



APPLIED OPTOELECTRONICS, INC.

Nasdaq: AAOI

INVESTOR PRESENTATION

First Quarter, 2015

# SAFE HARBOR STATEMENT

This presentation contains forward-looking statements. These forward-looking statements involve risks and uncertainties, as well as assumptions and current expectations, which could cause the company's actual results to differ materially from those anticipated in such forward-looking statements. These risks and uncertainties include but are not limited to: reduction in the size or quantity of customer orders; change in demand for the company's products due to industry conditions or other factors; changes in manufacturing operations; volatility in manufacturing costs; delays in shipments of products; disruptions in the supply chain; change in the rate of design wins or the rate of customer acceptance of new products; the company's reliance on a small number of customers for a substantial portion of its revenues; potential pricing pressure; a decline in demand for our customers products or their rate of deployment of their products; general conditions in the CATV, internet data center or FTTH markets; changes in the world economy (particularly in the United States, and China); the negative effects of seasonality; and other risks and uncertainties described more fully in the company's registration statement and our annual report on Form 10-K as filed with the Securities and Exchange Commission, as referenced below.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," or "estimates" or by other similar expressions that convey uncertainty of future events or outcomes. You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we assume no obligation to update forward-looking statements for any reason after the date of this presentation to conform these statements to actual results or to changes in the company's expectations."

In this presentation we include Adjusted EBITDA and certain other non-GAAP measures that we believe are useful to investors in evaluating our operating performance. Adjusted EBITDA and other non-GAAP measures should not be considered as an alternative to gross profit, income (loss) from operations, net income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA and other non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA or such other non-GAAP measures in the same manner. You are encouraged to evaluate these adjustments and the reason we consider them appropriate. For a reconciliation of GAAP measures to our non-GAAP measures, please see the Appendix to this presentation. Please also see our registration statement and our annual report on Form 10-K as filed with the Securities and Exchange Commission for a description of our calculation of Adjusted EBITDA and certain other non-GAAP measures.

OPTICAL ACCESS PRODUCTS  
THAT ENABLE  
THE GIGABIT AGE



# WHY AOI IS DIFFERENT



Specialize in advanced optical technologies



Vertically integrated with in-house laser expertise

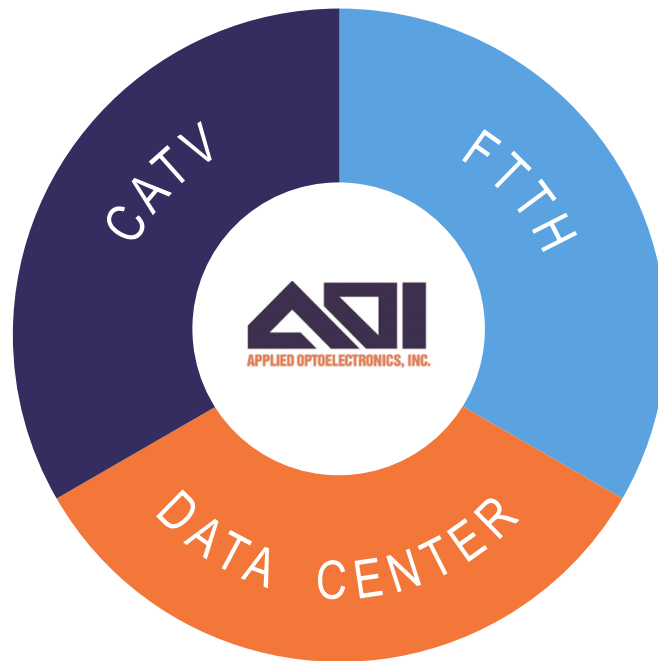
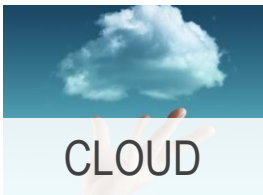


