



Avaya Q1 Fiscal Year 2016
Earnings Call
February 8, 2016

Forward Looking Statements

Certain statements contained in this presentation may be forward-looking statements, including statements about our future financial and operational performance, planned and unrealized future savings, as well as statements about our future growth plans and drivers. These statements may be identified by the use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "our vision," "plan," "potential," "predict," "should," "will" or "would" or the negative thereof or other variations thereof or other comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance, or achievements to differ materially from any future results, performance, or achievements expressed or implied by these forward-looking statements. For a list and description of such risks and uncertainties, please refer to Avaya's filings with the SEC that are available at www.sec.gov and in particular, our 2015 Form 10-K filed with the SEC on November 23, 2015. Avaya disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This presentation should be read in conjunction with our Form 8-K filed with the SEC on February 8, 2016. Within this presentation, we refer to certain non-GAAP financial measures that involve adjustments to GAAP measures. Reconciliations between our non-GAAP financial measures and GAAP financial measures are included on the last three slides of this presentation.

These slides, as well as current and historical financial data are available on our web site at www.avaya.com/investors

None of the information included on the website is incorporated by reference in this presentation.

Fiscal Q1 2016 Financial Highlights

(Amounts are non-GAAP, comparisons in constant currency)

- ▶ Revenue of \$958 million, down \$45 million from the prior quarter in constant currency
*4% lower sequentially and 7% lower than Q1 FY'15 on a normalized basis**
*Q1 '15 adjusted for recognition of aged backlog for professional services projects **
 - Software and Services accounted for over 73% of total revenue, a new record
 - Cloud and managed services revenues accounted for 8% of total revenue
- ▶ Year-over-year growth in:
 - Cloud & Managed Services up 5%
 - Contact Center Products up 5%*
- ▶ Gross margin of 61.3%
 - Year-over-year increase driven by improved mix and despite lower revenue
- ▶ Operating income of \$185 million; Operating margin of 19.3%
- ▶ Adjusted EBITDA of \$228 million; 23.8% of revenue
- ▶ Cash balance of \$344 million
 - Q1 FY '16 Free Cash Flow⁽¹⁾ was \$29 million
 - Q1 FY '16 Cash From Operations was \$55 million

(1) Free Cash Flow is defined as Operating Cash Flow less Capital Expenditures

* On a normalized basis; See slide 13 for Q1 FY'15 normalization calculation

Quarterly Income Statement

(All amounts non-GAAP and dollars in millions)

< ----- As Reported ----- >

Revenue:	FQ1 2016	FQ4 2015	FQ1 2015
Product	\$464	\$499	\$549
Services	\$494	\$509	\$530
Total Revenue	\$958	\$1,008	\$1,079
Gross Margin:			
Product	64.7%	65.3%	63.0%
Services	58.1%	58.7%	57.2%
Total Gross Margin	61.3%	62.0%	60.1%
Operating Margin	19.3%	20.0%	17.9%
Adjusted EBITDA	\$228	\$246	\$239
Adjusted EBITDA %	23.8%	24.4%	22.2%

For a reconciliation of non-GAAP to GAAP financial information, please see the appendix.

Quarterly Income Statement – Constant Currency Comparison

(All amounts non-GAAP and dollars in millions)

	As Reported	In Constant Currency	
Revenue:	FQ1 2016	FQ4 2015	FQ1 2015
Product	\$464	\$495	\$538
Services	\$494	\$508	\$513
Total Revenue	\$958	\$1,003	\$1,051
Gross Margin:			
Product	64.7%	65.1%	62.8%
Services	58.1%	59.1%	58.0%
Total Gross Margin	61.3%	62.1%	60.6%
Operating Margin	19.3%	20.1%	19.2%
Adjusted EBITDA	\$228	\$246	\$247
Adjusted EBITDA %	23.8%	24.5%	23.5%

For a reconciliation of non-GAAP to GAAP financial information, please see the appendix.

