



**Q1 FISCAL YEAR 2019
FINANCIAL RESULTS
February 11, 2019**



Forward Looking Statements

Cautionary Note Regarding Forward-Looking Statements

This document contains certain “forward-looking statements.” All statements other than statements of historical fact are “forward-looking” statements for purposes of the U.S. federal and state securities laws. 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,” “preliminary,” “predict,” “should,” “will,” or “would” or the negative thereof or other variations thereof or comparable terminology and include, but are not limited to, the outlook for the second quarter of fiscal 2019 and fiscal year 2019, including the expected impact of ASC 606. The company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the company believes 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 its control. These factors are discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”), and may cause its 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 further list and description of such risks and uncertainties, please refer to the company's filings with the SEC that are available at www.sec.gov. The company cautions you that the list of important factors included in the company's SEC filings may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report may not in fact occur. The company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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

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

Use of non-GAAP (Adjusted) Financial Measures

This presentation should be read in conjunction with our first quarter fiscal 2019 earnings press release issued on February 11, 2019. Within this presentation, we refer to certain non-GAAP financial measures, such as non-GAAP revenue, non-GAAP operating income and adjusted EBITDA, that involve adjustments to GAAP measures. Reconciliations between our non-GAAP financial measures and the most closely comparable GAAP financial measures are included on the last four slides of this presentation.

EBITDA is defined as net income (loss) before income taxes, interest expense, interest income and depreciation and amortization. Adjusted EBITDA is EBITDA further adjusted to exclude certain charges and other adjustments described in our SEC filings and the tables below.

We believe that including supplementary information concerning adjusted EBITDA is appropriate because it serves as a basis for determining management and employee compensation and it is used as a basis for calculating covenants in our credit agreements. In addition, we believe adjusted EBITDA provides more comparability between our historical results and results that reflect purchase accounting and our current capital structure. We also present EBITDA and adjusted EBITDA because we believe analysts and investors utilize these measures in analyzing our results. Accordingly, adjusted EBITDA measures our financial performance based on operational factors that management can impact in the short-term, such as our pricing strategies, volume, costs and expenses of the organization and it presents our financial performance in a way that can be more easily compared to prior quarters or fiscal years.

EBITDA and adjusted EBITDA have limitations as analytical tools. EBITDA measures do not represent net income (loss) or cash flow from operations as those terms are defined by GAAP and do not necessarily indicate whether cash flows will be sufficient to fund cash needs. However, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Adjusted EBITDA excludes the impact of earnings or charges resulting from matters that we consider not to be indicative of our ongoing operations. In particular, our formulation of adjusted EBITDA allows adjustment for certain amounts that are included in calculating net income (loss), however, these are expenses that may recur, may vary and are difficult to predict.

We do not provide a forward-looking reconciliation of expected second quarter of fiscal Q2 and fiscal 2019 adjusted EBITDA, non-GAAP operating income or non-GAAP revenue guidance as the amount of significance of special items required to develop meaningful comparable GAAP financial measures cannot be estimated at this time without unreasonable efforts. These special items could be meaningful.

Fiscal Q1 2019 Highlights

*(Amounts are non-GAAP)**

- Non-GAAP revenue was \$748 million, compared to \$770 million last quarter and \$775 million in the prior year
 - Software and Services was 83% of total non-GAAP revenue, a record
 - Software was 61% of Non-GAAP product revenue
 - Recurring revenue was 57% of total non-GAAP revenue
 - Cloud was approximately 11% of total non-GAAP revenue
- Non-GAAP gross margin was 62.7%, a first quarter record, compared to 63.4% last quarter and 62.6% in the prior year
- Non-GAAP operating margin was 22.7%, a first quarter record, compared to 20.4% last quarter and 22.2% in the prior year
- Adjusted EBITDA was \$189 million, or 25.3% of revenue, compared to \$178 million, or 23.1% of revenue, last quarter and \$206 million, or 26.6% of revenue, in the prior year
- Generated \$65 million in free-cash-flow*. Ended the quarter with \$743 million in cash and cash equivalents on our balance sheet.
- Kieran McGrath to assume role of SVP, CFO. Pat O'Malley to take on newly-created role of SVP, Growth Initiatives. Kieran brings extensive finance leadership, relevant cloud and transformation experience, most recently as EVP, CFO of CA Technologies

*Note: We define free cash flow as Cash Flow from Operations less Capital Expenditures.

For a reconciliation of non-GAAP to GAAP financial information, please see the last 5 slides of this presentation.