Industry leading gross margin

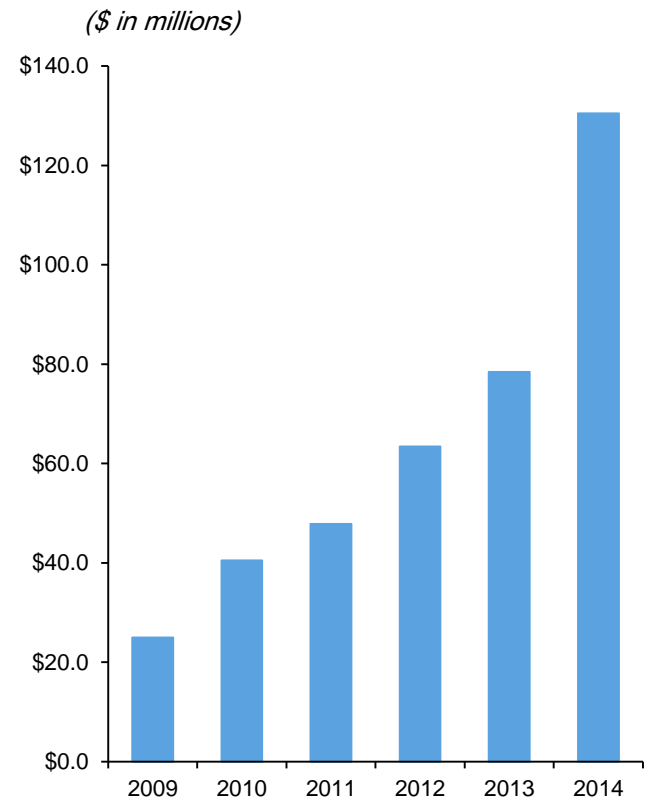


Partner with our tier 1 global customers

# BANDWIDTH DEMAND DRIVES GROWTH FOR AOI

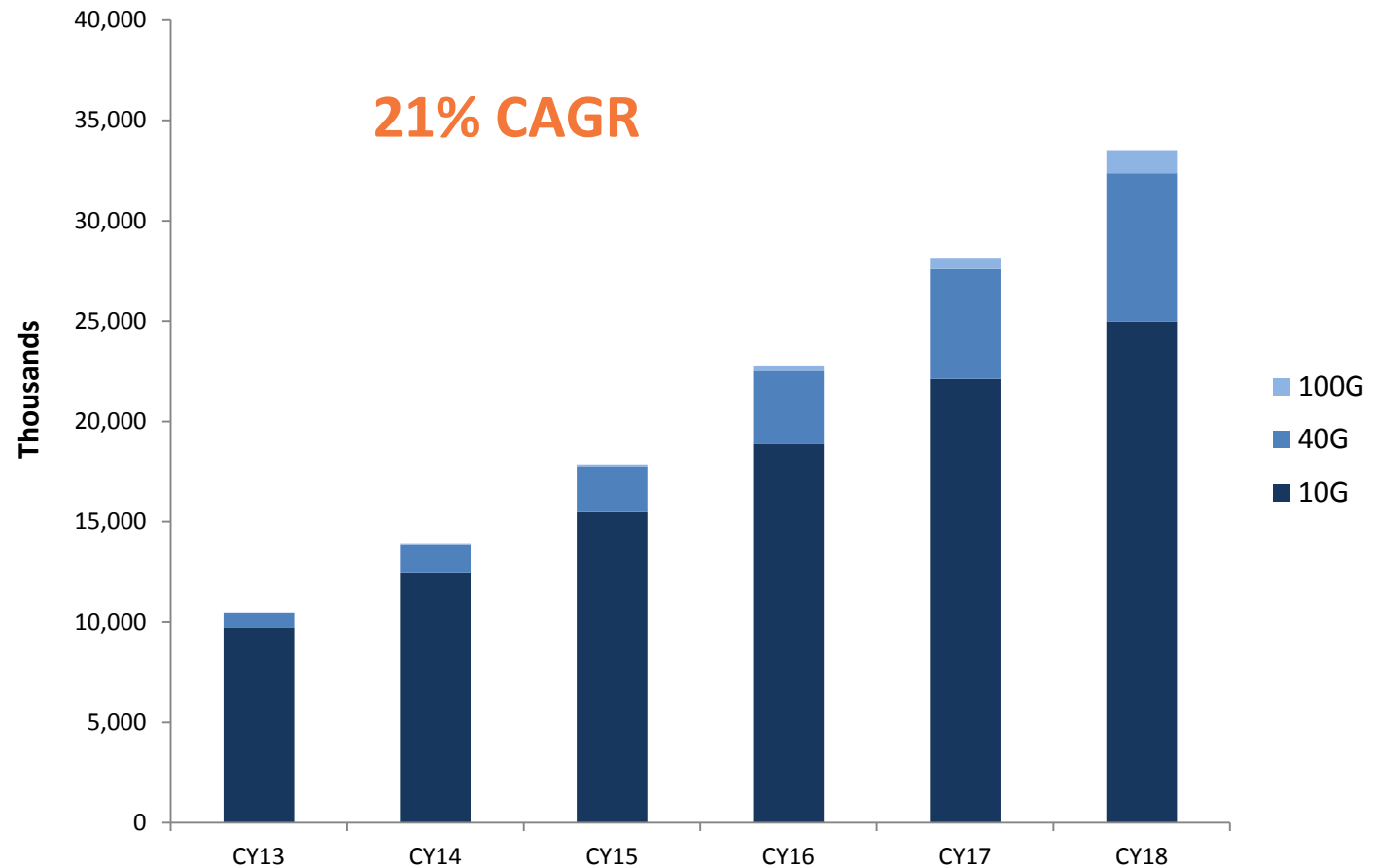


**+ 39% CAGR**



ANNUAL REVENUE (\$M)

