



Spirent Communications plc  
2018 Half Year Results

August 2018

# Safe Harbour Statement

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# Delivering Against Our Strategic Priorities

## First half 2018 highlights

**Sharp focus on target markets**

- Strong growth in Lifecycle Service Assurance
  - New Tier 1 US service provider deal
- Expanded enterprise and government security wins
- 5G development wins

**Innovate**

- Market leadership for 100G and 400G Ethernet testing
- Global navigation satellite system for US government and European eCall
- National Instruments collaboration for 5G device testing

**Strong financial and operational platform**

- Continued effective cost management
- Introduced new customer relationships management
- Global Partner programme and new Branding programme launched
- Earnings growth up 19% to 2.49 cents



# Networks & Security – H1 Highlights

Revenue \$125.3m (H1 2017: \$126.0m)

## High-Speed Ethernet and Virtualisation

- Maintained leading position in 100G and 400G Ethernet performance test with multiple strategic wins
- Demonstrated the world's highest density 400/200/100/50G test system at Optical Fibre Communication conference
- US/China trade challenges

## Cybersecurity

- Gained traction with new enterprise and government customers
- Traction of subscription based sales
- Expanded security product capability and sales coverage

## Positioning

- Delivered growth benefiting from increased US government spending
- Worked with European GNSS Agency and Joint Research Centre to test automotive eCall devices



# Lifecycle Service Assurance – H1 Highlights

Revenue \$48.0m (H1 2017: \$44.9m)



- Order intake up by \$11.1m to \$41.6m
- Continued expansion of VisionWorks with key wins, including deal at US-based Tier 1 service provider
- Further six orders at > \$1m
- Significant orders for 10G and 100G probes
- Business development focus to expand potential customer base
- Awarded the Light Reading Leading Lights Award for Outstanding Test and Measurement Vendor for its innovative Lifecycle Service Assurance strategy
- Order pipeline momentum continues – building up our ‘proof of concept’ capabilities to match demand

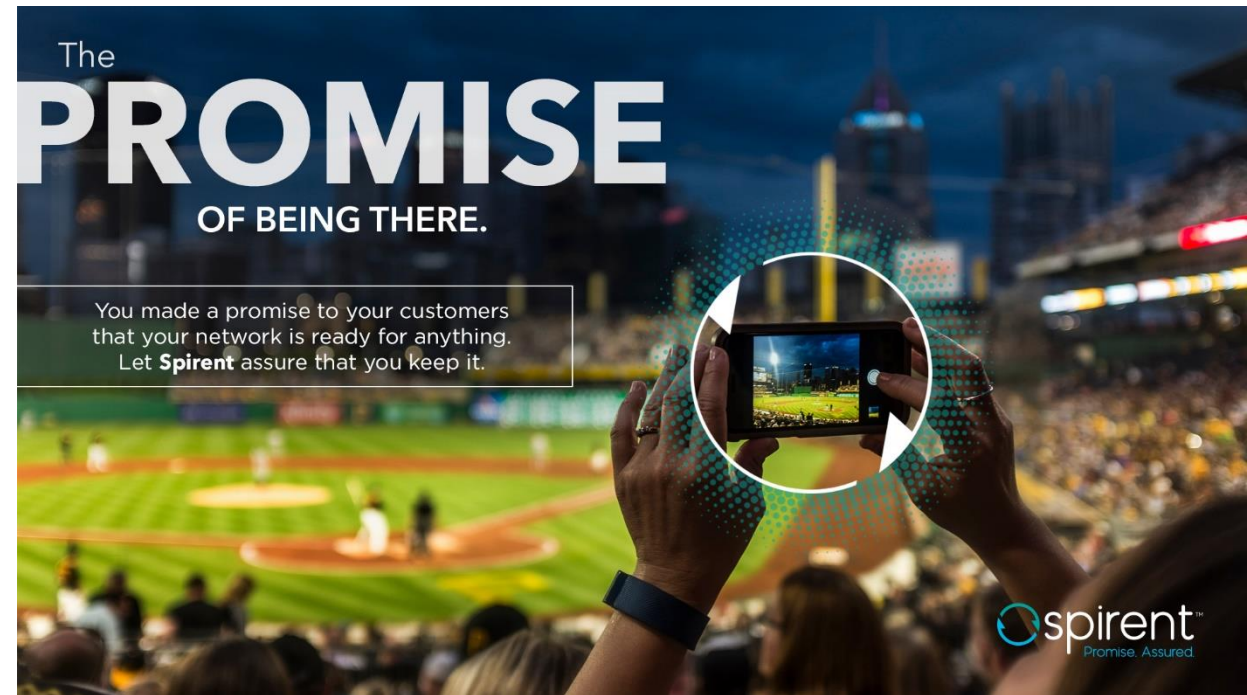


# Connected Devices – H1 Highlights

Revenue \$35.9m (H1 2017: \$36.8m)



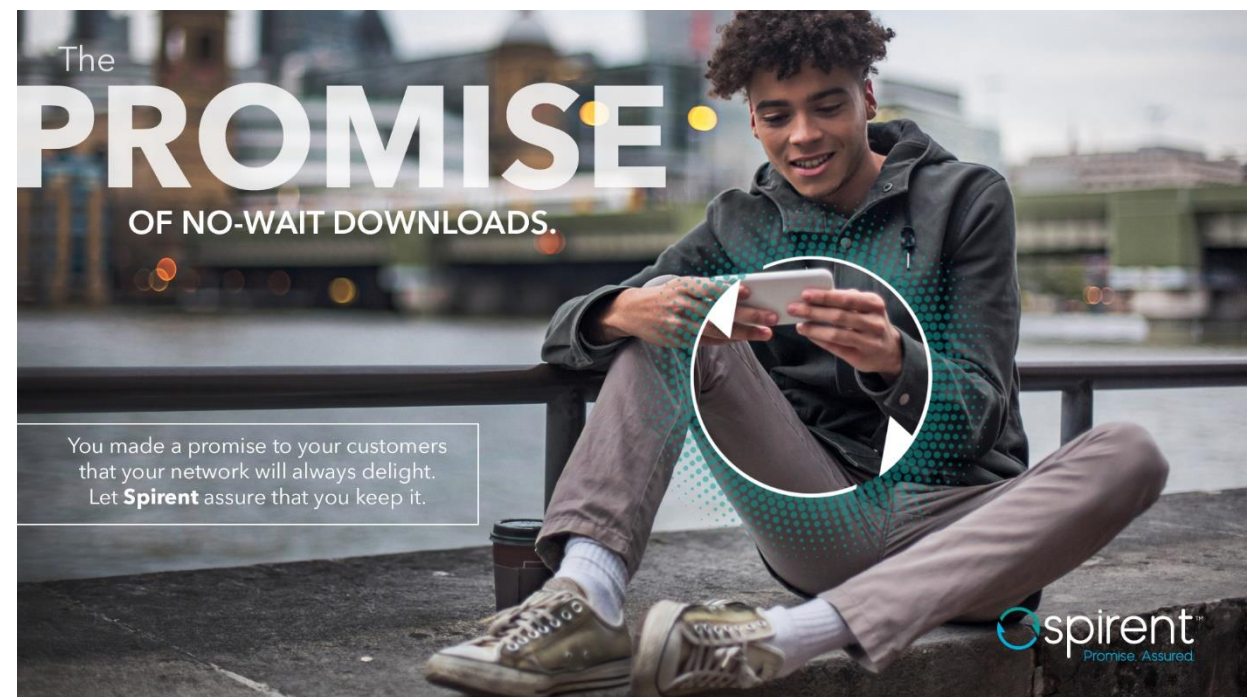
- Revenue stabilised
- Material performance turnaround, operating margin 11%
- Announced collaboration with National Instruments to develop performance test systems for 5G New Radio devices
- Won 5G channel emulation deals
- Demonstrated the world's first 5G Over-the-Air Massive MIMO Beamforming RF Test Bed with China Academy of Information and Communication Technology and Huawei
- Growing opportunities in Asia – pipeline momentum





