



Avaya Q3 2015 Earnings Call

August 4, 2015

Forward Looking Statements

Certain statements contained in this presentation are forward-looking statements, including statements regarding our future financial and operating performance, as well as statements regarding 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," "plan," "potential," "predict," "should" or "will" or other similar terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections 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 our filings with the SEC that are available at www.sec.gov and in particular, our 2014 Form 10-K filed with the SEC on November 26, 2014. We disclaim 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 August 4, 2015. 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.

Historical amounts presented reflect the sale of ITPS.

Fiscal Q3 2015 Financial Highlights

(Amounts are non-GAAP)

- ▶ Revenue of \$999 million, up \$4 million from the prior quarter
 - In constant currency, 1% higher sequentially and 2% lower year-over-year*
 - In line with historical sequential pattern*
- Combined total of Flagship and Core product and service revenues grew slightly year-over year in constant currency for the second consecutive quarter; Legacy down \$24M year-over-year
- Revenues for Cloud and managed services, professional services, and leading edge contact center solutions each grew compared to Q3 fiscal 2014 in constant currency
- Software and Services accounted for over 71% of total company revenue
- Cloud and managed services revenues continue to account for 7-8% of total company revenue
- ▶ Gross margin of 59.5%
 - 70 basis points lower sequentially and 30 basis points higher year-over-year
 - Product gross margins up year-over-year to 62.3%
- ▶ Operating income of \$161 million and 16.1% operating margin
- ▶ Adjusted EBITDA of \$207 million and 20.7% of revenue
- ▶ Cash balance of \$328 million
 - Positive Free Cash Flow for third consecutive quarter
 - Reflects \$12 million of cash used for technology investments

Quarterly Income Statement

(All amounts non-GAAP and dollars in millions)

Revenue:	FQ3 2015	FQ2 2015	FQ3 2014
Product	\$494	\$487	\$511
Services	\$505	\$508	\$543
Total Revenue	\$999	\$995	\$1,054
Gross Margin:			
Product	62.3%	62.6%	61.1%
Services	56.6%	57.9%	57.5%
Total Gross Margin	59.5%	60.2%	59.2%
Operating Margin	16.1%	16.3%	17.1%
Adjusted EBITDA	\$207	\$208	\$223
Adjusted EBITDA %	20.7%	20.9%	21.2%

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

NOTE: Historical amounts presented reflect the sale of ITPS

Quarterly Income Statement – Constant Currency Comparison

(All amounts non-GAAP and dollars in millions)

	As Reported	In Constant Currency	
Revenue:	FQ3 2015	FQ2 2015	FQ3 2014
Product	\$494	\$485	\$498
Services	\$505	\$508	\$520
Total Revenue	\$999	\$993	\$1018
Gross Margin:			
Product	62.3%	62.3%	61.0%
Services	56.6%	57.8%	58.6%
Total Gross Margin	59.5%	60.0%	59.9%
Operating Margin	16.1%	15.8%	19.1%
Adjusted EBITDA	\$207	\$203	\$237
Adjusted EBITDA %	20.7%	20.4%	23.3%

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)

Revenue	FQ3 2015	FQ2 2015	FQ3 2014
U.S.	\$538	\$531	\$543
EMEA	\$263	\$266	\$297
APAC	\$107	\$104	\$108
AI	\$91	\$94	\$106
Total	\$999	\$995	\$1,054
% of Total Revenue			
U.S.	54%	53%	52%
EMEA	26%	27%	28%
APAC	11%	11%	10%
AI	9%	9%	10%
Total	100%	100%	100%

NOTE: Historical amounts presented reflect the sale of ITPS

Quarterly Revenue by Geographic Region

Constant Currency Comparison

(All amounts non-GAAP and dollars in millions)

Revenue	As Reported	In Constant Currency	
	FQ3 2015	FQ2 2015	FQ3 2014
U.S.	\$538	\$530	\$543
EMEA	\$263	\$266	\$274
APAC	\$107	\$104	\$105
AI	\$91	\$93	\$96
Total	\$999	\$993	\$1018
% of Total Revenue			
U.S.	54%	53%	53%
EMEA	26%	27%	27%
APAC	11%	11%	11%
AI	9%	9%	9%
Total	100%	100%	100%