# TRANSCEIVER UNIT MARKET GROWTH



© Infonetics Research 2014

Source: Infonetics "10G/40G/100G Optical Transceivers, Biannual Worldwide Market Size and Forecasts, 2<sup>nd</sup> edition, October, 2014.  
Data includes 10G SFP+, 4-G QSFP, and 100G LR4 form factors.



# INTERNET DATA CENTER MARKET OPPORTUNITY



## GROWTH DRIVERS

Paradigm Shift – copper to optical (*1G to 10G/40G/100G*)  
Web 2.0 operators adopting open architecture



## AOI'S ADVANTAGE

Direct relationships with Web 2.0 operators  
Key integration with white-box server/switch manufacturers

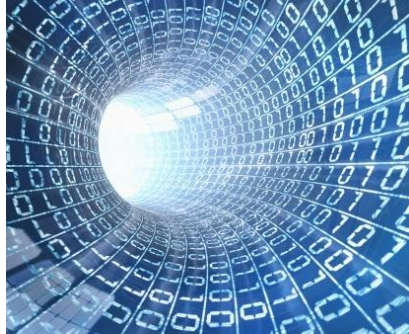


## KEY CUSTOMERS

**amazon.com**



# CATV BROADBAND MARKET OPPORTUNITY



## GROWTH DRIVERS

DOCSIS 3.1 & Upgrade cycle

International market opportunities

Continued outsourcing of design and production



## AOI'S ADVANTAGE

Critical laser design and manufacturing

Laser to Equipment

Head-end to Node



## KEY CUSTOMERS





# FIBER TO THE HOME MARKET OPPORTUNITY



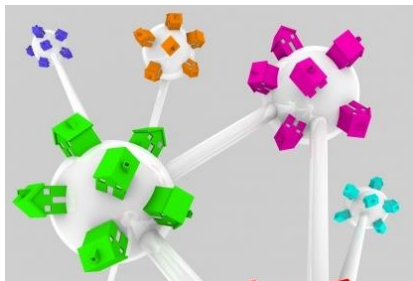
## GROWTH DRIVERS

Disruptive market entrants  
Residential 1 Gbps service



## AOI'S ADVANTAGE

Revolutionary WDM-PON transceivers-AOI-owned IP  
Transceiver (OLT) for head-end  
Transceiver (ONU) tunable laser for home



