

## Ciena Widens Its Optical Product Portfolio With Purchase of ONI

John S. Mazur, Peter Kjeldsen

Ciena and ONI will benefit from their merger as their optical networking products are compatible and complementary. But Ciena must fill product gaps before it can become a one-stop optical shop.

## NEWS ANALYSIS

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### Event

On 18 February 2002, Ciena, which provides optical networking and switching products, announced an agreement to acquire ONI Systems (focused on metropolitan optical networking) for stock worth \$900 million at the time of the announcement. Regulators and both companies' stockholders must approve the deal, expected to close in the second or third quarter of 2002.

### Analysis

The Ciena/ONI combination will make Ciena the leader in the metropolitan core wave division multiplexing (WDM) market. Ciena was an early innovator in long-haul dense WDM (DWDM), and its CoreDirector OEO optical exchange equipment (OXE) has met with early success. However, its dated metro WDM products have lost out to more advanced solutions from the likes of Cisco Systems, Nortel Networks, ONI and Sorrento, and the long-haul DWDM market suffers from a "glut-induced" decline. To meet investors' expectations, Ciena needed to address not only the emerging OXE market but also the promising next-generation metro WDM market. Next-generation metro WDM products enable service providers to:

- Drive down the cost of upgrading metro optical bandwidth
- Improve the reliability and speed of service delivery
- Expand service offerings such as optical Ethernet and wavelength (or lambda) services

As a strong player in the metro optical network market, ONI offered an attractive target for Ciena. In the combined company, ONI's products will benefit from a global distribution channel and carriers' greater awareness of the Ciena brand name. Both companies expect operational synergies although Ciena will not comment on how it will structure the combined companies until the deal closes. Ciena has reported "favorable" results from preliminary interoperability tests between the Ciena and ONI product lines. Ciena considers its MetroDirector K2 and CoreDirector products "completely compatible" with ONI's Online portfolio but also intends to continue its MultiWave Metro product line.

The acquisition moves Ciena one step closer to becoming a third-generation optical "one-stop shop." However, Ciena still needs to address the core optical-optical OXE and optical Ethernet equipment spaces. In addition, the company's K2 next-generation Synchronous Optical Network (SONET)/Synchronous Digital Hierarchy product from the Cyras acquisition still needs to gain market acceptance against, for example, Cisco's ONS 15454.

**Analytical Sources:** John Mazur and Peter Kjeldsen, Public Network Infrastructure

### Need to Know: Recommended Reading and Related Research

- "AT&T Optical Network Will Benefit Equipment Suppliers" (FT-15-5410). The deployment of a nationwide intelligent optical network could mark the end of the downturn for the optical equipment sector. **By John Mazur**
- "Ciena Acquires Cyras, Expands Edge Optical Networking Portfolio" (EFRA-WW-DA-0002). Ciena will have more than point-to-point DWDM and optical switching offerings, and Cyras will benefit from Ciena's strong optical networking position and distribution. **By John Mazur**

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