Quarterly Income Statement

(Amounts are GAAP and dollars in millions)

GAAP Revenue:	FQ1 2019	FQ4 2018	FQ1 2018
Product	\$ 324	\$ 325	\$ 324
Services	\$ 414	\$ 410	\$ 428
GAAP Total Revenue	\$ 738	\$ 735	\$ 752
GAAP Gross Margin:			
Product	51.2%	51.4%	60.8%
Services	58.2%	54.4%	56.8%
GAAP Total Gross Margin	55.1%	53.1%	58.5%
GAAP Operating Margin	6.8%	1.5%	5.1%

Quarterly Income Statement

(Amounts are non-GAAP and dollars in millions)*

Non-GAAP Revenue:	FQ1 2019	FQ4 2018	FQ1 2018
Product	\$ 326	\$ 336	\$ 330
Services	\$ 422	\$ 434	\$ 445
Non-GAAP Total Revenue	\$ 748	\$ 770	\$ 775
Non-GAAP Gross Margin:			
Product	65.6%	67.3%	66.1%
Services	60.4%	60.4%	60.0%
Non-GAAP Total Gross Margin	62.7%	63.4%	62.6%
Non-GAAP Operating Margin	22.7%	20.4%	22.2%
Adjusted EBITDA	\$ 189	\$ 178	\$ 206
Adjusted EBITDA % (1)	25.3%	23.1%	26.6%

(1) Adjusted EBITDA % is based on non-GAAP Revenue

*For a reconciliation of non-GAAP to GAAP financial information, please see the last 5 slides of this presentation.

Quarterly Revenue by Region

*(All dollars amounts are non-GAAP in millions)**

Revenue	FQ1 2019	FQ4 2018	FQ1 2018
U.S.	\$ 401	\$ 417	\$ 425
EMEA	\$ 200	\$ 202	\$ 208
APAC	\$ 79	\$ 81	\$ 76
AI	\$ 68	\$ 70	\$ 66
Total	\$ 748	\$ 770	\$ 775
% of Total Revenue			
U.S.	54%	54%	55%
EMEA	26%	26%	27%
APAC	11%	11%	10%
AI	9%	9%	8%
Total	100%	100%	100%



Q1 FY'19 Financial Highlights

(\$M, as reported) Non-GAAP	FQ1 2019	FQ4 2018	FQ1 2018
Non-GAAP Revenue	\$748	\$770	\$775
Non-GAAP Gross Margin %	62.7%	63.4%	62.6%
Non-GAAP Oper. Expense %	40.0%	43.0%	40.4%
Non-GAAP Oper. Income %	22.7%	20.4%	22.2%
Adj. EBITDA \$	\$189	\$178	\$206
Adj. EBITDA %	25.3%	23.1%	26.6%

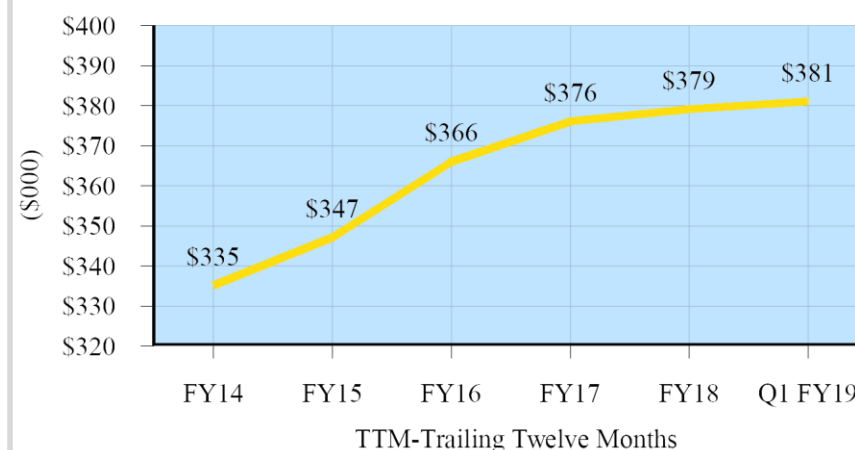
Company Highlights

- Introduced new Private Cloud Solutions for UC & CC
- Announced new online storefront that simplifies access to our UCaaS & CCaaS solutions
- Enhanced our channel partner program with increased focus on solution selling, simplification, and cloud offerings
- Expanded our A.I.Connect ecosystem

Notable Q1'19 Stats (non-GAAP):

- Total Contract Value increased 8% year-over-year to \$2.4 billion
- Strong large deal activity with 3 deals over \$10 million, 10 over \$5 million, and 83 over \$1 million
- 83% of Non-GAAP revenue was Software & Services
- 61% of Non-GAAP product revenue was Software
- 57% of Non-GAAP revenue was Recurring
- Added 1,600 new logos
- Generated \$65 million of free cash flow*
- Ended the quarter with \$743 million cash & cash equivalents on balance sheet

Non-GAAP Revenue per employee** (TTM)



Adjusted EBITDA % is based on non-GAAP Revenue

*: We define free cash flow as cash flow from operating activities less capital expenditures

**Headcount as of the end of the period indicated

For a reconciliation of non-GAAP to GAAP financial information, please see the last five slides of this presentation.