## KEY CUSTOMERS

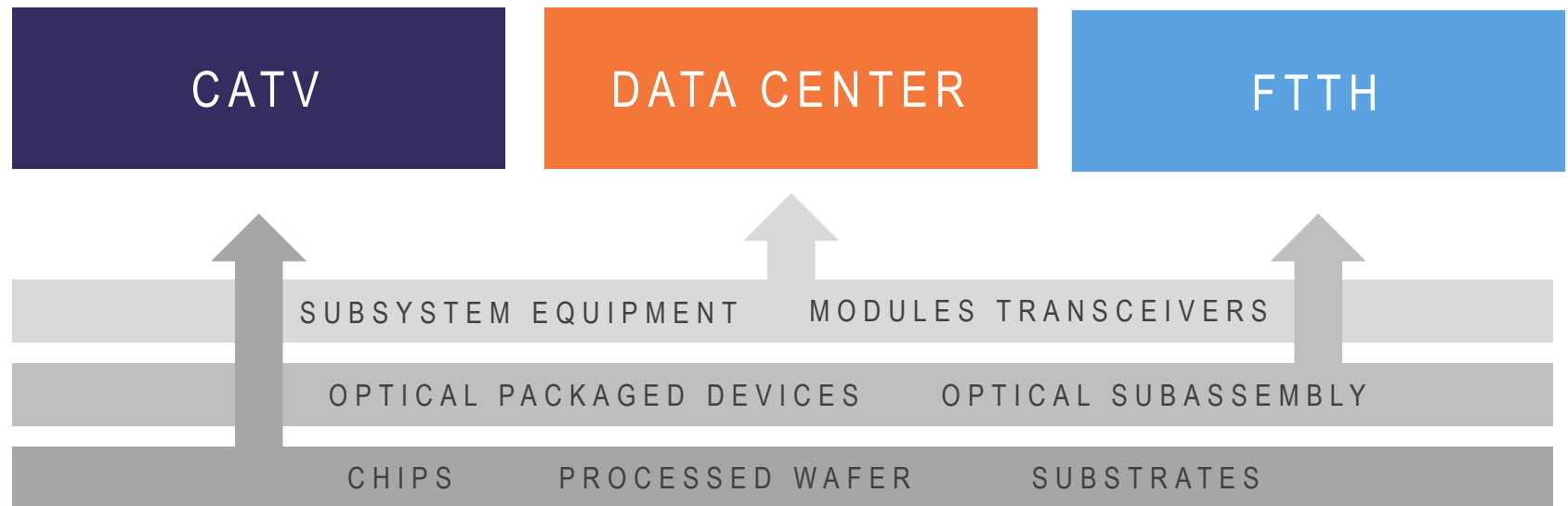
WDM-PON

**CONFIDENTIAL**

G-PON

**GENEXIS**

# VERTICAL INTEGRATION DRIVES DIFFERENTIATION



# BROAD PORTFOLIO OF PRODUCTS

## CATV



Head-Office  
TRANSMITTER



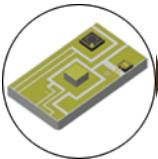
Outdoor  
NODES



Outdoor  
ACCESS  
POINTS



COOLED  
LASER DIODES



LASER CHIPS

## DATA CENTER



10 GIGABIT  
SFP and SFP+  
TRANSCEIVERS



ACTIVE OPTICAL  
CABLES



40 GIGABIT  
QSFP +  
TRANSCEIVERS

## FTTH



WDM-PON OLT  
TRANSCEIVER



WDM-PON  
ONU  
TRANSCEIVER



G-PON  
TRANSCEIVER



# GEOGRAPHICALLY OPTIMIZED OPERATIONS

## Research & Development

- Excellent laser technology
- Proprietary Silicon Photonics Technology
- Strong R&D teams in all 3 sites from lasers, transceivers to equipment
- Customer NRE reimbursements

## Manufacturing & Operations

- Excellent manufacturing teams with many years of experience
- Efficient supply chain
- Vertical integration from laser chips to transceivers to equipment with cost advantages

 Headquarters
  Other Facilities



Location	Manufacturing	R&D
<b>Ningbo, China</b> 678 Employees	<ul style="list-style-type: none"> <li>• CATV Equipment</li> <li>• Laser &amp; Detector Packaging</li> </ul>	✓

Location	Manufacturing	R&D
<b>Houston, TX</b> 238 Employees	<ul style="list-style-type: none"> <li>• Wafer Fab</li> <li>• Laser chips</li> <li>• Laser Packaging</li> <li>• Silicon Photonics</li> <li>• FTTH Transceivers</li> </ul>	✓