## 5G – Momentum Across the Portfolio

- Nine 5G product solutions available
- 15 key customer wins
  - Velocity solution to automate the 5G labs in a major network equipment vendor
  - Landslide solution in a major network operator to test their core for 5G NSA New Radio and Control User Plane Separation
  - Vertex Channel Emulator in a major chipset vendor for 5G mmWave testing
  - Partnered with China Mobile Research Institute for demonstration of 5G C-RAN Platform performance testing
- Re-routing of Connected Devices into 5G arena
- 5G successes demonstrate we are well positioned



# 2018 Half Year Financial Results

Paula Bell  
Chief Financial Officer





# Financial Summary

\$m	Group H1 2018	Ongoing Businesses <sup>1</sup> H1 2017	Group H1 2017
Order intake	205.6	193.2	198.4
Revenue	209.2	207.7	213.6
Gross profit	148.1	146.1	151.3
Gross margin	70.8%	70.3%	70.8%
Operating costs <sup>2</sup>	130.3	130.1	133.9
Operating profit <sup>2</sup>	17.8	16.0	17.4
Operating margin <sup>2</sup>	8.5%	7.7%	8.1%
Profit before tax	17.4		14.4
Net cash	95.4		110.2
EPS <sup>2,3,4</sup> (cents)	2.49		2.10
Effective tax rate <sup>2,3,4</sup>	17%		26%
Dividend per share (cents)	1.76		1.68

- Orders up 6% for ongoing businesses
- Cost base contained – inflation mitigated
- Operating profit up 11% for ongoing businesses
- \$44.2m dividends paid in May 2018
- Earnings per share up 19%
- H1 dividend up 5%

(1) Excluding DI & DT divested 30 June 2017  
 (2) Before exceptional items, acquired intangible asset amortisation and share-based payment  
 (3) Before gain on divestments  
 (4) Before tax on items in notes (2) and (3) and prior year tax

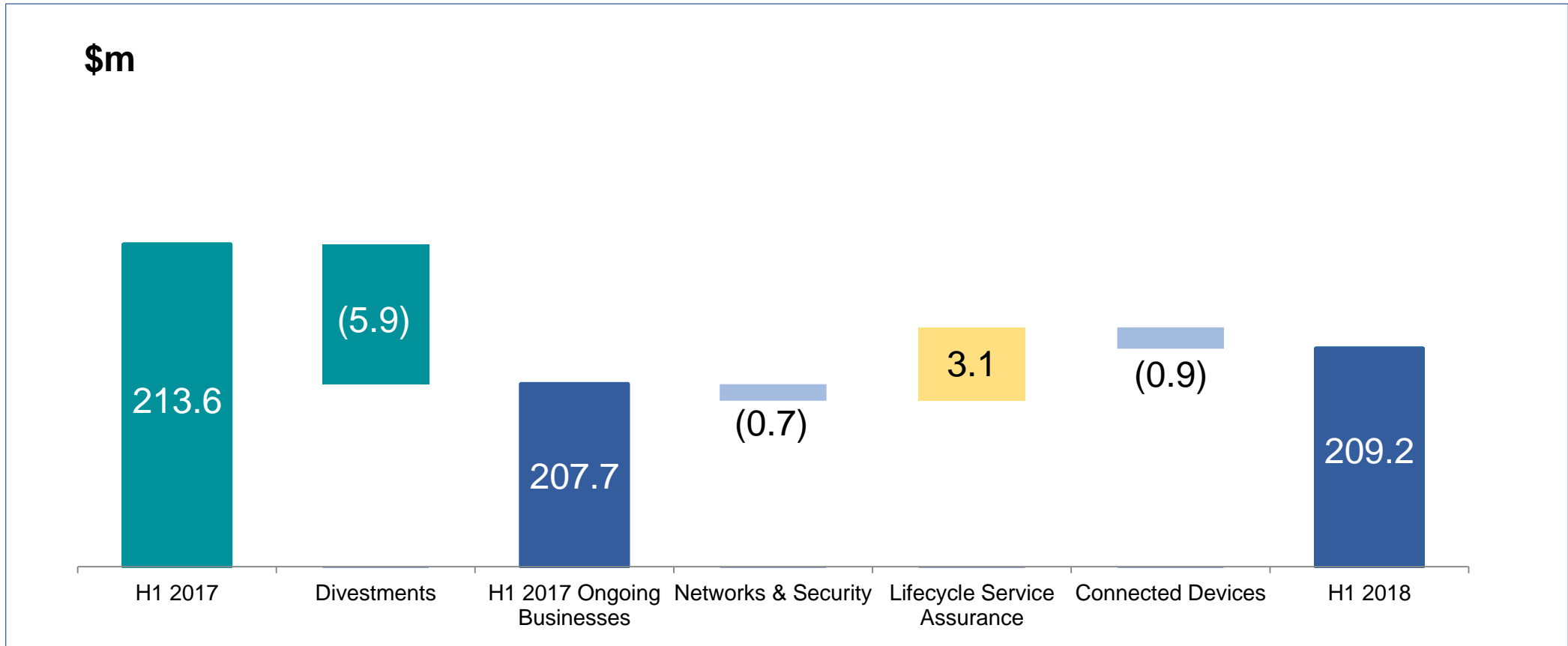
# Portfolio Performance

## Ongoing Businesses



	\$m	Revenue		Operating profit <sup>1</sup>	
		H1 2018	H1 2017 <sup>2</sup>	H1 2018	H1 2017 <sup>2</sup>
<b>GROWTH FOCUS</b>	<b>Networks &amp; Security</b>	125.3	126.0	14.8	19.5
	<b>Lifecycle Service Assurance</b>	48.0	44.9	1.4	0.2
	Total	173.3	170.9	16.2	19.7
<b>TRANSITION</b>	<b>Connected Devices<sup>2</sup></b>	35.9	36.8	4.0	(0.9)
	Corporate	-	-	(2.4)	(2.8)
	Group total	209.2	207.7	17.8	16.0

# Revenue Bridge

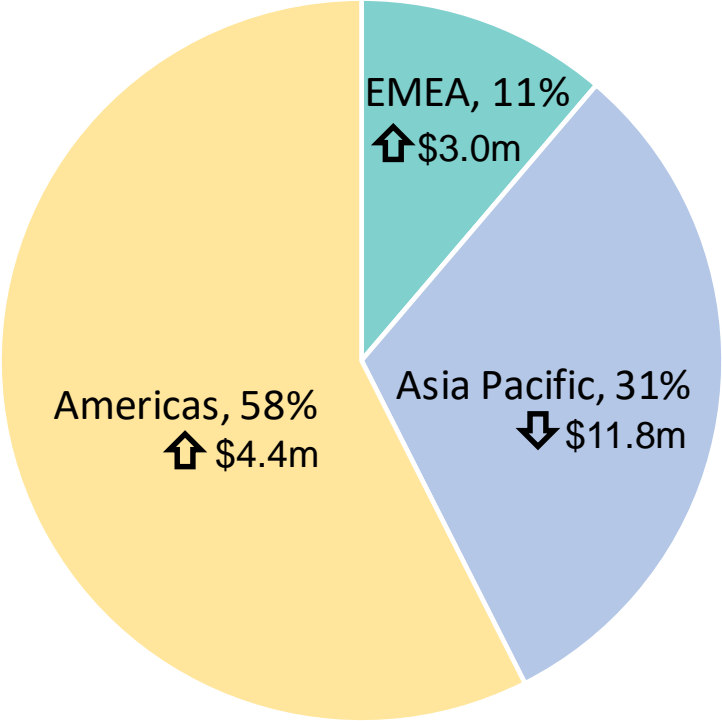


- VisionWorks product sales increasing in Lifecycle Service Assurance
- Revenue stabilising in Connected Devices

