453	296	296	332	315	328	340	340	239	167	252	265	265
Net Leverage (ttm)	0.7x	0.3x	0.3x	0.9x	0.6x	0.6x	0.7x	0.6x	0.5x	0.5x	0.5x	0.4x	0.3x	0.4x	0.3x	0.3x
Operating Cash Flow	168	266	58	(159)	349	515	104	122	92	93	412	206	179	23	96	504
Capital Expenditures	(106)	(17)	(17)	(20)	(84)	(137)	(27)	(22)	(23)	(24)	(96)	(22)	(24)	(26)	(27)	(99)
Free Cash Flow	62	249	42	(179)	266	378	77	100	69	70	316	184	155	(3)	68	405
Share repurchases	(242)	(38)	(57)	(31)	(129)	(255)	(25)	(83)	(82)	(82)	(272)	(83)	(83)	(82)	(82)	(330)

Source: Company reports and J.P. Morgan estimates.

Ciena: Summary of Financials

Income Statement - Annual	FY23A	FY24A	FY25E	FY26E	FY27E	Income Statement - Quarterly	1Q25A	2Q25E	3Q25E	4Q25E	
Revenue	4,387	4,015	4,526	4,973	5,424	Revenue	1,072A	1,112	1,153	1,189	
COGS	(2,480)	(2,265)	(2,561)	(2,815)	(3,043)	COGS	(593)A	(634)	(657)	(677)	
Gross profit	1,906	1,750	1,964	2,158	2,381	Gross profit	479A	478	496	512	
SG&A	(625)	(648)	(687)	(701)	(730)	SG&A	(169)A	(172)	(172)	(173)	
Adj. EBITDA	666	481	646	784	948	Adj. EBITDA	156A	149	162	179	
D&A	(93)	(93)	(96)	(105)	(114)	D&A	(25)A	(24)	(24)	(24)	
Adj. EBIT	573	388	550	680	834	Adj. EBIT	132A	125	138	155	
Net Interest	(52)	(47)	(45)	(45)	(45)	Net Interest	(11)A	(11)	(11)	(11)	
Adj. PBT	521	341	505	634	788	Adj. PBT	120A	114	127	144	
Tax	(115)	(75)	(111)	(139)	(172)	Tax	(27)A	(25)	(28)	(32)	
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-	
Adj. Net Income	406	266	394	496	616	Adj. Net Income	94A	89	98	112	
Reported EPS	2.72	1.83	2.75	3.60	4.60	Reported EPS	0.64A	0.62	0.70	0.80	
Adj. EPS	2.72	1.83	2.75	3.60	4.60	Adj. EPS	0.64A	0.62	0.70	0.80	
DPS	-	-	-	-	-	DPS	-	-	-	-	
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-	
Shares outstanding	149	146	143	138	134	Shares outstanding	146A	144	141	140	
Balance Sheet & Cash Flow Statement	FY23A	FY24A	FY25E	FY26E	FY27E	Ratio Analysis	FY23A	FY24A	FY25E	FY26E	FY27E
Cash and cash equivalents	1,011	935	867	942	1,139	Gross margin	43.5%	43.6%	43.4%	43.4%	43.9%
Accounts receivable	1,004	909	1,081	1,128	1,187	EBITDA margin	15.2%	12.0%	14.3%	15.8%	17.5%
Inventories	1,051	820	816	883	948	EBIT margin	13.1%	9.7%	12.2%	13.7%	15.4%
Other current assets	510	881	833	833	833	Net profit margin	9.3%	6.6%	8.7%	10.0%	11.4%
Current assets	3,576	3,544	3,597	3,786	4,106	ROE	14.6%	9.4%	13.9%	16.9%	19.5%
PP&E	280	338	318	313	307	ROA	7.6%	4.7%	7.0%	8.6%	10.2%
LT investments	134	81	105	105	105	ROCE	10.9%	6.9%	9.8%	11.9%	13.9%
Other non current assets	1,611	1,678	1,656	1,656	1,656	SG&A/Sales	14.2%	16.1%	15.2%	14.1%	13.5%
Total assets	5,601	5,641	5,676	5,860	6,174	Net debt/equity	0.2	0.2	0.2	0.2	0.1
Short term borrowings	12	14	13	13	13	P/E (x)	29.5	43.9	29.1	22.3	17.4
Payables	318	423	401	429	421	P/BV (x)	4.2	4.1	4.0	3.6	3.2
Other short term liabilities	602	562	593	584	620	EV/EBITDA (x)	18.1	25.0	18.6	15.4	12.7
Current liabilities	932	1,000	1,007	1,026	1,054	Dividend Yield	-	-	-	-	-
Long-term debt	1,543	1,533	1,531	1,531	1,531	Sales/Assets (x)	0.8	0.7	0.8	0.9	0.9
Other long term liabilities	278	292	292	292	292	Interest cover (x)	12.7	10.3	14.2	17.3	20.9
Total liabilities	2,753	2,825	2,830	2,849	2,877	Operating leverage	197.7%	381.1%	328.4%	237.8%	249.6%
Shareholders' equity	2,848	2,816	2,846	3,012	3,298	Revenue y/y Growth	20.8%	(8.5%)	12.7%	9.9%	9.1%
Minority interests	-	-	-	-	-	EBITDA y/y Growth	32.5%	(27.8%)	34.3%	21.3%	20.9%
Total liabilities & equity	5,601	5,641	5,676	5,860	6,174	Tax rate	22.0%	22.0%	22.0%	21.9%	21.9%
BVPS	19.12	19.46	20.18	22.02	24.84	Adj. Net Income y/y Growth	40.6%	(34.4%)	47.8%	25.9%	24.2%
y/y Growth	6.6%	1.8%	3.7%	9.1%	12.8%	EPS y/y Growth	43.2%	(32.8%)	50.6%	30.6%	28.0%
Net debt/(cash)	544	613	677	602	405	DPS y/y Growth	-	-	-	-	-
Cash flow from operating activities	168	515	412	504	635						
o/w Depreciation & amortization	93	93	96	105	114						
o/w Changes in working capital	(397)	103	(71)	(96)	(95)						
Cash flow from investing activities	(383)	(306)	(136)	(99)	(108)						
o/w Capital expenditure	(106)	(137)	(96)	(99)	(108)						
as % of sales	2.4%	3.4%	2.1%	2.0%	2.0%						
Cash flow from financing activities	268	(234)	(259)	(330)	(330)						
o/w Dividends paid	-	-	-	-	-						
o/w Net debt issued/(repaid)	-	-	-	-	-						
Net change in cash	55	(25)	13	75	197						
Adj. Free cash flow to firm	103	414	351	440	562						
y/y Growth	(146.2%)	302.1%	(15.3%)	25.5%	27.7%						