Balance Sheet and Operating Metrics

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

	FQ1 2019	FQ4 2018	FQ1 2018
Total Cash and Cash Equivalents	\$ 743	\$ 700	\$ 417
Cash Flow from Operations	\$ 86	\$ 25	\$ (374)
Capital Expenditures and Capitalized Software	\$ 21	\$ 25	\$ 15
Days Sales Outstanding (DSO)*	56	60	56
Inventory Turns	13.3	14.8	11.6
Headcount <i>(as of the end of the period indicated)</i>	7,948	8,061	8,516
Trailing Twelve Month Revenue (\$K) / Employee** <i>(Headcount as of the end of the period indicated)</i>	\$ 381	\$ 379	\$ 372

*FQ1 2019 & FQ4 2018 includes \$95M and \$113M AR/contract liability netting impact when calculating DSOs

**TTM Revenue (\$K) / Employee based on non-GAAP Revenue



Non-GAAP Reconciliation

Adjusted EBITDA

(In millions)

	Successor		Predecessor
	Three months ended December 31, 2018	Period from December 16, 2017 through December 31, 2017	Period from October 1, 2017 through December 15, 2017
Net income	\$ 9	\$ 237	\$ 2,977
Interest expense	60	9	14
Interest income	(3)	—	(2)
Provision for (benefit from) income taxes	3	(246)	459
Depreciation and amortization	117	22	31
EBITDA	186	22	3,479
Impact of fresh start accounting adjustments	3	27	—
Restructuring charges, net	7	10	14
Advisory fees	1	8	3
Acquisition-related costs	3	—	—
Reorganization items, net	—	—	(3,416)
Non-cash share-based compensation	6	1	—
Loss on sale/disposal of long-lived assets, net	—	—	1
Resolution of certain legal matters	—	—	37
Change in fair value of Emergence Date Warrants	(18)	5	—
Loss (gain) on foreign currency transactions	1	(2)	—
Pension/OPEB/nonretirement postemployment benefits and long-term disability costs	—	—	17
Adjusted EBITDA	\$ 189	\$ 71	\$ 135

Non-GAAP Reconciliation

Gross Margin and Operating Income

	Successor					Predecessor	
	Three Months Ended				Period from Dec. 16, 2017 through Dec. 31, 2017	Period from Oct. 1, 2017 through Dec. 15, 2017	Q118 Non-GAAP Combined Results
	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018			
(In millions)							
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin							
Gross Profit	\$ 407	\$ 390	\$ 352	\$ 323	\$ 78	\$ 362	\$ 440
Items excluded:							
Adj. for fresh start accounting	19	54	69	106			35
Amortization of technology intangible assets	43	43	44	41			10
Loss on disposal of long-lived assets	—	—	2	2			—
Non-cash share-based compensation	—	1	—	—			—
Non-GAAP Gross Profit	\$ 469	\$ 488	\$ 467	\$ 472			\$ 485
GAAP Gross Margin	55.1%	53.1%	50.9%	48.1%	52.7%	59.9%	58.5%
Non-GAAP Gross Margin	62.7%	63.4%	61.9%	62.4%			62.6%
Reconciliation of Non-GAAP Operating Income							
Operating Income (Loss)	\$ 50	\$ 11	\$ (49)	\$ (89)	\$ 2	\$ 36	\$ 38
Items excluded:							
Adj. for fresh start accounting	20	48	71	107			33
Amortization of intangible assets	83	84	83	81			27
Restructuring charges, net	7	1	30	40			24
Acquisition-related costs	3	4	4	7			—
Loss on disposal of long-lived assets	—	—	2	2			1
Advisory fees	1	3	3	4			11
Non-cash share-based compensation	6	6	7	5			1
Costs in connection with certain legal matters	—	—	—	—			37
Non-GAAP Operating Income	\$ 170	\$ 157	\$ 151	\$ 157			\$ 172
GAAP Operating Margin	6.8%	1.5%	-7.1%	-13.2%	1.4%	6.0%	5.1%
Non-GAAP Operating Margin	22.7%	20.4%	20.0%	20.7%			22.2%

Due to the company's emergence from Chapter 11 proceedings during the first quarter of fiscal 2018, and adoption of fresh start accounting effective on December 15, 2017, the results for fiscal 2018 are required by GAAP to be presented separately as the predecessor period from October 1, 2017 through December 15, 2017 (inclusive of results prior to October 1, 2017, the "Predecessor" period) and the successor period from December 16, 2017 through December 31, 2017 (the "Successor" period). The application of fresh start accounting results in a new basis of accounting making the results of the Predecessor period not comparable to the results of the Successor period. Where applicable we have, however, combined results of the Predecessor and Successor periods for discussion purposes as we believe it provides the most meaningful basis to analyze our results.

