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PRESENTATION

Eric Hutchinson - *Spirent Communications plc - CEO*

Good morning. Welcome to Spirent's 2013 results presentation. As you can see, I'm joined here today by Rachel Whiting, Chief Financial Officer.

Rachel has worked with the Company for quite a while. As you know, very experienced in the business of the Company. She's worked with me for a long, long time; I won't embarrass anyone by saying how long. But she's knows the business very well. She's worked on all of the corporate transactions with me over the last 14, 15 years. So, welcome, Rachel. And she will be a new contact for you as we move forward.

If you could just bear in mind the Safe Harbor statement; just glance through that, please.

I will make some introductory comments; then I'll hand over to Rachel to take you through the numbers; and then I'll come back and talk about the strategic update, and markets, and outlook.

2013, clearly, a challenging year; we've seen that from the results. We saw, again, a second year of lower order intake. We saw revenues down. There was a distinct shift in activity levels in the markets across all sectors, both the wireline sector and the wireless world. That's had an impact on everybody in the industry; I'm sure you've seen that coming through.

For us, we also suffered a bit from some historical underinvestment, in the sense that we were not ahead of changes in the market. So there was some market opportunities that we couldn't capitalize on, or we haven't been in a good position. That's largely been put right now, in the sense that we've started to increase spending during last year, in the second half; and I've got a series of investment initiatives that I'll take you through.

There is distinctly intense competition in the data center market. Everything to do with data center switch development, we've seen very intense competition; that's made it a very hard marketplace to see growth and make good margins. Again, that's a theme that continues. But there's a transition going on in that data center market, and I'll take you through some of our initiatives there.

And the polarization in the profitability of our device manufacturer customers in the wireless market certainly caused quite a change to the spending patterns in test solutions coming from our customers there. A number of customers have decreased their spending very significantly, big headline names that you're all aware about, but it's dominated by a few manufacturers now.

Regionally, in Europe, it was a tough year. However -- and, in Asia, we saw another year of down activity with the Chinese manufacturers. That's something that is changing. So there's a turning point going on. Second half year was better. We saw sequential growth in order intake. We saw a pickup in activity levels; that was good to see. We had our best quarter in the European market in the fourth quarter that we've seen for over two years, so we've built order book in the second half year.

We saw positives in the rollout, the investment in wireless infrastructure. Everything to do with testing mobile packet core, enhanced packet core is a growth for us. We saw that coming though strongly in the second half, and we see more of that coming through, we expect, in 2014.

The positioning test market, the ones I've talked to you about previously, has been in a growth phase. We saw a recovery in our positioning test order intake; again, building order book as we go into 2014.

And our services revenues overall actually grew last year. There was compression from the sale of products; that has a bigger impact on our gross margin, and Rachel will illustrate that. But higher margins on product sales saw a slight decrease in the gross margin; you've seen in the numbers and the announcement today.

As I say, we've started to increase investments to go after new market areas. That's really about driving the business back into growth in the future, and creating additional value in the Company.

I undertook a pretty significant internal reorganization in the fourth quarter. I've created a series of business units under focus management teams, arranged around technologies and customer sets. And that was really because we were not being agile and quick enough, or responsive enough and supportive enough with our customers. And I'll talk a bit more about that.

It's really about being more agile in our responsiveness and decision making, and also being able to nuture and expand our talent base, because we're all about innovation and bringing new solutions to market. That's what Spirent's business model is.

I'll return to these themes later. In the meantime, I'll hand over to Rachel to take you through the 2013 scorecard. Rachel.

Rachel Whiting - *Spirent Communications plc - CFO*

Thank you, Eric. Good morning, everyone. It's good to meet you all, and I look forward to working with you all over the coming months.

If we look first at our KPIs for 2013, which I'll go into in more detail as we move through the presentation, as Eric has highlighted, 2013 was a challenging year.

Although there was a sequential increase in revenue from H1 to H2, revenue fell overall from $472.4 million in 2012 to $413.5 million in 2013. This had a consequent impact on operating profit, return on sales and earnings per share, which reduced to $0.571 from its high of $0.1302 in 2012. However, we remain profitable and cash generative at these reduced operating levels.

If we look then at the Group level results in more detail, revenue reduced year on year, due to disruption and shift in the structure of our markets, and also as a consequence of historical underinvestment in certain parts of the business.