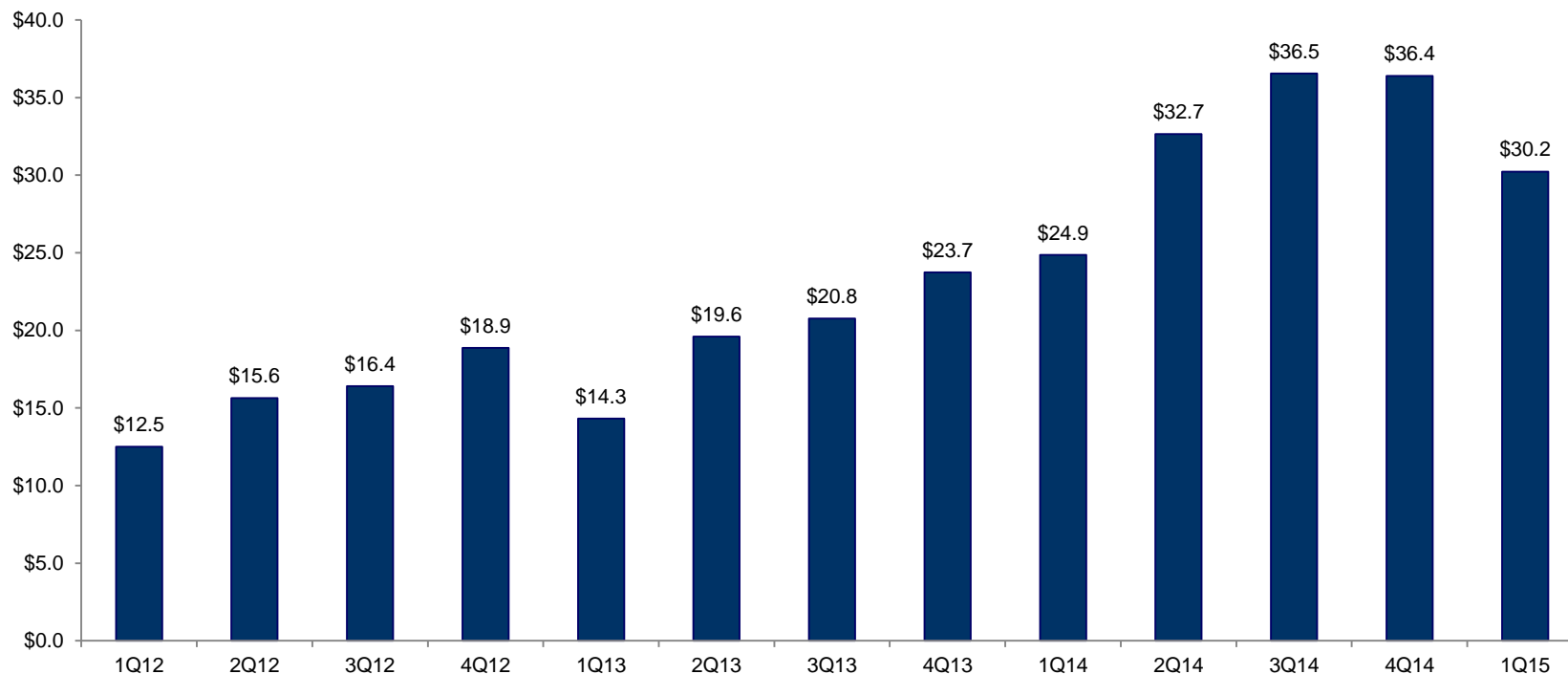
Location	Manufacturing	R&D
<b>Taipei, Taiwan</b> 929 Employees	<ul style="list-style-type: none"> <li>• Laser packaging</li> <li>• Silicon Photonics</li> <li>• Transceivers</li> </ul>	✓

# STRONG TRACK RECORD OF REVENUE GROWTH

## QUARTERLY REVENUE

**39%** CAGR<sup>(\*)</sup>

(\$ in millions)