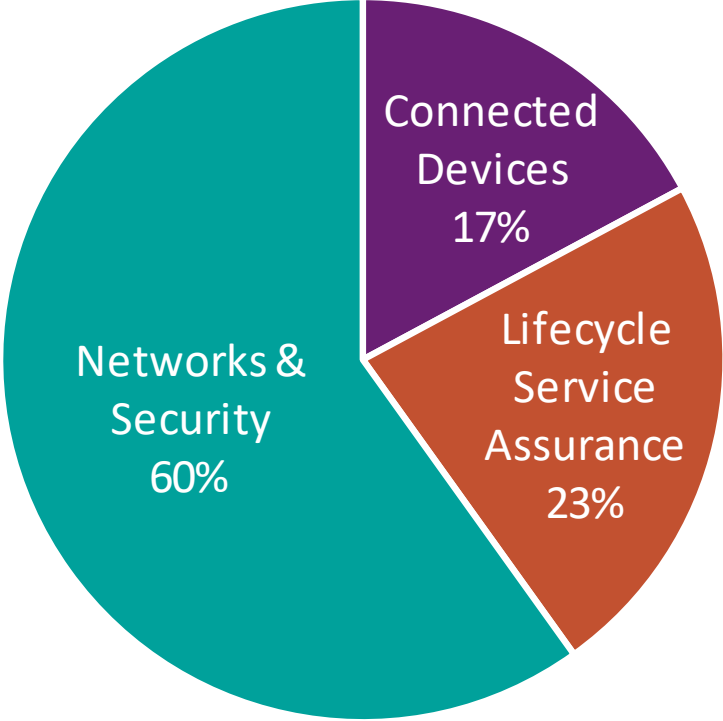


# Strong Diversification

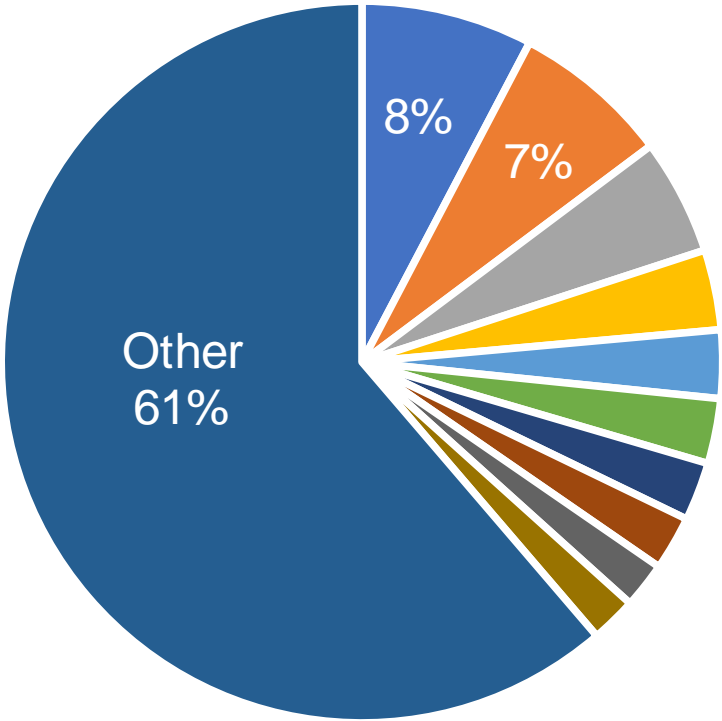
Revenue by geography



Revenue by segment



Revenue by customer



- Asia softened in H1 – US/China trade disruption
- Good portfolio balance with no overweight customer dependency

# Focused Cost Management

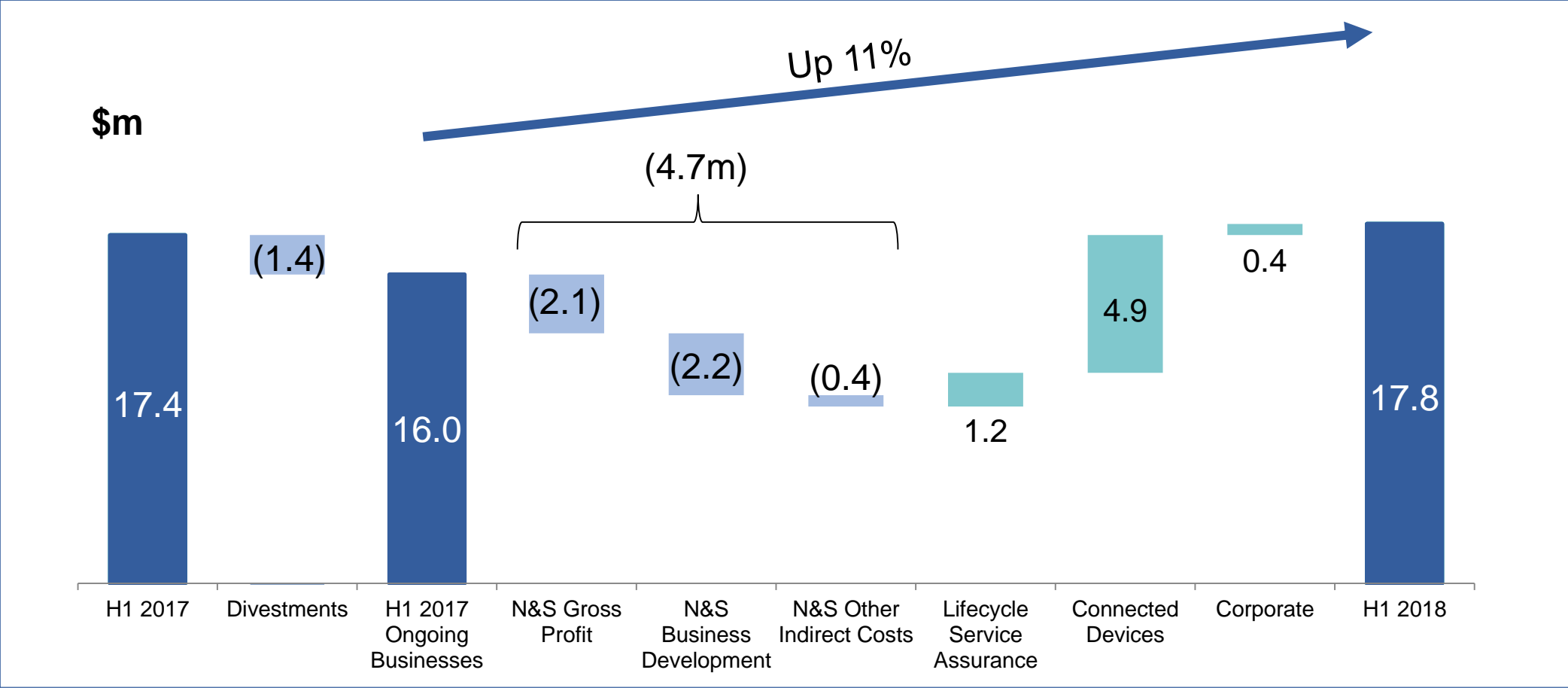
## Ongoing Businesses



\$m	H1 2018	H1 2017 <sup>1</sup>	H1 2016 <sup>1</sup>
Product development	48.6	52.6	54.7
Selling and marketing	60.5	57.9	60.9
Administration <sup>2</sup>	20.7	19.1	20.0
<b>Total<sup>2</sup></b>	<b>129.8</b>	129.6	135.6
FX loss/(gain)	0.5	0.5	(1.4)
<b>Total operating costs<sup>2</sup></b>	<b>130.3</b>	130.1	134.2

