Building A Financial Foundation

Lucent Technologies Financial Analyst Meeting

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Building A Financial Foundation

I. 2Q 2003 Financial Results

II. Business Restructuring: Review & Results

III. Looking Ahead

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Q203 Financial Results

Quarterly Results Highlights

($ millions)	Q203	Q103		Q2 vs. Q1
Revenues	2,403	2,075	↑	15.8%
Gross Margin %	31.7%	21.9%	↑	9.8 pts
Operating Expenses	742	766	↓	(24)
Operating Income/(Loss)	20	(312)	↑	332
EPS	($0.14)	($0.11)	↓	($0.03)

- Arrows indicate direction of sequential change



Q203 Financial Results

Cash Flow

($ millions)	Q203	Q103	Q2 vs. Q1
Net loss	(351)	(264)	(87)
Changes in other non-cash items	178	(73)	251
Changes in working capital	37	104	(67)
Changes in other assets and liabilities	(157)	(509)	352
Cash used in Operating Activities	(293)	(742)	449
Capital Spending	(33)	(155)	122
Restructuring - Cash Component	192	212	(20)
Cash Flow (incl Capex, excl Restructuring)	(134)	(685)	551

Unusual Items:	Q203	Q103
SPARKS Lawsuit Escrow Release	80	
Real Estate Lease Buyout		(102)

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Q203 Financial Results

Cash and Debt

($ millions)	Q203	Q103	Q2 vs. Q1
Cash and Short-term Investments	3,439	3,738	(299)
Short-term Debt:			
Other	271	193	78
Long-term Debt:			
Trust Preferred	1,152	1,532	(380)
Other	3,170	3,234	(64)
Total Debt	4,593	4,959	(366)
Convertible Preferred - Gross	973	1,318	(345)
Total Debt & Convertible Preferred	5,566	6,277	(711)
Exchanges through April 23, 2003	(65)		
Total Debt & Convertible Preferred	5,501		

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Q203 Financial Results

Preferred Stock & Debt Exchanges

($ millions)	Apr-03	Q203	Q103	Q402	Total
8.00% Convertible Preferred	30	345	392	175	942
7.75% Trust Preferred	-	380	218	-	598
Debt Obligations	35	52	-	-	87
Total	65	777	610	175	1,627
Common Shares Exchanged (in millions)					621

- Results in approximately $125 million in annual interest and dividend requirements



Q203 Financial Results

Cash Walk – Remainder of Fiscal 2003

($ billions)	2H03
Cash & Short Term Investments - 3/31/03	3.4
Business Restructuring	(0.3)
Cash used in Ops (incl. CapEx)	(0.4)
Interest	(0.2)
Projected Cash & Short Term Investments. - 9/30/03	2.5



Q203 Financial Results

Key Takeaways

- **Improvement in financial results**
  - Revenue increased 16% to $2.4 billion
  - Gross margin up 10 points to 32%
  - Sequential improvement in EPS, excluding significant items
- **Continued operating and capital structure progress**
  - Staff reduction on plan
  - Repurchased close to $800 million in debt and convertible securities
- **Sufficient liquidity to fund operations and restructuring**
  - Cash at the end of fiscal 2003 projected at more than $2.5 billion



Business Restructuring: Review

Summary Actions

- **Initiated in 2001, additional steps in 2002**
- **Realigned resources to focus on the opportunities that we believe to be most profitable – the large service providers**
- **What we did:**
  - **Evaluated and streamlined operations**
  - **Eliminated certain manufacturing facilities and made greater use of contract manufacturers**
  - **Assessed product portfolio and associated R & D**
  - **Eliminated non-strategic product lines**
  - **Merged technology platforms**
  - **Consolidated development**
  - **Eliminated positions and reduced personnel costs**



Business Restructuring: Results

Financial Metrics – Income Statement

($ billions)	From Q101	To Q203	Change
Revenue	$ 4.3	$ 2.4	-45%
Targeted Quarterly EPS Breakeven Revenue	$ 5.0	~ $ 2.4	-52%
Gross Margin Rate	15.7%	31.7%	16 pts
Operating Expenses	$ 2.9	$ 0.7	-74%



Business Restructuring: Results

Financial Metrics – Balance Sheet

($ billions)	From Q101	To Q203	Change
Cash & Short Term Investments	$ 3.8	$ 3.4	-10%
Total Debt & Convertible Securities	$ 8.1	$ 5.6	-31%
Cash & Short Term Investments - Net of Debt	$ (4.3)	$ (2.1)	50%
Vendor Finance Commitments	$ 7.5	$ 0.6	-91%



Business Restructuring: Results

Financial Metrics – Cash Flow

($ billions)	From Q101	To Q203	Change
Cash Usage (Operating Activities)	$ 1.3*	$ 0.3	-77%
Working Capital (A/R & Inventory)	$ 13.1	$ 2.5	-81%
Days Sales Outstanding	137	58	-58%
Inventory Turns	2.3	6.8	4.5 turns
Headcount	106,000	38,500	-64%

* Includes $0.6B related to receivable sales

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Business Restructuring: Results

Key Takeaways

- **Restructuring efforts initiated in 2001 significantly reduced cost and expense structure**
  - Improved gross margin rate
  - Reduced operating expenses
  - Redesigned processes, improved working capital metrics
  - Reduced headcount
- **Ensured liquidity to fund restructuring and operations**
  - Raised $3.6B in two convertible offerings
  - Sold Optical Fiber and Power System businesses for about $5B
  - Monetized real estate assets with proceeds totaling close to $1B
- **Improved balance sheet**
  - Dramatically reduced vendor financing exposure and future risk of loss
  - Repurchased approximately $1.6B in convertible securities and debt



Looking Ahead

- **Fiscal 2003 outlook**
  - Financially planning for approximately 20%-25% year-over-year revenue decline
  - Reduced quarterly breakeven revenue to about $2.4B
  - Continue to target return to profitability by end of fiscal 2003
- **Sufficient liquidity to fund operations and restructuring**
  - Cash at the end of fiscal 2003 projected at more than $2.5 billion
- **Created a foundation for future growth and a clear path to profitability**



Q & A

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Continuing the momentum... focusing on the future





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