Quarterly Revenue by Geographic Region

(All amounts non-GAAP and dollars in millions)

< ----- As Reported ----- >

Revenue	FQ1 2016	FQ4 2015	FQ1 2015
U.S.	\$528	\$562	\$572
EMEA	\$239	\$243	\$301
APAC	\$106	\$113	\$101
AI	\$85	\$90	\$105
Total	\$958	\$1,008	\$1,079
% of Total Revenue			
U.S.	55%	56%	53%
EMEA	25%	24%	28%
APAC	11%	11%	9%
AI	9%	9%	10%
Total	100%	100%	100%

Quarterly Revenue by Geographic Region

Constant Currency Comparison

(All amounts non-GAAP and dollars in millions)

	As Reported	In Constant Currency	
Revenue	FQ1 2016	FQ4 2015	FQ1 2015
U.S.	\$528	\$562	\$572
EMEA	\$239	\$241	\$287
APAC	\$106	\$112	\$98
AI	\$85	\$88	\$94
Total	\$958	\$1,003	\$1,051
% of Total Revenue			
U.S.	55%	56%	54%
EMEA	25%	24%	27%
APAC	11%	11%	10%
AI	9%	9%	9%
Total	100%	100%	100%

Q1 FY '16 Financial Summary

(\$M, as reported) Non-GAAP	Q1'15 Actual	Q4'15 Actual	Q1'16 Actual
Revenue	\$1,079	\$1,008	\$958
Gross Margin %	60.1%	62.0%	61.3%
Oper Expense %	42.3%	42.0%	42.1%
Oper Income %	17.9%	20.0%	19.3%
Adj EBITDA \$	\$239	\$246	\$228
Adj EBITDA %	22.2%	24.4%	23.8%

For a reconciliation of non-GAAP to GAAP financial information, please see www.avaya.com/investors

Products & Services* (% of Total Avaya Revenue)

	FY 11	FY 12	FY 13	FY 14	FY 15	1QF15	4QF15	1QF16
Flagship	32%	35%	39%	43%	47%	45%	49%	49.6%
Core	48%	49%	47%	45%	44%	45%	43%	43.7%

* Flagship includes Video, Avaya Aura®, IP Office, leading edge Contact Center, Wireless LAN, SBC, Ethernet/fabric switching, Avaya professional services, Avaya cloud and Avaya managed services

Core includes phones, gateways, servers, core contact center, and other managed and maintenance support services

Legacy includes legacy Nortel and Tenovis products and services, excluding Networking

Q1'16

- ▶ Revenue down sequentially
- ▶ YoY increase in gross margin, operating margin & EBITDA %
- ▶ EBITDA performance upside driven by execution of operational improvements
- ▶ R&D investment over 16% of product revenue