- Cost inflation of \$3.3m has been fully mitigated
- Improved effectiveness of our engineering resource
- Some enhanced marketing investment for new technologies

# Operating Profit<sup>1</sup> Bridge



- Operating profit grew 11% in H1, for ongoing businesses
- Investment into automotive and virtual product management within Networks & Security
- Strong performance turnaround of Connected Devices benefiting from cost management actions and business refocus



# Strong Cash Conversion

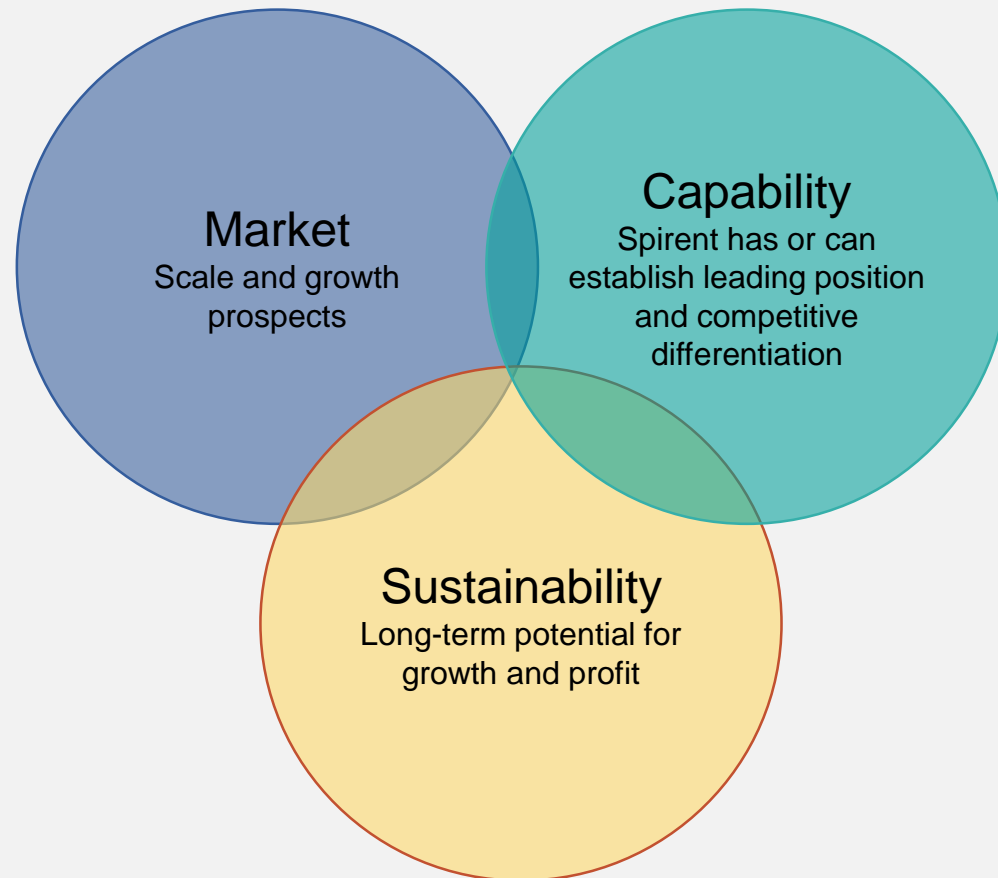
\$m	H1 2018	H1 2017
Operating profit <sup>1</sup>	17.8	17.4
Depreciation, other amortisation and loss on disposal	8.8	9.4
Exceptional items charge	-	(1.8)
Working capital movement	(1.9)	21.4
Pension	(3.4)	(3.1)
Taxation	(4.2)	(5.3)
Interest received	0.6	0.2
Net capital expenditure	(4.5)	(9.5)
<b>Free cash flow</b>	<b>13.2</b>	<b>28.7</b>
Ordinary dividend	(14.3)	(14.2)
Special dividend	(29.9)	-
Divestments	1.9	(2.1)
Employee Share Ownership Trust	(2.4)	-
Foreign exchange	(1.5)	1.7
<b>Closing cash</b>	<b>95.4</b>	<b>110.2</b>

- Cash conversion 87%
- H1 2017 benefited from working capital focus to drive improved debt collection
- Reduced working capital levels broadly maintained
- Full year capex outlook – c. \$13m
  
- Special dividend and increased final dividend paid May 2018

(1) Before exceptional items, acquired intangible asset amortisation and share-based payment

# Driving Improving Returns

Invest in areas where the following criteria are met... to drive improving margins



- Plans are built on growth drivers and disruption
- Continue to progress Connected Devices
- Robust financial cost and cash platforms will drive operating margin leverage

# Strategic Priorities

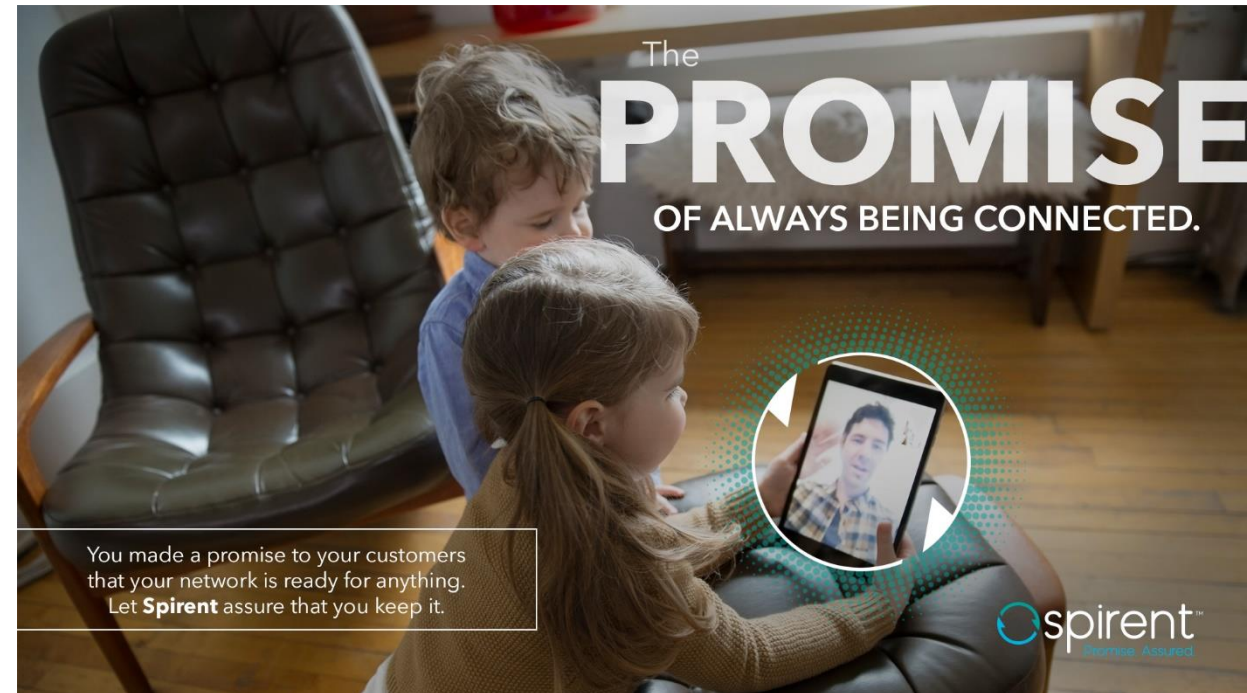
Eric Hutchinson  
Chief Executive Officer






# Market Drivers Remain Unchanged

- Demand for 100G and 400G high-speed Ethernet
- Cybersecurity threats and concerns: vulnerability assessments
- Network virtualisation
- Increasing range of connected devices (beyond smartphones)
- 5G momentum building



The  
**PROMISE**  
OF ALWAYS BEING CONNECTED.