Our high operating gearing means that the reduction in turnover has a marked impact on operating profit, which reduced from $118.3 million to $50.1 million in 2013.

Return on sales, consequently, fell from its peak in 2012 of 25% to 12.1% in 2013.

However, we built order book in the year with an improving trend in H2 giving a book-to-bill ratio of 105, and, hence, enter 2014 in a stronger position.

Breaking this down in more detail, and just to remind you, Spirent is now reporting as three operating segments, reflecting the change in the management structure of the business.

Networks and applications, our largest segment, accounts for 52% of revenue in 2013, and includes test solutions for everything to do with Ethernet. It's where we supply solutions to data centers, which in turn supports the cloud computing services. It also includes wireless infrastructure and mobile packet core.

An increasingly important part of the business is test optimization giving efficiencies in the use of engineering time and resources, and increasing the quality of software development at our customers.

Turning to wireless and service experience, previously called wireless and positioning, this accounted for 40% of revenue in 2013, and includes everything to do with solutions for functional and performance testing of next generation wireless devices, predominantly smartphones.

It also includes solutions to test satellite navigation and global positioning systems, together with our wireless service experience business, which was the Metrico business that we acquired in September 2012, where we have testing of devices, such as smartphones in the live network, providing data analytics and measurement of user experience.

Our third segment, service assurance, accounted for 8% of revenue in 2013, and is about monitoring in the live network. This segment is now predominantly about the rollout of Ethernet connectivity in North America, supporting business services; but also includes the monitoring of wireless backhaul.

This segment includes our unique test solutions for in-home testing, with particular reference to motor technologies in the US, enabling service providers to locate problems much more quickly in the home. This is where our newly acquired DAX business will sit, which Eric will talk about in more detail a little later.

Looking then at the results for each of these segments in more detail, and turning first to networks and applications, this is where we saw the biggest impact on the Group with revenue down $46.1 million in 2013, from $259.5 million to $213.4 million.

The decline in revenue was predominantly due to a decline in demand from our data center customers; although this was partially offset by growth in wireless infrastructure spend. In addition, we continued to see a decline in activity levels in Asia and Europe, with low demand from the NEMs in Asia, principally, and China.

The decline in revenue has a consequent impact on growth margin, which fell 68% due to lower product sales, and achieving a lower price per port as we faced intense competition at the largest NEMs.

As a result, operating profit was down significantly to $13.2 million; and return on sales fell from 23% in 2012 to 6.2% in 2013.

Following a very depressed order intake in H1, we saw some improvement in H2 with an increase in activity levels in Q2, particularly in Asia, resulting in a book-to-bill ratio of 105, and giving us stronger prospects for 2014.

Turning then to wireless and service experience, in this segment we saw revenue fall by $6.8 million, predominantly due to structural changes in the wireless device market, which is now dominated by a few leading developers of smartphones.

We also saw a significant shift away from 3G wireless test solutions for UMTS and CDMA systems, although this was partially offset by success in our positioning business as we saw demand for our systems to emulate the Chinese BeiDou satellite system.

We also saw some recovery in spending by the US Government, which increased demand for our high-end expert systems.

The gross margin for the year is down to 69.4% from 72%, predominantly due to an increase in service revenue now that service experience, formerly Metrico, is included in the segment, which has a relatively lower gross margin. However, we have again built order book in the year, reflecting positive book-to-bill ratio of 101.

Turning to service assurance, as we reported in November, we have seen delays in software purchases by our largest service provider customers. 2013 was also impacted by a significant amount of revenue from a large field test order being delayed into 2014. The impact of these two combined is approximately $12 million of revenue, which we now expected to see in H1 2014.

However, the underlying trend in SA is positive, and we're seeing strong growth in Ethernet software solutions.

The gross margin reported in 2013 of 77.8% is high due to the lower ratio of hardware equipment in 2013, and we would normally expect to see a gross margin of around 75%.

Consequently, we achieved a high return on sales of 27.8%; up from 21.9% in 2012.

Again, book-to-bill ratio was positive in the year, partly due to delayed shipping.

Turning now to our cash flow, the Group continues to have a high conversion ratio of earnings to cash, which in 2013 was 1.3 times.

Operating profit of $39.1 million resulted in $43.9 million of free cash flow, assisted by the release of working capital of $9.2 million, but more than offset by high investment in CapEx of $24.3 million.