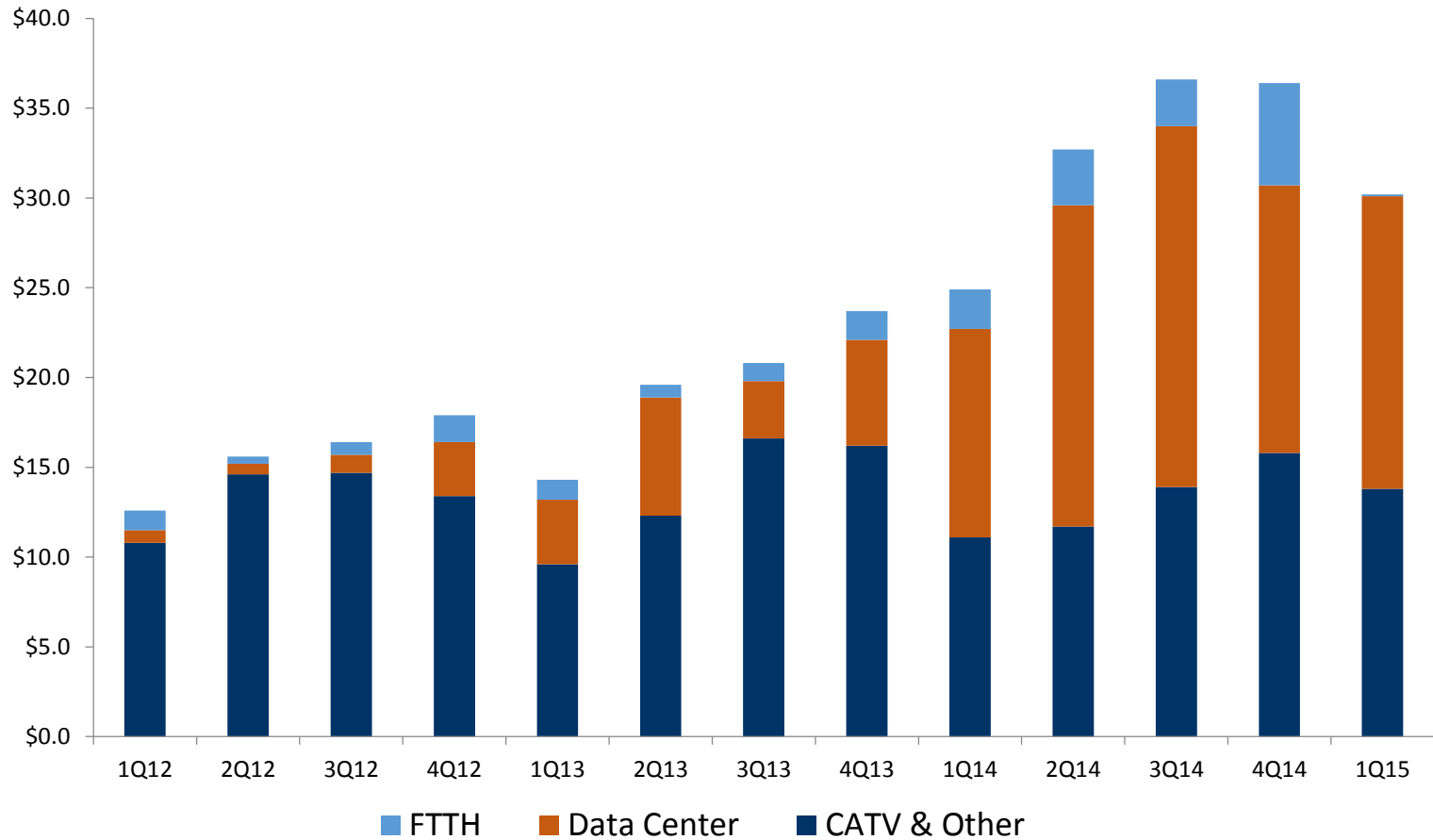


YoY Growth	32%	36%	36%	27%	14%	25%	26%	26%	74%	67%	76%	53%	22%
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(\*) Annual CAGR from 2009 through 2014.