You made a promise to your customers  
that your network is ready for anything.  
Let **Spirent** assure that you keep it.



spirent™  
Promise. Assured.

## Develop

### Accelerate time to market

Spirent reduces time and costs to develop and launch new products and networks

### Automated Testing

## Operate

### Reduce operating costs

Spirent improves network performance and customer experience while radically reducing operating costs

### Autonomous Service Assurance

# Focused Approach To Our Business Opportunities

## Develop

## Operate

### Connected Devices

The **PROMISE**  
OF BEING THERE.

You made a promise to your customers that your network is ready for anything. Let **Spirent** assure that you keep it.



Provide automated test systems to accelerate the development of connected devices and to simplify connecting them to the network

**17% of Group revenue**

### Networks & Security

The **PROMISE**  
OF SECURE DECISION MAKING.

You made a promise to your customers of swift and secure business communications. Let **Spirent** assure that you keep it.



Provide automated performance and security test systems to accelerate development of new devices, networks and applications

**60% of Group revenue**

### Lifecycle Service Assurance

The **PROMISE**  
OF ALWAYS BEING CONNECTED.

You made a promise to your customers that your network is ready for anything. Let **Spirent** assure that you keep it.



Provide active test and analytics solutions for service turn-up, network performance improvement and customer experience management

**23% of Group revenue**

- **High-Speed Ethernet and Virtualisation**
  - Build on market leadership and market share gains in 100G and 400G Ethernet performance test
  - Expect demand to grow in second half
- **Cybersecurity**
  - Continue to grow sales into enterprise and government
  - Invest in new products (data breach emulation) & sales coverage
  - Support NetSecOPEN specifications
- **Positioning**
  - Build presence and business development in USA and China
  - Expand sales into commercial vertical segments
  - Explore new business in autonomous vehicles segment



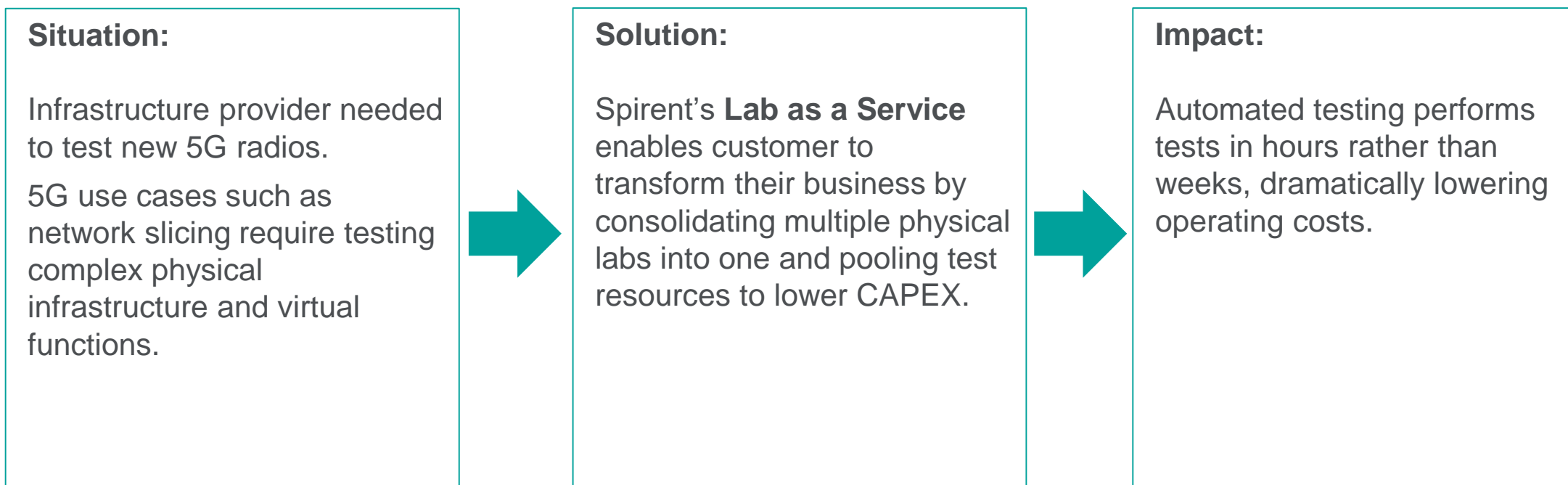
<b>Market</b> 2017	~ \$810M
<b>Market Growth</b> 2017-2020	~ 4-6%



