

NEW RISK ALERT: (CIEN)

Ciena Signals Greater Customer Concentration Risk in Latest 10-K

Language changes also point to increased competition with vendors, items in backlog not expected to be completed this year.

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This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Ciena Losing Leverage as Customer Base Consolidates

In its latest annual report, Ciena warns that concentration risk accelerated recently. Last year, CIEN disclosed this:

"For example, our ten largest customers contributed 59.3% of our fiscal 2019 revenue."

In its 2020 10-K, Ciena notes that trend has recently worsened:

*"For example, our ten largest customers contributed 54.5% of our revenue for fiscal 2020 and 59.3% of our fiscal 2019 revenue, **and we have seen a further concentration in our orders during the second and third quarters of fiscal 2020.**"*

The latest annual report also contains new language, suggesting investors should not be surprised if continued customer consolidation results in spending delays that might negatively impact Ciena:

*"There have been significant horizontal and vertical consolidation activities by communications service providers and cable operators, with several such operators acquiring media and content companies. Customer consolidation can increase customer purchasing power and has in the past **resulted in delays or reductions in network spending** due to changes in strategy or leadership, the timing of regulatory approvals and debt burdens associated with such transactions."*

To diversify, Ciena has begun targeting web-scale providers which connect data centers and indirectly influence purchases of other network operators. This segment, along with major

telecommunications companies, are adopting a consumption model for networking solutions. Though it's early, Ciena notes the trend is accelerating and now includes its web-scale providers.

Last year, the company disclosed:

“Among our customers, AT&T and others are pursuing network strategies that emphasize enhanced software programmability...”

In the 2020 10-K, Ciena adds this:

*“Among our customers, AT&T, **certain Web-scale providers** and others are pursuing network strategies that emphasize enhanced software programmability...”*

Increased Competition From Its Own Supply Chain

Consolidation is a dual risk for Ciena. Last year, the company noted a trend toward supplier consolidation:

“We expect this trend to continue and it may have a significant impact on the entire industry, including the competitive landscape, the range of sales opportunities for vendors and their supply chains.”

In its 2020 10-K, Ciena discloses that this risk is being compounded by solutions that overlap vendors/suppliers and the fact the company may be competing— even more so than disclosed in the past— against some of its vendors:

*“...our access to necessary components could be adversely impacted by evolving competitive landscapes, **converging solutions offerings and competition from component vendors, including those in our supply chain, who develop competing networking products for emerging consumption models**, including pluggable modem technology or offerings based on “white box” hardware.”*

Backlog Decreases For a Third Year, Includes Work Not Expected to be Completed in 2021

Ciena's backlog has been flat or in decline for three years. The company has also disclosed that a greater proportion of its backlog includes work not expected to be completed in the current fiscal year.

In its 2019 10-K, Ciena reported:

“Our backlog was \$1.21 billion as of October 31, 2019 as compared to \$1.26 billion as of October 31, 2018...Backlog at October 31, 2019 includes approximately \$160.2 million

primarily related to orders for products and maintenance and support services that are not expected to be filled or performed within fiscal 2020.”

In its 2020 10-K, Ciena revealed a decline in backlog and a rise in items it includes in its backlog but does not expect to complete in the current year:

*“Our backlog was **\$1.19 billion as of October 31, 2020** as compared to \$1.21 billion as of November 2, 2019.... Backlog at October 31, 2020 includes approximately **\$193.5 million** primarily related to orders for products and maintenance and support services that are not expected to be filled or performed within fiscal 2021.”*