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Oct. o/w - out of which

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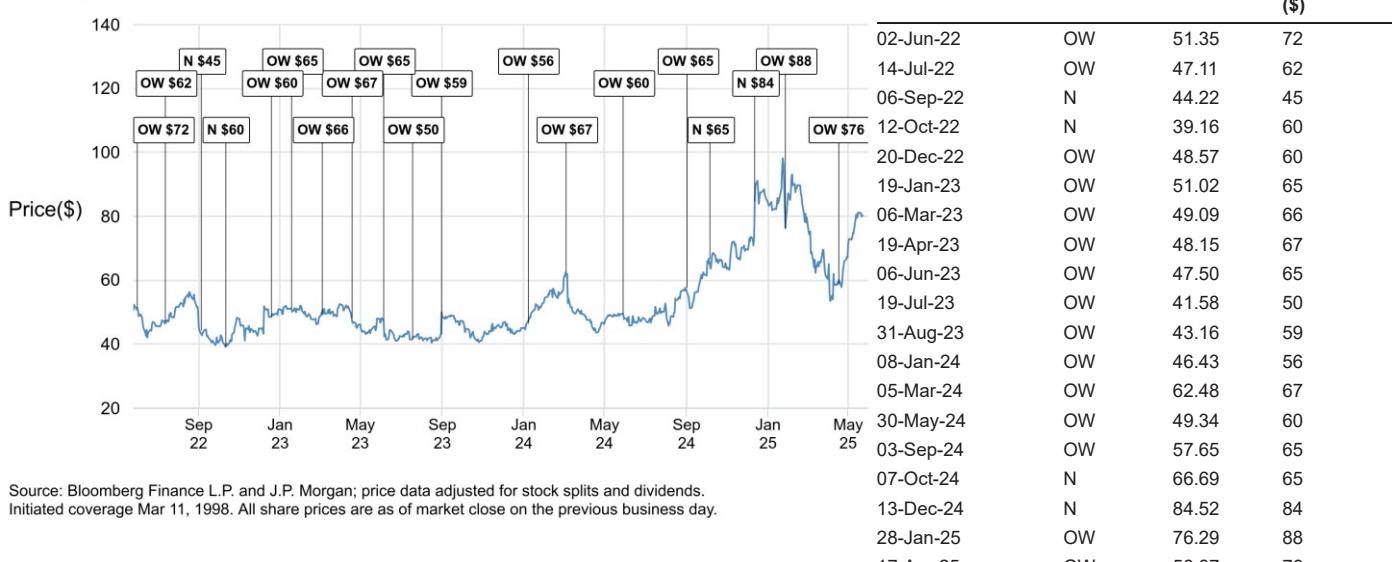
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Ciena (CIEN, CIEN US) Price Chart



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