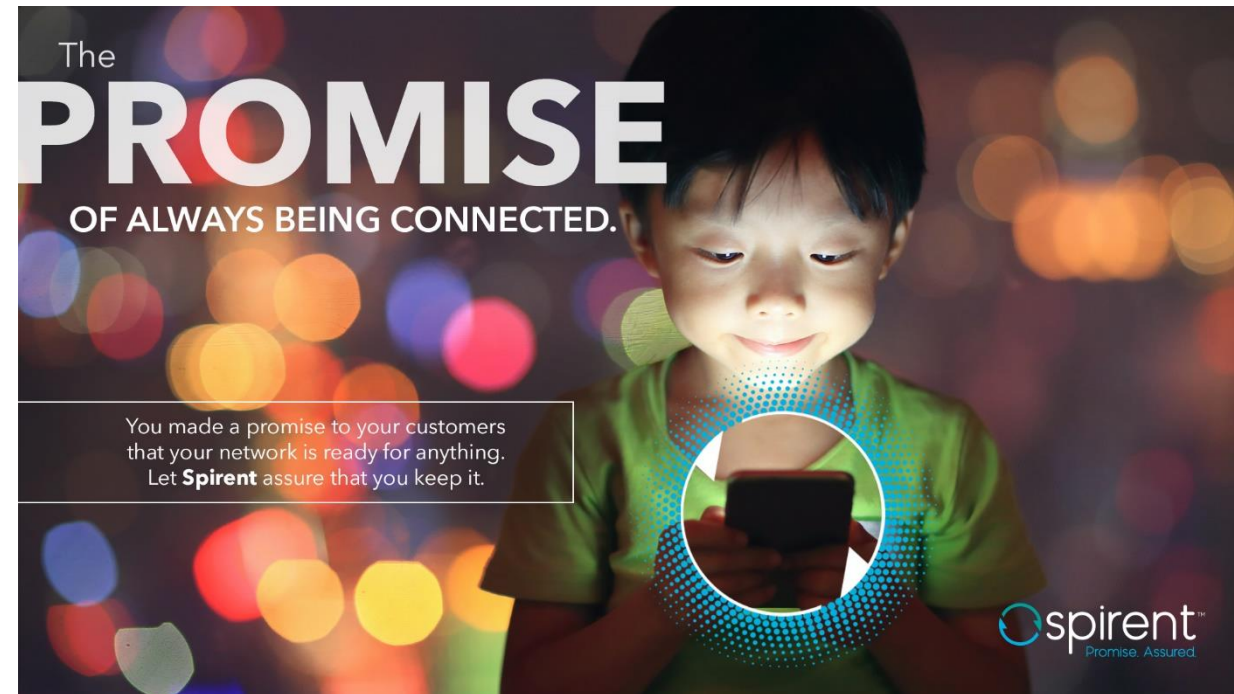
## Develop

## Global Network Equipment Provider

### Accelerating time to market of new 5G radios with Spirent's Lab as a Service



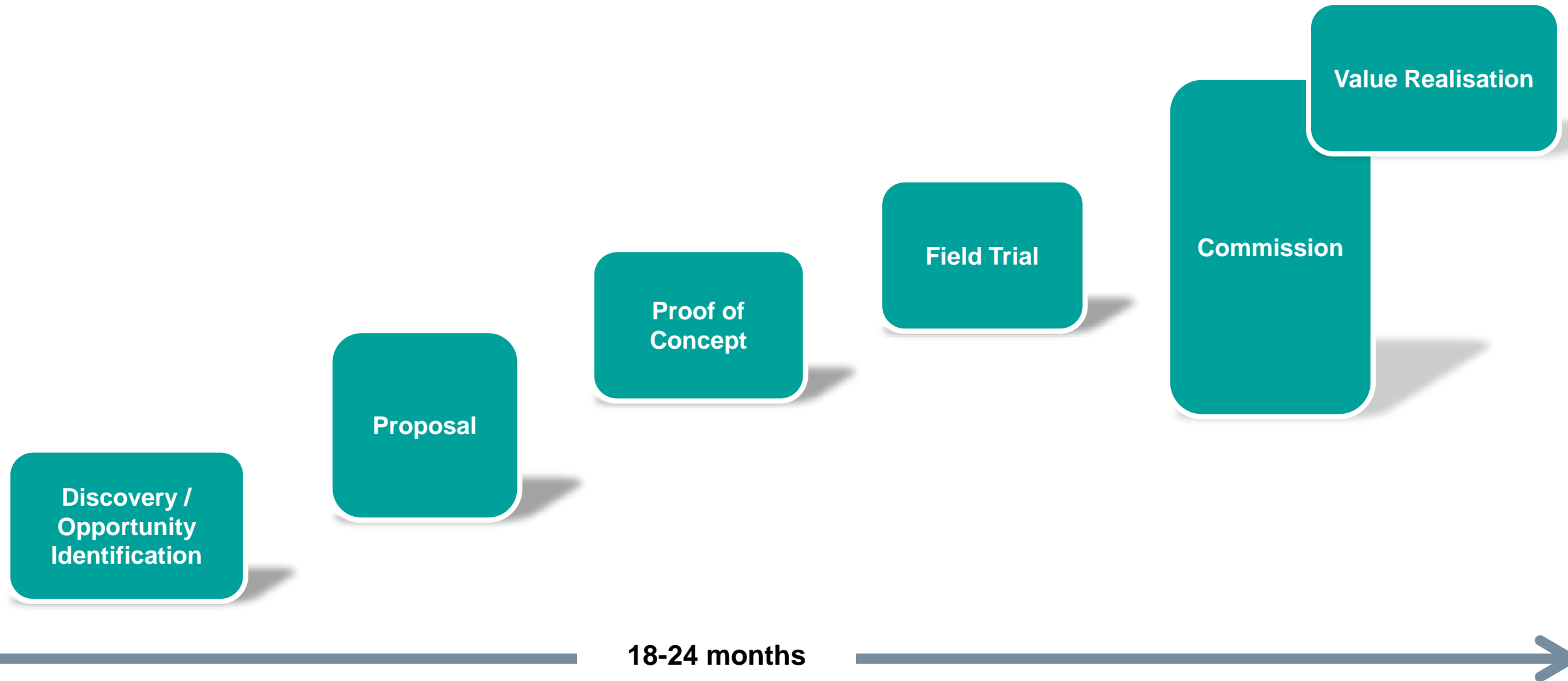
- Cloudification, network automation, artificial intelligence driving change
- Continued expansion of VisionWorks in H2 and beyond
- Accelerate automation solutions for labs and autonomous service assurance:
  - Based on solving customers material economic problems
  - Through differentiated solutions utilising active virtual test agents



<b>Market</b> 2017	~ \$360M
<b>Market Growth</b> 2017-2020	~ 6-8%



# VisionWorks Adoption Profile



## Operate

Tier 1 North American Service Provider

Delivering high-performance, reliable IoT services over mobile network

### Situation:

Service provider was limited to monitoring quality of top 7% of their high-value enterprise customers every 8 hours.

The manual testing process and specialised hardware was expensive.



### Solution:

VisionWorks enables scalable virtualised and automated testing.

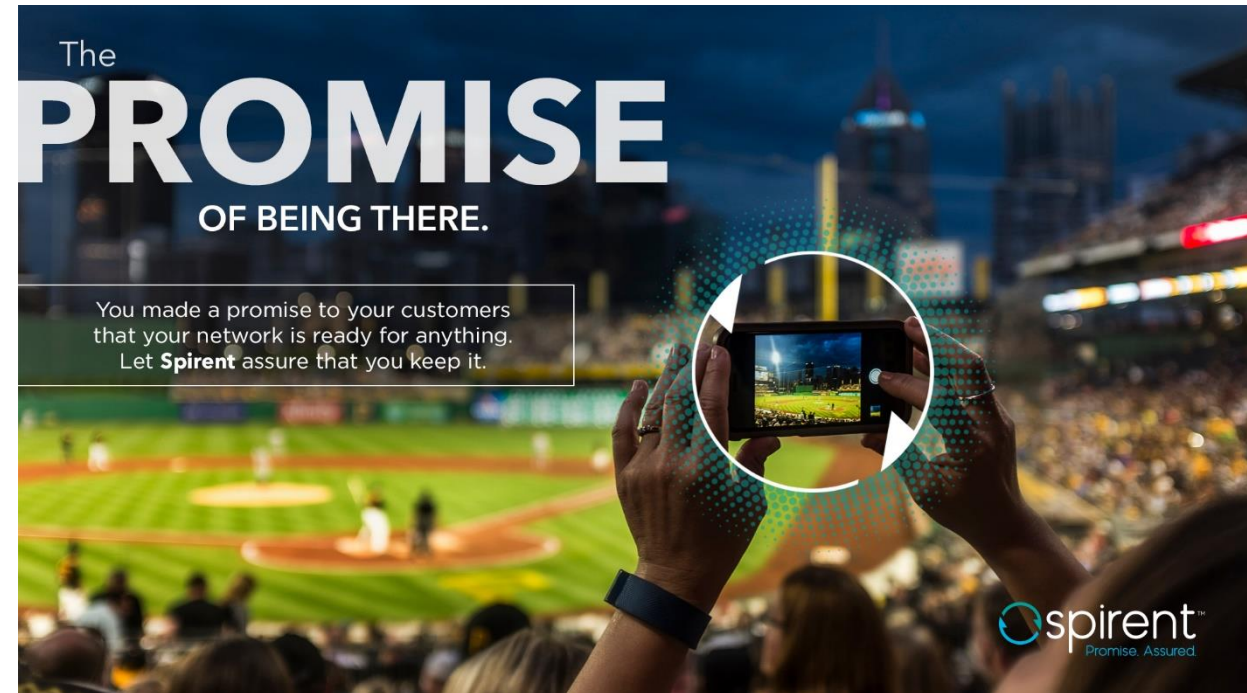


### Impact:

All customers are now tested every 5 minutes (100X faster).