In 2014, we expect CapEx spend to be more in line with 2012.

$76.9 million of cash has been used in the year to fund shareholder returns by way of dividends and share buybacks, leaving $216.2 million on the balance sheet at the year end. However, since the year end, we have returned a further $16 million to shareholders, and funded the acquisitions of DAX for $37 million; and Testing Tech, which Eric will talk about a little later, for EUR2 million.

Turning then to the details for tax and earnings per share, for 2013 our effective tax rate was 25.8%, assisted by 2012 research and experimental credits for 2012 which fall into 2013, and also by the geographic spread of profit.

Cash tax paid on lower profit was $6.1 million; equivalent to 16% of 2013 profit.

In 2014, we expect to return to a more normal rate of 28%, reflecting the jurisdictions in which profit is earned.

Looking then at adjusted EPS, I've given you our definitions there, and in 2013 this resulted in EPS of $0.0571 per share.

Finally, turning to shareholder distributions, as previously reported, we have a progressive dividend policy, and are proposing a final dividend of $0.0201 per share, which gives a total of $0.0354 per share for the year; up 10% on 2012. And that will utilize about $12.3 million of cash.

As I mentioned earlier, we have continued share buybacks in 2013, returning to shareholders the balance of the proceeds of the systems divestment in 2012; and, extending the program beyond that, returning in total of approximately $55 million of cash in the year; and, as I've just mentioned, have subsequently returned a further $16 million since the year end. However, in order to maintain a strong balance sheet, no further share buybacks are planned.

With that, I will hand you back to Eric, who will provide you with a market update and outlook for 2014.

Eric Hutchinson - *Spirent Communications plc - CEO*

Okay, let's have a look at the markets that Spirent currently serves today. This is a split by segment. Rachel's taken you through the various activities within the segments, so I won't repeat all of that; it's noted on this slide.

What you can see there is, if you aggregate those served markets, it's around about a $2 billion market that we serve today. And as you can see from our revenue, we have about 20% market share.

About half the Group's activities are in networks and applications. Networks and applications would also include what we're doing on enterprise test products, just to note that.

So, $750 million market; currently have 28% market share. Based upon industry analysts' projections, and our view of some of the market segments within it, we think that future growth rate will be about 7% compound annual rate.

The thing about these served markets is that there are various niches within the markets that grow at higher rates, and some that are not growing at all, a few that are decreasing. So the whole objective is to move into the high growth niches.

Within networks and applications, the future growth is around cloud computing. It's clearly about security. From our perspective, there's a lot of activity in test optimization. And wireless infrastructure is a current strong growth driver. Moving the business into the higher growth parts of the market is key for us, and I'll come back to that later in the presentation.

The wireless and services experience, or wireless and positioning market, as you saw it reported previously, just under $1 billion. Here, we have 17% market share. Higher growth elements to this. And the higher growth elements are really driven by wireless channel emulation; satellite navigation; and service experience. Clearly, the wireless devices market actually went backwards a bit in 2013.

And in service assurance, a sub-set of the total service assurance industry, the total service assurance industry is about a $2.7 billion market. We address $275 million out of that with our test diagnostics and network monitoring in the live networks. Our market share is around 12%. Overall, around about a 5% on average growth here.

But, for us, Ethernet business services have been growing at around about 15%. There's been a lot of transition between older wireline technologies into Ethernet deployments. Wireless backhaul is, clearly, part of the infrastructure build out.

And, as Rachel mentioned, we brought out some new products that specifically address MoCA testing requirements in North America. That, for us, it's a new revenue stream, and that's where we saw the deferrals from 2013 into 2014.

So, overall, $2 billion market. If you work out the average, it's growing at about 7.5%, if you aggregate all those numbers.

You'll be familiar with this timeline; it's not new to you in the industry. Clearly, since the first smartphone was introduced to the market in 2000 we've seen a rapid growth in data connectivity and data rates. You can see that the number of people connected to the Internet more than doubling; 1 billion people, up to 2.7 billion people in less than 10 years. And those trends continuing as you project out to 2020.

The connective vehicle market is now becoming something real. So 10 million connected vehicles, expanding through to 67 million new connected vehicles in the 2018 timescale.

The measures for the amount of data traffic going at a bit mind-blowing numbers. By 2020, nearly half of the world's entertainment and information will be through the digital network.