Q2'16 Guidance

- ▶ Revenue \$915M - \$955M
- ▶ EBITDA 22.5% - 24.5%

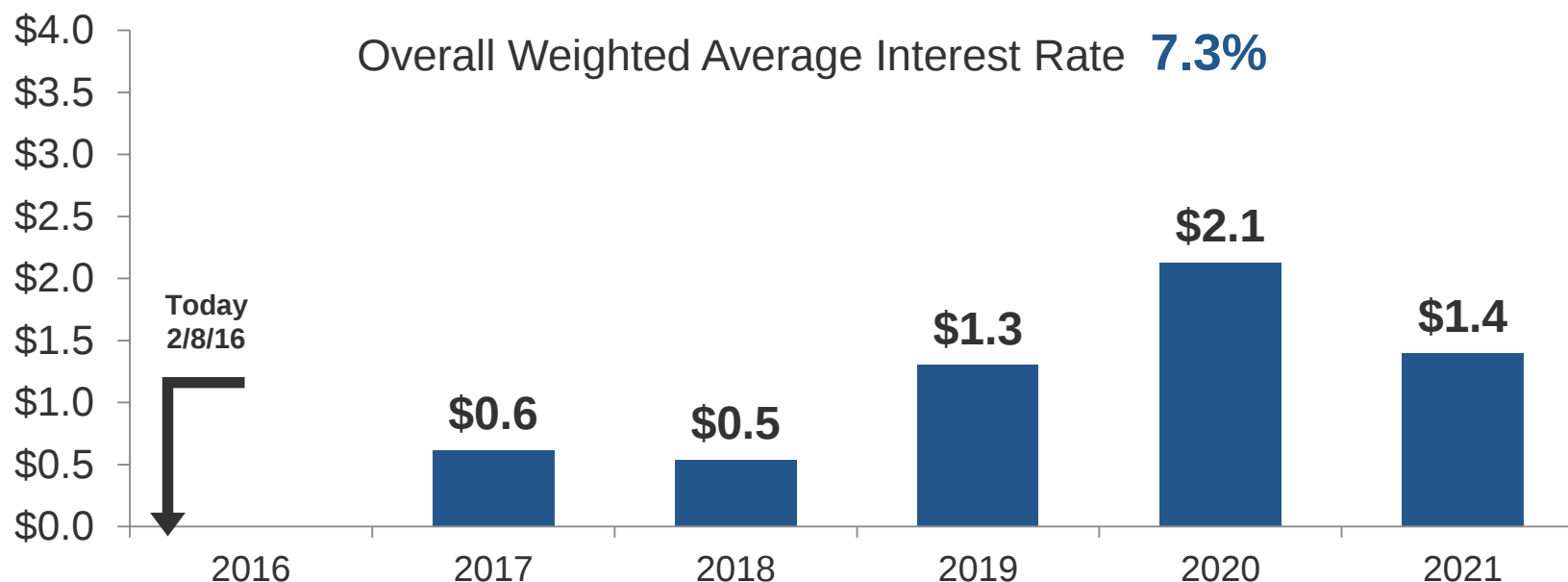
Balance Sheet and Operating Metrics

(Dollars in millions, Balance sheet items as of the end of the period indicated)

	FQ1 2016	FQ4 2015	FQ1 2015
Total Cash and Cash Equivalents	\$344	\$323	\$328
Cash from Operations	\$55	\$30	\$64
Capital Expenditures and Capitalized Software	\$26	\$32	\$33
Days Sales Outstanding	59	61	59
Inventory Turns	8.8	9.0	9.2
Headcount <i>(as of the end of the period indicated)</i>	11,439	11,776	12,572
Annualized Quarterly Revenue (\$K) / Headcount <i>(as of the end of the period indicated)</i>	\$335	\$342	\$343

Debt Profile

(\$ in Billions, by calendar year)



- ▶ \$344M Cash Balance as of 12/31/15
- ▶ Over \$500M in liquidity (including cash & revolver capacity) as of 12/31/15
- ▶ Q1 FY '16 free cash flow⁽¹⁾ of \$29M
- ▶ Q1 FY '16 operating cash flow of \$55M
- ▶ FY '16 cash requirements* expected to be approximately \$870 million or less

(1) Free Cash Flow is defined as Operating Cash Flow less Capital Expenditures

* For Interest, Pension, Restructuring, Capital Spending, and Cash Taxes

NOTE: Amounts shown exclude \$6.3M quarterly term loan B-7 principal amortization to be paid prior to May 29, 2020

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Fiscal Q2 2016 Financial Outlook

(As Delivered 02/08/2016)

Revenue Adjusted for Constant Currency

As of 02/05/16

(\$M)	As Reported	In Constant Currency
Q2 FY '15	\$995	\$981
Q1 FY '16	\$958	\$950