Balance Sheet and Operating Metrics

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

	FQ3 2015	FQ2 2015	FQ3 2014
Total Cash and Cash Equivalents	\$328	\$332	\$315
Cash from Operations	\$40	\$81	(\$11)
Capital Expenditures and Capitalized Software	\$25	\$34	\$35
Days Sales Outstanding	61	59	56
Inventory Turns	9.3	8.5	8.6
Headcount <i>(as of the end of the period indicated)</i>	12,116	12,435	13,139
Annualized Quarterly Revenue (\$K) / Headcount <i>(as of the end of the period indicated)</i>	\$330	\$320	\$321

NOTE: Historical amounts presented reflect the sale of ITPS

Financial Summary

(\$M) Non-GAAP	3Q14 Actual	2Q15 Actual	3Q15 Actual	Business Model
Revenue	\$1,054	\$995	\$999	\$1,100 – \$1,150
Gross Margin %	59.2%	60.2%	59.5%	58.5% – 59.5%
Oper Expense %	42.1%	43.9%	43.3%	38.5% – 39.5%
Oper Income %	17.1%	16.3%	16.1%	19% – 20.5%
Adj EBITDA \$	\$223	\$208	\$207	\$250 – \$275
Adj EBITDA %	21.2%	20.9%	20.7%	22.7% – 23.9%

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	3QF14	2QF15	3QF15
Flagship	32%	35%	39%	43%	44%	46%	47%
Core	48%	49%	47%	45%	45%	45%	44%

- ▶ Q3 Revenue 2% lower YoY in constant currency
 - Up slightly sequentially
 - In line with recent sequential seasonal pattern
 - Constant currency YoY growth:
 - Total of Flagship & Core
 - Contact Center
 - Private cloud & managed services
 - Professional services
- ▶ Gross Margin up 30 basis points from Q3'14
- ▶ R&D investment at 17% of product revenue
- ▶ 3rd consecutive quarter of Positive Free Cash Flow

- We have structured our model such that, assuming quarterly revenue between \$1.1 billion and \$1.15 billion dollars, our operational performance should generate adjusted EBITDA in the range of \$250 and \$275 million

- Expected FY15 annual cash needs for Pension, Interest, Restructuring, CapEx, and Cash taxes <\$875M

* 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

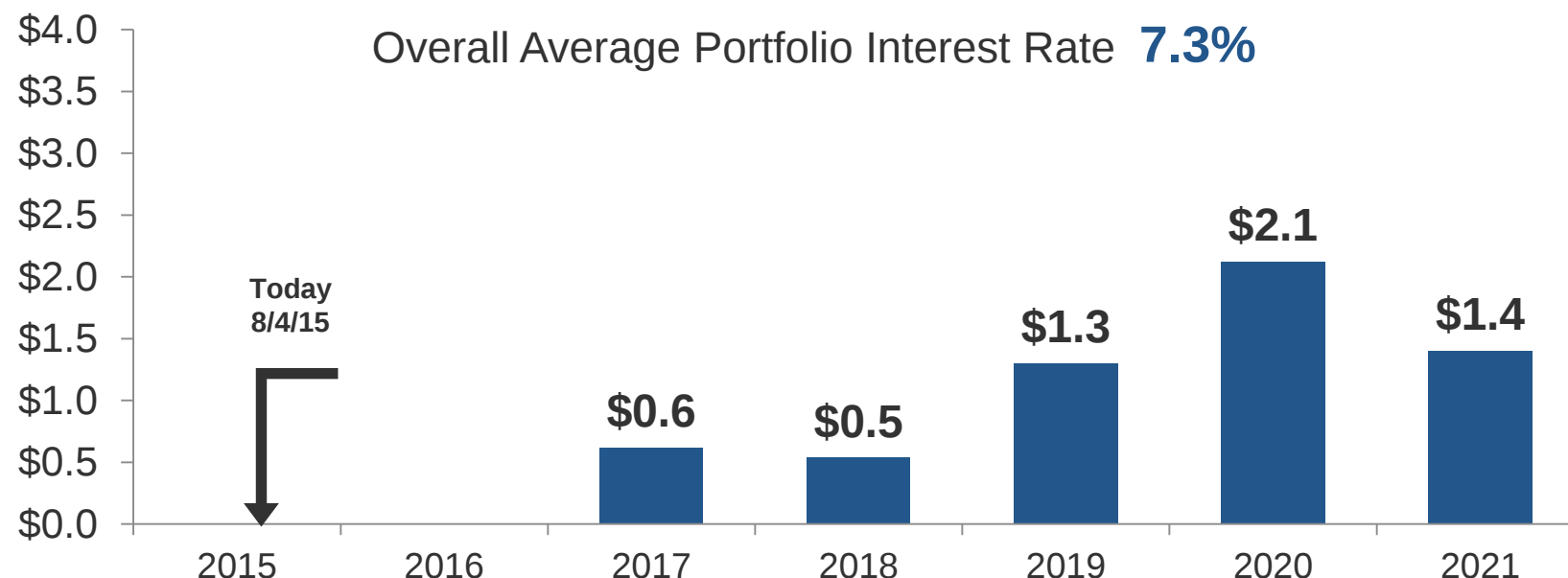
Legacy includes legacy Nortel and Tenovis, excluding Networking