What does that all mean from a test vendor's perspective? Well, what it really means is that you need higher reliability; always connected; secure traffic. If you're supplying the services and building up the networks, you want to optimize the capital investment you need to get there. A number of companies in the market supplying the services have got very distinctive brands to protect. All of those requirements drive a need to test and measure performance.

It's now moving into being how we all really experience this, so things are become critical.

In terms of a backdrop, and an industry, and an outlook, you couldn't get a better one really, could you? You couldn't get a more exciting backdrop. There's clearly some disruption and shifts on the way.

But all of this is really just getting started. The catchphrase, Internet of Things, is the one that everybody talks about these days. A slightly odd expression, but it's about machine-to-machine connectivity and data connectivity over and beyond anything that we, as individuals, access.

So, it's a turning for the industry. The focus is now moving from the build out of the network, build out of the pipe, if you like, the provision of data traffic to much more about the applications and services that run over that, so the content provision. It's all about how we interact and what sort of experience we get in being connected to the data world.

Ethernet is now the common building block. It's won the wireline world; it's ubiquitous, it's cheap to deploy. Spirent is a leading provider of Ethernet test systems.

And Ethernet is being built into all sorts of other social networks now. It's moving beyond just being connected. It's now becoming an age where we will have multiple devices connected to the network, as individuals. And as organizations, whether we are enterprise, or government, or other bodies, there's much more data connectivity. You can see from that previous chart the number of devices that are connected per head in the developed world is increasing dramatically.

It's very much being built into our infrastructure. Data technologies are now a key element of the deployment of all sorts of activities in our economy, so it's now becoming critical in the infrastructure build.

We're seeing disruptive technologies coming through in how that infrastructure's being deployed, so software-defined networking, network functional virtualization; the keys to how do you drive the massive demands in increasing data connectivity and data traffic and still be able to do that in an economic way, so optimizing deployment. One of the ways of that is to roll out virtual technologies so that you can operate that in a much more effective way, and centralize control for service providers.

Clearly, security is an all-pervasive need. So that's been building. We read about cyber security, lots of exciting headlines. But, fundamentally, security over data traffic is absolutely critical for all of us. And there are all sorts of gaps in security on data today.

Again, so a test need is, well, if I build a defense against security threats, or how do I make sure that, that works at the device level, the network level? How do I detect intrusions long after the event, which I may not have seen before? So, a recurring theme. That's not going away; that's going to get better, bigger.

The cloud. So the cloud, the build out of data centers, it was a convenience for us to have cloud services. It's very nice to do eCommerce activities, and so on. It's now, again, being a critical part of our lives and the way that we run our businesses that the cloud services are there, they're available, they're always on, and that they're secure.

And so there's a result in an increasing amount of complexity for anybody in this industry in how you operate and deploy the services. Again, that drives interesting test requirements and opportunities.

The vision for Spirent, to be the leading experts in the test and measurement technologies in the data communications' market worldwide. The key word in the vision is experts. The key part of what we're doing in Spirent is to get ourselves back into being recognized as experts in test methodologies, and leading the market in those requirements. But the vision is to be the experts.

You'll see a few companies, which go around Mobile World Congress, that want to be experts; but, by no means, do everybody claim to wish to aspire to be that. So that's critical, because we can add much more value in being recognized as experts.

And the strategy to get there is through continuous innovation. So it's being creative, it's being first to market, and it's leading the charge, and we've lost sight of that a little bit over the last few years. Clearly, that's to serve our chosen markets today. But you'll hear me talk about moving into some other industry verticals, where our test methodologies and capabilities have applications.

And it's really about recognition in the marketplace by our customers that we are the experts, so the customers will naturally come to Spirent for a solution. That's already starting to happen. We have major service providers and equipment manufacturers calling us saying, we know we've got challenges with the new technology deployments, how can you help us? How can we work out test methodologies to meet the needs of NFV and SDN, and other aspects?

It's all about delivering simplicity in use. The economics of employing very skilled, capable engineers to run tests is becoming enormously expensive for our customers, whether they're equipment manufacturers, device manufacturers, or service providers, and they need to optimize the way that that's done.

So providing something that's got a good user interface, simple user interface, and we have developed the test processes so you can click and choose them. And then, instead of giving you a raft of data on what's going on we actually point you to the answers. In other words, it's a much more active interaction about what you should be looking at in terms of solving the problems, either with devices, or optimizing what you're doing in engineering support within the network.