- ▶ Given our current visibility, our backlog, and the potential continued headwinds from macroeconomic and currency-related uncertainty, we believe the second fiscal quarter revenue will be in the range of \$915million to \$955 million dollars.
- ▶ Compared to Q2 FY '15, this is down 3% to 7%. In the past four years, second quarter revenue has declined sequentially by 6% to 10% and has declined by 2% to 11% year-over-year.
- ▶ We also expect EBITDA will be in the range of 22.5 percent to 24.5 percent of revenue.
- ▶ We continue to expect total cash requirements for restructuring, pension, interest, cash taxes and capital spending in fiscal 2016 to be \$870 million or less with restructuring cash of approximately \$100 million and pension contributions in the range of \$150 to \$160 million.
- ▶ We expect cash restructuring requirements for the second fiscal quarter to be approximately \$30 million dollars, primarily associated with previously announced headcount-related actions, particularly in EMEA. Also, our semi-annual interest on the 10.5 percent notes will be paid in the March quarter.
- ▶ This is expected to result in total cash requirements for the second quarter of between \$235 and \$245 million dollars, which is a sequential increase of \$55 to \$65 million dollars.

Upcoming Events

(See www.avaya.com/investors for additional details)

► Tuesday, March 1, 2016

- JP Morgan 2016 Global High Yield & Leveraged Finance Conference
- Miami, FL
- Presenter:
 - Dave Vellequette, CFO
- Presentation Time: 10:20 AM EST
- Webcast Access:
<http://jpmorgan.metameetings.com/confbook/highyield16/directlink?p=20802>

Webcast links and details with supporting slides will be on the investor pages of our website
www.avaya.com/investors

Normalization for PS Aged Backlog

- ▶ H2 FY'14: professional services management identified \$48M of aged professional services projects in backlog
- ▶ Q4 FY'14: \$31M aged projects recognized for revenue; Q1 FY'15: \$17M aged projects recognized for revenue

(\$M)	Q4 FY '14	Q1 FY '15
Reported Revenue	\$1,126	\$1,079
Currency Adjustment	(\$44)	(\$28)
Revenue @Q1 FY '16 Currency	\$1,082	\$1,051
Normalization for Aged Backlog	(\$31)	(\$17)
Normalized Revenue	\$1,051	\$1,034
Q1 FY '16 Reported Revenue		\$958
YoY % Change		(7%)

Pension & Other Post-Retirement Benefits Trend (\$M)

Cash Effect ⁽¹⁾	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16
US Pension	108	160	15	25	26	29	95	20
Non-US Pension	25	27	4	13	4	4	25	3
OPEB	52	45	9	3	4	12	28	10
Total Cash Contributions	185	232	28	41	34	45	148	33

P&L Effect ⁽¹⁾	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16 ^(*)
US Pension	104	65	15	15	15	15	60	5
Non-US Pension	31	30	7	7	6	7	27	6
OPEB	(5)	4	1	1	1	-	3	(3)
Total P&L Expenses	130	99	23	23	22	22	90	8

- ▶ Cash payments are made either in compliance with applicable law and regulations where required, or to directly pay benefits where appropriate.
- ▶ P&L Expense is recognized as retirement benefits are earned during the participants' years of employment.

(1) Data source: Refer to "Benefit Obligations" section of Avaya's 10-Q and 10-K for the applicable periods

(*) Q1'16 reduction in US Pension expense is due principally to the change in estimate related to interest cost, while the reduction in OPEB is principally due to decreased amortization of prior service cost due to plan amendments that reduced plan benefits.

NOTE: See slide 15 for amounts used in Adjusted EBITDA calculation (to reflect amortization of prior service costs and associated gains/losses)

Non-GAAP Reconciliation

Adjusted EBITDA

Avaya Inc.
Supplemental Schedule of Non-GAAP Adjusted EBITDA
(Unaudited; in millions)

	Three months ended	
	December 31,	
	2015	2014
Net (loss) income	\$ (27)	\$ 3
Interest expense	118	112
Provision for income taxes	4	3
Depreciation and amortization	93	94
EBITDA	188	212
Restructuring charges, net	23	15
Sponsors' fees	2	2
Integration-related costs	-	1
Third-party sales transformation costs	2	-
Non-cash share-based compensation	4	7
Change in certain tax indemnifications	-	(9)
Gain on foreign currency transactions	(6)	(6)
Pension/OPEB/nonretirement postemployment benefits and long-term disability costs	15	17
Adjusted EBITDA	<u>\$ 228</u>	<u>\$ 239</u>

* For reconciliation of adjusted EBITDA for the fourth quarter of fiscal 2015, see our Form 8-k filed with the SEC on November 16, 2015 at www.sec.gov.