The automated process proactively assures service quality and reduces operating costs.

- Continue to transition – stabilise revenues and achieve margin improvement
- Realise potential presented in 5G
- Build on collaboration with National Instruments
- 5G New Radio smartphones and IoT devices
- Over the Air performance test for 5G devices



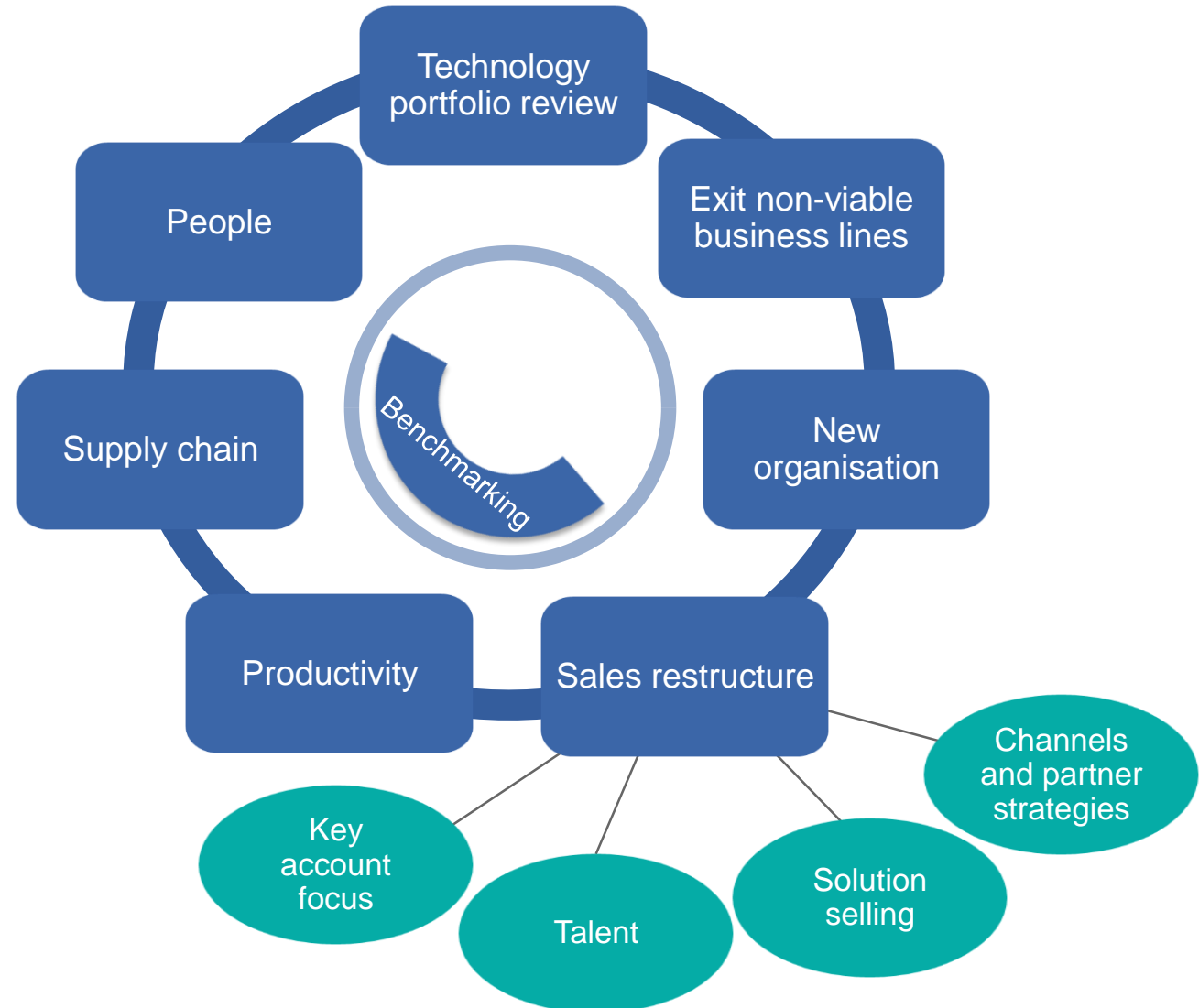
<b>Market</b> 2017	~ \$620M
<b>Market Growth</b> 2017-2020	~ 2-4%

# Operational Excellence

## Building a Strong Platform

### First half 2018 highlights

- Talent management review complete
- GDPR implementation
- Solution sales and key account management
- Global partner programme to extend reach
- New **'Promise. Assured.'** brand launched
- 5G market awareness established and sales organisation enabled
- Sustained cost effectiveness



New Spirent Brand  
Drive Closer Customer Relationships

The **PROMISE**  
OF ATTAINING YOUR PERSONAL BEST.

You made a promise to your customers that your GPS devices will guide them every step of the way. Let **Spirent** assure that you keep it.

The **PROMISE**  
OF ALWAYS BEING CONNECTED.

You made a promise to your customers that your network is ready for anything. Let **Spirent** assure that you keep it.

The **PROMISE**  
OF SECURE DECISION MAKING.

You made a promise to your customers of swift and secure business communications. Let **Spirent** assure that you keep it.

## Indications support growth in H2

**Sharp focus on target markets**

**Innovate**

**Strong financial and operational platform**

- Higher activity expected in second half
- Strong operational and financial platform
- 100G and 400G high-speed Ethernet testing ramping up
- Lifecycle Service Assurance solutions gaining adoption
- Cybersecurity penetration into enterprises and government customers
- Resolution of certain China/US trade disputes
- Positive momentum as 5G developments accelerate
- Expectations for full year performance unchanged



# Q&A



# Financial Appendix



# Income Statement

\$m	Reported H1 2018	Ongoing businesses <sup>1</sup> H1 2017	Reported H1 2017
Revenue	209.2	207.7	213.6
Gross profit	148.1	146.1	151.3
Product development	(48.6)	(52.6)	(53.8)
Selling and marketing	(60.5)	(57.9)	(59.4)
Administration	(21.2)	(19.6)	(20.7)
Adjusted operating profit	17.8	16.0	17.4
Adjusting items:			
Exceptional items	-		(1.8)
Acquired intangible asset amortisation	(1.8)		(4.0)
Share-based payment	(1.4)		(0.3)
Operating profit	14.6		11.3
Net finance income	0.5		-
Gain on divestment	2.3		3.1
Profit before tax	17.4		14.4
Tax	(2.9)		(3.1)
Profit after tax	14.5		11.3
Adjusted basic earnings per share (cents)	2.49		2.10

# Networks & Security

\$m	H1 2018	H1 2017
Revenue	125.3	126.0
Gross profit	88.4	90.4
Gross margin	70.6%	71.7%
Product development	(26.8)	(26.9)
Other expenses <sup>1</sup>	(46.8)	(44.0)
Operating profit <sup>1</sup>	14.8	19.5

- Softness in high-speed Ethernet testing (Cloud IP) as customers pause spend driven by current transition to new 400G technology platforms. Positive momentum gaining traction in 2018
- Product marketing investment increased to develop medium term solutions for automotive and virtual

# Lifecycle Service Assurance

\$m	H1 2018	H1 2017
Revenue	48.0	44.9
Gross profit	35.9	33.1
Gross margin	74.8%	73.7%
Product development	(14.8)	(15.6)
Other expenses <sup>1</sup>	(19.7)	(17.3)
Operating profit <sup>1</sup>	1.4	0.2

- Further expansion of VisionWorks sales, revenue growth 7%
- Product development synergies from consolidation of assurance activities following 2017 organisation restructure
- Well positioned to expand customer footprint into 2019

