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Ciena

Takeaways from Earnings Follow Up Discussion

Overweight

CIEN, CIEN US
Price (09 Jun 26):$439.34

IT Hardware/ Telecom & Networking Equipment

Samik Chatterjee, CFA AC
(1-212) 622-0798
samik.x.chatterjee@jpmorgan.com

Manmohanpreet Singh
(1-212) 622-4527
manmohanpreet.singh@jpmchase.com

Joseph Cardoso
(1-212) 622-9036
joseph.cardoso@jpmchase.com

Marc Vitenzon
(1-212) 622-3342
marc.vitenzon@jpmchase.com

Akanksh Chauhan
(1-212) 622-0045
akanksh.chauhan@jpmorgan.com
J.P. Morgan Securities LLC

We hosted an earnings follow-up discussion with Gregg Lampf and Patti Trautwein from Ciena's Investor Relations team. *Please see below our key takeaways from the discussion:*

- **Service provider strength is being driven by catch up from multi-year underinvestment, MOFN and support for inferencing.** Ciena is witnessing robust growth drivers across service providers including - 1) carriers catching up on neglected parts of their infrastructure since they have focused elsewhere (e.g., 5G) since the COVID era, 2) MOFN (managed optical fiber network) activity from SPs to support networking requirements for AI data centers, which is ~15% of SP linked revenues for Ciena, and 3) carriers investing in their networks to prepare for future inferencing traffic flow, to avoid becoming the bottleneck in AI monetization. Notably, MOFN led investments were in the past largely focused in international regions, but is now expanding within the US as well, implying a much broader MOFN activity.
- **Ciena has evolved into an integral co-creation partner for hyperscalers, driving better order visibility and competitive moat.** Management repeatedly emphasized "co-creation", where Ciena advises customers on architecture while they share their own roadmaps, giving Ciena visibility into forecasts and project-based order flow extending well into 2027. This depth of relationship is what underpins the company's confidence that backlog will keep building even as revenue ramps. Given the strategic nature of these AI workflows, it is in the hyperscalers' interest to bring Ciena in early, which is also generating incremental design wins and visibility.
- **Confident about order trends as well as backlog health with limited signs of double ordering.** Management is confident about its $7.7 bn of backlog, which is expected to continue building through FY26, while magnitude of q/q ramp in backlog tends could be lumpy. Roughly 80% of hardware backlog (total hardware backlog of $6.4 bn) is expected to ship within 12 months, showing the velocity of conversion. Customers are effectively ordering to lead times and would even take more products sooner if Ciena could deliver, with limited orders for FY28 within the backlog.
- **Earlier than expected win for hyper rail increases confidence relative to the long term opportunity.** Ciena received an initial order for RLS hyper-rail system earlier than expected, for AI training over a distance, while conversations with the customer span across AI backbone, WAN, and

See page 3 for analyst certification and important disclosures.

inference applications down the road. Beyond ~1,000–2,000 km range, full modems (rather than plugs) come into play within RLS systems, raising the photonics-to-total ratio and revenue opportunity, while the value-based pricing should help support the opportunity to be margin-accretive given the cost customers avoid by not building out ITLA huts.

- **Ciena scored a competitive DSP takeaway with a hyperscaler, displacing an incumbent vendor by leveraging its WaveLogic 6 coherent technology.** In relation to this opportunity, the hyperscaler was doing some of its own optical work using industry components and Ciena intercepted that opportunity with differentiation via its WaveLogic 6, which is the only 1.6T WAN solution in the market as customers move to next generation, reinforcing Ciena's innovation leadership and co-creation track record. The component will be used across long-haul, metro, and AI workload scale-across applications, making it a strong multi-year driver.
- **Product mix is the biggest driver of better-than-expected gross margin trends.** Gross margin trends (F2Q26 results and F3Q26 guide) are tracking better than expected, with product mix being the biggest driver, followed by aggressive design-based cost takeout, and then price increases that are manifesting earlier than the previously guided second-half timing. Vertical integration (e.g., bringing ITLA pump lasers in-house) also supports both better margins and supply control, with future opportunities for vertical integration on Line Systems.
- **Increase in opex guide was driven almost entirely by variable compensation; strong operating leverage still expected going forward.** The step-up in opex guide to 7% y/y for FY26 vs flat prior, reflects both order and revenue outperformance relative to plan, requiring a catch-up of variable comp expense recognized in the quarter and a higher full-year estimate. Setting variable comp aside, management framed the operating model as efficient, with opex expected to grow well below revenue and deliver significant operating leverage in coming years—helped by shared R&D across WaveLogic form factors and go-to-market.