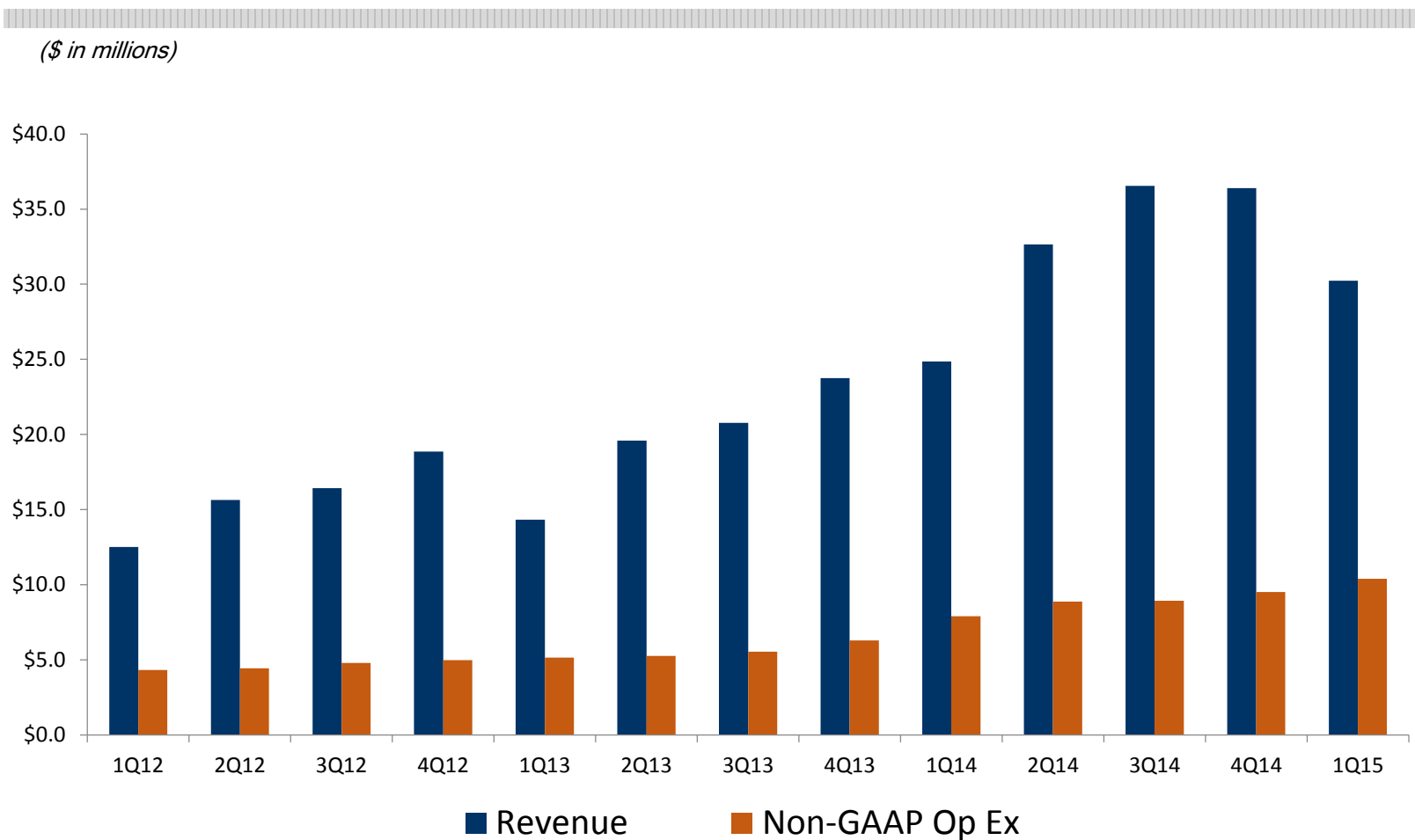
# REVENUE SEGMENTATION BY MARKET

(\$ in millions)





# SIGNIFICANT OPERATING LEVERAGE



For a reconciliation of GAAP to non-GAAP measures, please see appendix.

## 1Q15 RESULTS (NON-GAAP)

(In Millions except %'s)	Q 1 / 2 0 1 5	COMMENT Y / Y %
REVENUE	\$ 30.2	Up 22%
CATV	\$ 12.0	Up 23%
DATA CENTER	\$ 16.3	Up 41%
GROSS MARGIN	33.3%	Down 161 bps
OPERATING INCOME	(\$ 0.3)	(1.1%) of Rev
EBITDA	\$ 2.3	7.5% of Rev

For a reconciliation of GAAP to non-GAAP measures, please see appendix.

# NON-GAAP FINANCIAL RESULTS

	CY2011	CY2012	CY2013	CY 2014	H1/16 TARGET MODEL
GROSS MARGIN	28.0%	29.9%	29.4%	34.6%	35.0%
RESEARCH AND DEVELOPMENT	13.4%	12.0%	10.8%	12.2%	8.5%
SALES AND MARKETING	4.9%	4.9%	5.3%	4.6%	3.1%
GENERAL AND ADMINISTRATIVE	16.0%	12.3%	12.3%	10.3%	6.4%
OPERATING MARGIN	(6.3%)	0.7%	1.1%	7.6%	17.0%
NET MARGIN BEFORE TAX*	(10.5%)	(0.8%)	0.1%	8.1%	17.0%
EBITDA MARGIN	(1.3%)	5.9%	5.7%	12.5%	22.0%

For a reconciliation of GAAP to non-GAAP measures, please see appendix.

\* Target Model Excludes Income Tax Impact. Accumulated NOLs expected to provide tax offset through early 2016.

## BALANCE SHEET HIGHLIGHTS

(\$ Millions)	DECEMBER 31, 2013	DECEMBER 31, 2014	MARCH 31, 2015
CASH (1)	\$31	\$41	\$28
WORKING CAPITAL (2)	\$39	\$65	\$49
TOTAL ASSETS	\$111	\$184	\$186
TOTAL DEBT (3)	\$28	\$30	\$39

(1) Cash: Cash, cash equivalents, short-term investments, and restricted cash.

(2) Working Capital: Total current assets less total current liabilities.

(3) Total Debt: Short-term loans, notes payable and total long-term debt.

# INVESTMENT HIGHLIGHTS



Focus on high-growth optical access market



Leading supplier of data center & CATV broadband products



Tier 1 global customers



Extensive internally developed technology



Vertical integration provides differentiation and sustains margin



Revenue and earnings growth opportunity



QUESTIONS?







# APPENDIX



# EXPERIENCED AND DEDICATED MANAGEMENT TEAM



**Dr. Thompson Lin**  
Founder, President & CEO  
18 years with AOI



**Dr. Stefan Murry**  
CFO & CSO  
18 years with AOI



**Dr. Fred Chang**  
Component BU Head  
14 years with AOI



**Dr. Alex Anselm**  
Semiconductor  
Products  
Division Head  
16 years with AOI



**Jessica Hung**  
VP of Finance &  
Corporate Controller  
9 years with AOI



**Joshua Yeh**  
Asia GM  
9 years with AOI

# NON-GAAP RECONCILIATION

Applied Optoelectronics, Inc.  
GAAP to Non-GAAP Reconciliation  
(In thousands, except percentages and per share amounts)  
Preliminary Unaudited