# Connected Devices

\$m	Ongoing businesses		Reported	
	H1 2018	H1 2017 <sup>1</sup>	H1 2018	H1 2017
Revenue	<b>35.9</b>	36.8	<b>35.9</b>	42.7
Gross profit	<b>23.8</b>	22.6	<b>23.8</b>	27.8
Gross margin	<b>66.3%</b>	61.4%	<b>66.3%</b>	65.1%
Product development	<b>(7.0)</b>	(10.1)	<b>(7.0)</b>	(11.3)
Other expenses <sup>2</sup>	<b>(12.8)</b>	(13.4)	<b>(12.8)</b>	(16.0)
Operating profit/(loss) <sup>2</sup>	<b>4.0</b>	(0.9)	<b>4.0</b>	0.5

- Material profit turnaround delivered by improved gross margin from product mix and cost management initiatives
- 11.1% operating margin delivered
- 5G product development underway with new collaboration with National Instruments



# Tax Rate Trend - Recap

	ETR <sup>1</sup> %
<b>2016</b>	26.9
UK Patent Box	(1.3)
Divestments (DI & DT)	(2.8)
Other	(0.7)
<b>2017</b>	22.1
US tax reform	~(8)
Other	~ 3
<b>2018</b>	~ 17

## US Tax Reform impact:

- US rate reduction from 35% to 21% effective 1 January 2018
- Foreign Derived Intangible Income (FDII) – rules not fully formed
- Domestic Production Activity Deduction (DPAD) repealed
- US tax reform continues to evolve, we expect further change over coming years

# Strong Balance Sheet Maintained

\$m	30 June 2018	31 Dec 2017 <sup>1</sup>
Intangible assets	160.6	163.6
Property, plant and equipment	38.2	42.3
Deferred tax	19.0	22.9
Working capital and other	11.6	6.5
Cash	95.4	128.4
Provisions	(5.2)	(6.8)
Defined benefit pension	8.5	(2.8)
<b>Net assets</b>	<b>328.1</b>	<b>354.1</b>

- Reduced level of working capital maintained
- Defined benefit pension plan deficit now surplus of \$8.5m
- Special dividend of \$29.9m paid in May 2018

# Foreign Currency

- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD: GBP exchange rate for H1 2018 of 1.38 compared to 1.26 in H1 2017, the closing rate at 30 June 2018 was 1.32 vs 1.30 at 30 June 2017
- FX loss of \$0.5m charged to the income statement in H1 2018 (H1 2017 \$0.6m loss) in relation to:
  - Transaction exposure in UK operations from US dollar sales; and
  - Retranslation of cash balances held in non-domicile currency

# Capital Structure and Returns Policies

## Increased Returns to Shareholders

### Dividend Policy

- Progressive dividend as business delivers growth
- Earnings cover ratio of 2 to 2.5 times

2018 Interim  
dividend  
1.76c up 5%

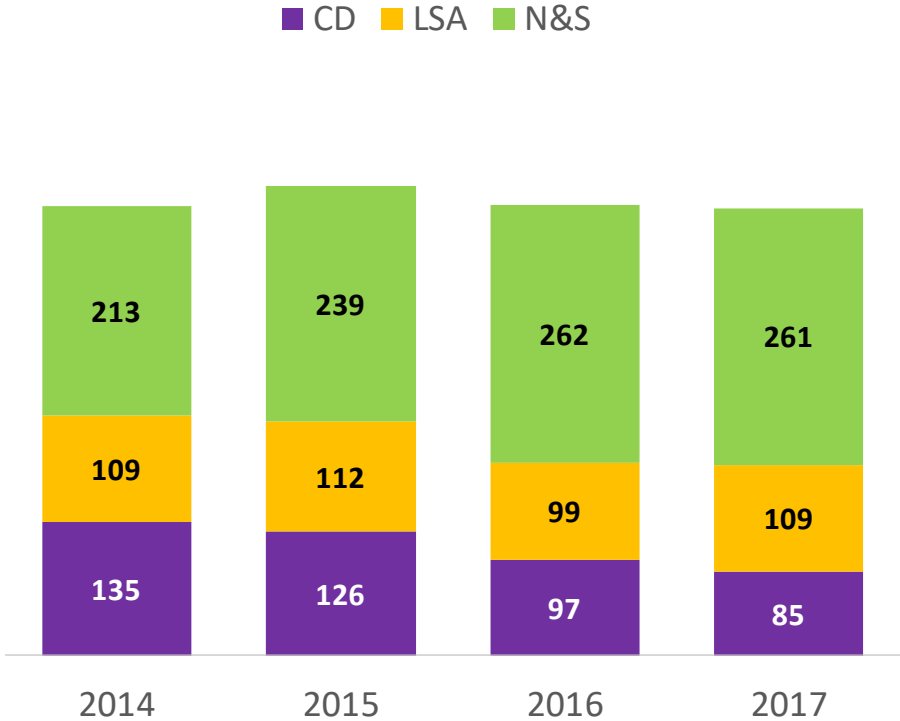
### Balance Sheet & Capital Allocation Policy

- Maintain a cash positive balance sheet to manage
  - Technology cyclical risk
  - Working capital requirements
  - Small inorganic investments
- Allow flexibility for larger inorganic investments may use modest level of debt
- Return excess cash to shareholders

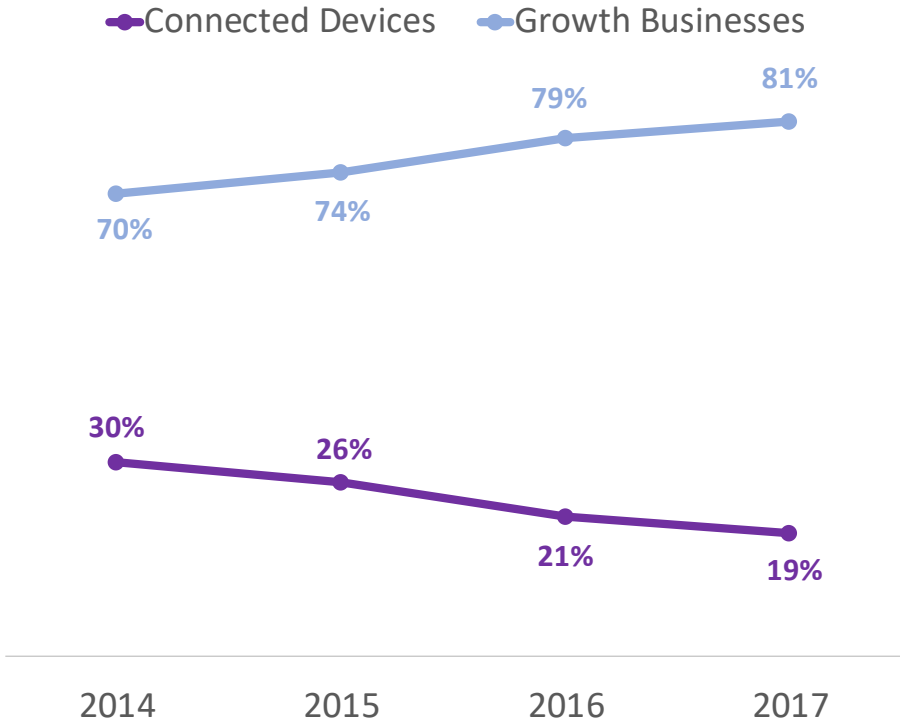
**Paid May**  
**2018**  
Special  
dividend  
5.00c  
(\$29.9m)

# Revenue Portfolio

Segment Share of Revenue (\$m)



Segment Share of Revenue (%)



(1) 2014 operating segment revenue are estimates





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