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NOTE: Historical amounts presented reflect the sale of ITPS

Avaya – Well Distributed Debt Profile

(\$ in Billions, by calendar year)



- ▶ Approximately \$450M in liquidity (including cash & revolver capacity)
- ▶ Extended >\$2B of maturities to 2020 (completed May 29th)
- ▶ \$328M Cash Balance as of 6/30/15
- ▶ 3rd consecutive quarter of positive free cash flow
- ▶ Company on track to be free cash flow positive for FY '15

NOTE: Amount shown for 2020 includes principal payments expected to be made prior to maturity, which total approximately \$6.3M quarterly

Fiscal Q4 2015 Financial Outlook

(As Delivered 8/4/15)

Revenue Adjusted for Constant Currency

As of 8/3/15

(\$M)	As Reported	In Constant Currency
Q4 FY '14	\$1,126	\$1,093
Q3 FY '15	\$999	\$998

- ▶ Given our sequentially lower beginning backlog, the impact of currency fluctuations on demand in Europe, economic volatility in certain countries and taking into account our current visibility, we believe the fiscal fourth quarter revenue will be in the range of \$1 billion to \$1 billion, 30 million dollars.
- ▶ When compared to the third fiscal quarter, this is flat to up 3 percent, which is at the lower end of the historical sequential range. This is consistent with the ongoing shift from CapEx to OpEx models and the increasing proportion of software and services revenue we have been seeing. Both of these trends extend the timing of revenue recognition.
- ▶ Including the impact of the recently completed refinancing, we expect total cash requirements for restructuring, pension, interest, cash taxes and capital equipment in fiscal 2015 to be below \$875 million.

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

Cash Effect ⁽¹⁾	FY'13	Q1'14	Q2'14	Q3'14	Q4'14	FY'14	Q1'15	Q2'15	Q3'15
US Pension	108	23	24	59	54	160	15	25	26
Non-US Pension	25	5	15	4	3	27	4	13	4
OPEB	52	10	11	12	12	45	9	3	4
Total Cash Contributions	185	38	50	75	69	232	28	41	34

P&L Effect ⁽¹⁾	FY'13	Q1'14	Q2'14	Q3'14	Q4'14	FY'14	Q1'15	Q2'15	Q3'15
US Pension	104	16	16	17	16	65	15	15	15
Non-US Pension	31	8	8	7	7	30	7	7	6
OPEB	(5)	1	1	1	1	4	1	1	1
Total P&L Expenses	130	25	25	25	24	99	23	23	22

- ▶ 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

See slide 13 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		Nine months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Loss from continuing operations	\$ (49)	\$ (64)	\$ (68)	\$ (244)
Interest expense	113	112	335	347
Interest income	-	-	(1)	(1)
Provision for (benefit from) income taxes	3	(8)	-	19
Depreciation and amortization	93	99	279	336
EBITDA	160	139	545	457
Restructuring charges, net	7	45	32	94
Sponsors' fees	1	2	5	6
Acquisition-related costs	1	-	1	-
Integration-related costs	-	1	1	5
Divestiture-related costs	-	2	-	2
Loss on extinguishment of debt	6	1	6	5
Third-party fees expensed in connection with the debt modification	8	-	8	2
Non-cash share-based compensation	4	6	15	20
Gain on investments and sale of long-lived assets, net	(1)	-	(1)	-
Change in certain tax indemnifications	-	8	(9)	5
Venezuela hyperinflationary and devaluation charges	-	-	-	2
Resolution of certain legal matters	-	8	-	8
Loss (gain) on foreign currency transactions	3	(1)	(2)	(1)
Pension/OPEB/nonretirement postemployment benefits and long-term disability costs	18	12	52	38
Other	-	-	1	2
Adjusted EBITDA	\$ 207	\$ 223	\$ 654	\$ 645