Non-GAAP Reconciliation

Product and Services Gross Margins

	Successor					Predecessor	
	Three months ended				Period from December 16, 2017 through December 31, 2017	Period from October 1, 2017 through December 15, 2017	Q118 Non-GAAP Combined Results
	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018			
(In millions)							
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Products							
Revenue	\$ 324	\$ 325	\$ 300	\$ 293	\$ 71	\$ 253	\$ 324
Costs	115	115	114	110	33	84	117
Amortization of technology intangible assets	43	43	44	41	7	3	10
GAAP Gross Profit	166	167	142	142	31	166	197
Items excluded:							
Adj. for fresh start accounting	19	16	24	33			11
Amortization of technology intangible assets	43	43	44	41			10
Loss on disposal of long-lived assets	—	—	1	1			—
Non-GAAP Gross Profit	\$ 214	\$ 226	\$ 211	\$ 217			\$ 218
GAAP Gross Margin	51.2%	51.4%	47.3%	48.5%	43.7%	65.6%	60.8%
Non-GAAP Gross Margin	65.6%	67.3%	65.5%	68.5%			66.1%
Reconciliation of Non-GAAP Gross Profit and Non-GAAP Gross Margin - Services							
Revenue	\$ 414	\$ 410	\$ 392	\$ 379	\$ 77	\$ 351	\$ 428
Costs	173	187	182	198	30	155	185
GAAP Gross Profit	241	223	210	181	47	196	243
Items excluded:							
Adj. for fresh start accounting	14	38	45	73			24
Loss on disposal of long-lived assets	—	—	1	1			—
Non-cash share-based compensation	—	1	—	—			—
Non-GAAP Gross Profit	\$ 255	\$ 262	\$ 256	\$ 255			\$ 267
GAAP Gross Margin	58.2%	54.4%	53.6%	47.8%	61.0%	55.8%	56.8%
Non-GAAP Gross Margin	60.4%	60.4%	59.1%	58.0%			60.0%

Non-GAAP Reconciliation

GAAP to Non-GAAP Results

	Q119									Q118	
	GAAP Results	Adj. for Fresh Start Accounting	Amortization of Intangible Assets	Restructuring Charges, net	Acquisition Costs	Share-based Comp	Advisory Fees	Other Costs, net	Non-GAAP Results	GAAP Results	Non-GAAP Results
Revenue											
Products	\$ 324	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 326	\$ 324	\$ 330
Services	414	8	—	—	—	—	—	—	422	428	445
	<u>738</u>	<u>10</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>748</u>	<u>752</u>	<u>775</u>
Costs											
Products:											
Costs	115	(3)	—	—	—	—	—	—	112	117	112
Amortization of technology intangible assets	43	—	(43)	—	—	—	—	—	—	10	—
Services	173	(6)	—	—	—	—	—	—	167	185	178
	<u>331</u>	<u>(9)</u>	<u>(43)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>279</u>	<u>312</u>	<u>290</u>
GROSS PROFIT	<u>407</u>	<u>19</u>	<u>43</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>469</u>	<u>440</u>	<u>485</u>
OPERATING EXPENSES											
Selling, general and administrative	257	—	—	—	(3)	(6)	(1)	—	247	314	266
Research and development	53	(1)	—	—	—	—	—	—	52	47	47
Amortization of intangible assets	40	—	(40)	—	—	—	—	—	—	17	—
Restructuring charges, net	7	—	—	(7)	—	—	—	—	—	24	—
	<u>357</u>	<u>(1)</u>	<u>(40)</u>	<u>(7)</u>	<u>(3)</u>	<u>(6)</u>	<u>(1)</u>	<u>—</u>	<u>299</u>	<u>402</u>	<u>313</u>
OPERATING INCOME	<u>50</u>	<u>20</u>	<u>83</u>	<u>7</u>	<u>3</u>	<u>6</u>	<u>1</u>	<u>—</u>	<u>170</u>	<u>38</u>	<u>172</u>
Interest expense	(60)	—	—	—	—	—	—	—	(60)	(23)	(23)
Other income (expense), net	22	—	—	—	—	—	—	(20)	2	(4)	(3)
Reorganization items, net	—	—	—	—	—	—	—	—	—	3,416	—
INCOME BEFORE INCOME TAXES	<u>\$ 12</u>	<u>\$ 20</u>	<u>\$ 83</u>	<u>\$ 7</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ (20)</u>	<u>\$ 112</u>	<u>\$ 3,427</u>	<u>\$ 146</u>

A repeating red geometric pattern of interlocking lines forming a complex, maze-like structure, resembling a stylized 'A' or a series of nested chevrons, covers the top and bottom portions of the page.

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