Non-GAAP Reconciliation

Gross Margin and Operating Income

Avaya Inc.
Supplemental Schedules of Non-GAAP Reconciliations
(Unaudited; in millions)

	Three Months Ended				
	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin					
Gross Profit	\$ 638	\$ 592	\$ 584	\$ 616	\$ 579
Gross Margin	59.1%	59.5%	58.5%	61.1%	60.4%
Items excluded:					
Amortization of acquired technology intangible assets	9	7	10	9	8
Share-based compensation	2	-	-	-	-
Non-GAAP Gross Profit	<u>\$ 649</u>	<u>\$ 599</u>	<u>\$ 594</u>	<u>\$ 625</u>	<u>\$ 587</u>
Non-GAAP Gross Margin	<u>60.1%</u>	<u>60.2%</u>	<u>59.5%</u>	<u>62.0%</u>	<u>61.3%</u>
Reconciliation of Non-GAAP Operating Income					
Operating Income	\$ 104	\$ 83	\$ 84	\$ 100	\$ 91
Percentage of Revenue	9.6%	8.3%	8.4%	9.9%	9.5%
Items excluded:					
Amortization of acquired intangible assets	66	64	65	66	65
Restructuring charges, net	15	10	7	30	23
Integration-related costs	1	-	-	2	-
Third-party sales transformation costs	-	-	-	-	2
Acquisition-related costs	-	-	1	-	-
Share-based compensation	7	4	4	4	4
Other	-	1	-	-	-
Non-GAAP Operating Income	<u>\$ 193</u>	<u>\$ 162</u>	<u>\$ 161</u>	<u>\$ 202</u>	<u>\$ 185</u>
Non-GAAP Operating Margin	<u>17.9%</u>	<u>16.3%</u>	<u>16.1%</u>	<u>20.0%</u>	<u>19.3%</u>

Non-GAAP Reconciliation

Product and Services Gross Margins

Avaya Inc.
Supplemental Schedules of Non-GAAP Reconciliation of Gross Profit and Gross Margin by Portfolio
(Unaudited; in millions)

	Three Months Ended				
	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Products					
Revenue	\$ 549	\$ 487	\$ 494	\$ 499	\$ 464
Costs (exclusive of amortization of acquired technology intangible assets)	203	182	186	173	164
Amortization of acquired technology intangible assets	9	7	10	9	8
GAAP Gross Profit	337	298	298	317	292
GAAP Gross Margin	61.4%	61.2%	60.3%	63.5%	62.9%
Items excluded:					
Amortization of acquired technology intangible assets	9	7	10	9	8
Non-GAAP Gross Profit	<u>\$ 346</u>	<u>\$ 305</u>	<u>\$ 308</u>	<u>\$ 326</u>	<u>\$ 300</u>
Non-GAAP Gross Margin	<u>63.0%</u>	<u>62.6%</u>	<u>62.3%</u>	<u>65.3%</u>	<u>64.7%</u>
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Services					
Revenue	\$ 530	\$ 508	\$ 505	\$ 509	\$ 494
Costs	229	214	219	210	207
GAAP Gross Profit	301	294	286	299	287
GAAP Gross Margin	56.8%	57.9%	56.6%	58.7%	58.1%
Items excluded:					
Share-based compensation	2	-	-	-	-
Non-GAAP Gross Profit	<u>\$ 303</u>	<u>\$ 294</u>	<u>\$ 286</u>	<u>\$ 299</u>	<u>\$ 287</u>
Non-GAAP Gross Margin	<u>57.2%</u>	<u>57.9%</u>	<u>56.6%</u>	<u>58.7%</u>	<u>58.1%</u>

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