* For reconciliation of adjusted EBITDA for the second quarter of fiscal 2015, see our Form 10-Q filed with the SEC on May 7, 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				
	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin					
Gross Profit - Adjusted for discontinued operations	\$ 607	\$ 655	\$ 638	\$ 592	\$ 584
Gross Margin - Adjusted for discontinued operations	57.6%	58.2%	59.1%	59.5%	58.5%
Items excluded:					
Amortization of acquired technology intangible assets	14	14	9	7	10
Share-based compensation	3	3	2	-	-
Non-GAAP Gross Profit - Adjusted for discontinued operations	<u>\$ 624</u>	<u>\$ 672</u>	<u>\$ 649</u>	<u>\$ 599</u>	<u>\$ 594</u>
Non-GAAP Gross Margin - Adjusted for discontinued operations	<u>59.2%</u>	<u>59.7%</u>	<u>60.1%</u>	<u>60.2%</u>	<u>59.5%</u>
Reconciliation of Non-GAAP Operating Income					
Operating Income - Adjusted for discontinued operations	\$ 48	\$ 62	\$ 104	\$ 83	\$ 84
Percentage of Revenue	4.6%	5.5%	9.6%	8.3%	8.4%
Items excluded:					
Amortization of acquired intangible assets	70	70	66	64	65
Restructuring charges, net	45	71	15	10	7
Integration-related costs	1	3	1	-	-
Divestiture-related costs	2	-	-	-	-
Acquisition-related costs	-	-	-	-	1
Share-based compensation	6	5	7	4	4
Resolution of certain legal matters	8	-	-	-	-
Other	-	1	-	1	-
Non-GAAP Operating Income - Adjusted for discontinued operations	<u>\$ 180</u>	<u>\$ 212</u>	<u>\$ 193</u>	<u>\$ 162</u>	<u>\$ 161</u>
Non-GAAP Operating Margin - Adjusted for discontinued operations	<u>17.1%</u>	<u>18.8%</u>	<u>17.9%</u>	<u>16.3%</u>	<u>16.1%</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				
	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Products					
Revenue	\$ 511	\$ 579	\$ 549	\$ 487	\$ 494
Costs (exclusive of amortization of acquired technology intangible assets)	199	221	203	182	186
Amortization of acquired technology intangible assets	14	14	9	7	10
GAAP Gross Profit	298	344	337	298	298
GAAP Gross Margin	58.3%	59.4%	61.4%	61.2%	60.3%
Items excluded:					
Amortization of acquired technology intangible assets	14	14	9	7	10
Non-GAAP Gross Profit	<u>\$ 312</u>	<u>\$ 358</u>	<u>\$ 346</u>	<u>\$ 305</u>	<u>\$ 308</u>
Non-GAAP Gross Margin	<u>61.1%</u>	<u>61.8%</u>	<u>63.0%</u>	<u>62.6%</u>	<u>62.3%</u>
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Services					
Revenue	\$ 543	\$ 547	\$ 530	\$ 508	\$ 505
Costs	234	236	229	214	219
GAAP Gross Profit	309	311	301	294	286
GAAP Gross Margin	56.9%	56.9%	56.8%	57.9%	56.6%
Items excluded:					
Share-based compensation	3	3	2	-	-
Non-GAAP Gross Profit	<u>\$ 312</u>	<u>\$ 314</u>	<u>\$ 303</u>	<u>\$ 294</u>	<u>\$ 286</u>
Non-GAAP Gross Margin	<u>57.5%</u>	<u>57.4%</u>	<u>57.2%</u>	<u>57.9%</u>	<u>56.6%</u>

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