	1Q13	2Q13	3Q13	4Q13	CY2013	1Q14	2Q14	3Q14	4Q14	CY2014	1Q15
GAAP total gross profit	4,585	5,447	6,321	6,676	23,028	8,653	11,188	12,146	12,259	44,246	10,051
Share-based compensation expense	12	14	14	16	56	25	30	7	27	89	16
Non Recurring expense	-	-	-	-	-	-	-	-	797	797	-
Non-GAAP income (loss) from gross profit	4,597	5,461	6,335	6,692	23,084	8,678	11,218	12,153	13,083	45,132	10,067
GAAP research and development expense	2,004	1,898	2,211	2,400	8,512	3,546	4,009	4,194	4,221	15,970	4,805
Share-based compensation expense	12	13	13	17	53	24	31	29	31	115	54
Non-GAAP research and development expense	1,992	1,885	2,198	2,383	8,459	3,522	3,978	4,165	4,190	15,855	4,751
GAAP sales and marketing expense	907	1,053	1,034	1,198	4,191	1,333	1,497	1,622	1,591	6,043	1,559
Share-based compensation expense	10	11	11	20	52	23	25	24	25	97	50
Non-GAAP sales and marketing expense	897	1,042	1,023	1,178	4,139	1,310	1,472	1,598	1,566	5,946	1,509
GAAP general and administrative expense	2,374	2,447	2,436	3,375	10,632	3,554	3,952	4,458	5,131	17,095	5,003
Share-based compensation expense	76	92	98	640	907	416	433	427	483	1,759	396
Amortization expense	17	17	17	17	68	69	95	94	98	356	100
Non Recurring expense	18	18	-	-	35	-	-	773	788	1,561	381
Non-GAAP general and administrative expense	2,263	2,321	2,321	2,718	9,622	3,069	3,424	3,164	3,762	13,419	4,126
GAAP total operating expense	5,285	5,398	5,681	6,973	23,335	8,433	9,458	10,274	10,943	39,108	11,367
Share-based compensation expense	98	115	122	677	1,013	463	489	480	539	1,971	500
Amortization expense	17	17	17	17	68	69	95	94	98	356	100
Non Recurring expense	18	18	-	-	35	-	-	773	788	1,561	381
Non-GAAP total operating expense	5,153	5,248	5,542	6,279	22,220	7,901	8,874	8,927	9,518	35,220	10,386
GAAP operating income (loss)	(700)	49	640	(297)	(307)	220	1,730	1,872	1,316	5,138	(1,316)
Share-based compensation expense	110	129	135	693	1,068	488	519	487	566	2,060	516
Amortization expense	17	17	17	17	68	69	95	94	98	356	100
Non Recurring expense	18	18	-	-	35	-	-	773	1,585	2,358	381
Non-GAAP operating income (loss)	(555)	213	793	413	864	777	2,344	3,226	3,565	9,912	(319)
GAAP other income (loss)	(294)	(331)	(250)	(223)	(1,099)	(110)	274	(218)	(602)	(656)	641
Unrealized exchange loss (gain)	163	31	65	85	342	186	(183)	203	1,094	1,300	(44)
Non-GAAP other income (loss)	(131)	(300)	(185)	(138)	(757)	76	91	(15)	492	644	597
GAAP net income (loss)	(994)	(282)	390	(520)	(1,406)	85	1,919	1,577	702	4,283	(675)
Amortization of intangible assets	17	17	17	17	68	69	95	94	98	356	100
Share-based compensation expense	110	129	135	693	1,068	488	519	487	566	2,060	516
Non Recurring charges	18	18	-	-	35	-	-	773	1,585	2,358	381
Unrealized exchange loss (gain)	163	31	65	85	342	186	(183)	203	1,094	1,300	(44)
Non-GAAP net income (loss)	(686)	(87)	607	275	107	828	2,350	3,134	4,045	10,357	278
GAAP net income (loss)	(994)	(282)	390	(520)	(1,406)	85	1,919	1,577	702	4,283	(675)
Amortization of intangible assets	17	17	17	17	68	69	95	94	98	356	100
Share-based compensation expense	110	129	135	693	1,068	488	519	487	566	2,060	516
Depreciation expense	754	772	859	954	3,339	1,170	1,336	1,585	1,722	5,813	1,935
Non Recurring charges	18	18	-	-	35	-	-	773	1,585	2,358	381
Unrealized exchange loss (gain)	163	31	64	85	342	186	(183)	203	1,094	1,300	(44)
Interest (income) expense, net	286	281	310	145	1,021	83	(47)	(40)	(39)	(43)	51
Taxes related to the above	-	-	-	-	-	25	85	77	12	199	-
Adjusted EBITDA	\$354	\$966	\$1,775	\$1,374	\$4,467	\$2,106	\$3,724	\$4,756	\$5,740	\$16,326	\$2,264