Spirent has some advantages in this. We've got very, very, creative, capable workforce. We've got some very innovative technologies. We were the first in developing virtual test systems. We haven't fully exploited all of those capabilities.

We do have a wide range of products and solutions. We do cover from wireline, Ethernet, through the infrastructure, to devices, positioning technologies, security test capabilities; they're all within our portfolio. There are some additional technologies that we need to add, and I'll talk about some of that later.

We have been simplifying our solutions. We've rolled out a much easier, easy-to-use interface on our security test product. That's gained a lot of interest and excitement in the market. And we've done the same thing with our test solution to roll out to IT pre-deployment testing. So we're doing that.

We also see that we have capabilities on test methodologies that apply to other industry sectors, such as automotive and connected cars, and, as I say, enterprise.

As I mentioned, we were the pioneer in virtual test solutions. We're actually very well placed in looking at the opportunities in SDN and NFV. And we're moving beyond just testing security devices to look at vulnerabilities across the whole provision of data networks.

The other thing is that laboratory testing, it's becoming increasingly difficult to do everything in the lab. The live network deployments are now bringing in so many variables it's hard to simulate that in the lab.

Capturing what's happening in the live network and bringing that back into the laboratory to do testing on devices and simulations of network deployments is an increasingly important part of the market, and we need to have big data analytics' systems to be able to do that effectively. And they are particularly required to assure the provision of cloud-based services and data-center build out.

So [we've] -- the reorganization I took internally at the back end of 2013 in Q4, and that was really to move the Company away from what had been created as a matrix organization. We were having central control over engineering and support services for customers, and it was becoming detached from an interface with the customer set over technology deployment.

I've recreated business units under management teams that are focused on a series of either customer sets, or technology deployments. That's already proving both to be much more fleet of foot and agile in decision making. It's also been incredibly motivating for everybody working with the organization.

Before, there was a lot of negotiation internally within Spirent about getting resources to meet customer support, or developments. We've now put that from go-to-market sales activities through supply chain, and engineering, and product support all under one management team for each business area.

We've restored agility and decision making, reduced the time that we take to respond to bucket opportunities and get plans in place, and it's definitely increased morale within the Company, within the last six months, very markedly.

And it's also about making sure that, that enables us to put our engineers and experts on customers' sites, interacting with customers. Again, that's an area that's been constrained. And it's really about nurturing the culture of innovation. So it's getting the mojo back into Spirent, if you like.

I'm not abandoning cost management. Don't get the wrong impression. But we are very conscious that we need to make investments, and get return on those investments. But the emphasis had moved too much the wrong way where, actually, we were losing revenue opportunity by being too cost constrained, or risk averse on those investments, just to put that into context.

Our strategic priorities, it's really about being recognized in test and measurement as experts. We will be much more involved, in the way that we were in past years, with standard [settings] bodies, the Chairman of the cloud Internet forum, for example. We'll do more speaking events. With that, you'll see us making investments in driving standards. And we'll do more testing with independent test labs, which positions us well in the marketplace to win revenue.

It's very much about recruiting some new skill sets into the organization, so we're actively doing that at the moment, we've got a number of recruitments going on for specific skill sets; and enhancing training and development of our people.

As I say, it's very much about design of the product, this is a software design, and how it interfaces with the user.

Our hardware design is very much about efficiency, size of form factor, and reusing technologies across the Spirent portfolio. We're doing some very good things there, and being much more responsive to market needs, particularly regional market needs in the European market and Asia, where there are different sized customers and they used test equipment in different environments; that's not all large rack-mounted laboratory tests that's done in a number of tier 2 and enterprise deployments.

I'm also saying in this announcement we're going to put some investments in. You saw the investment increasing somewhat in 2013. It's very much about putting investment back into the business. It's around about a 15% increase, both in product development, and in our go-to-market channel development.

It's also about building up more support services for our customers so that they recognize that we are on site with them, we're supporting them. We know that if we do that we win business; it's proven.

We had $33 million going through the profit and loss account, that's our budget plan. It's already started, so it's already happening. Lots of investment initiatives. About half of that is going into our core operations, where we've been squeezing activities to the detriment of top line growth; and about half of it, $17 million, is to go into new growth initiatives.

If I focus on what those initiatives are, within the networks and applications segment there are various different businesses within networks and applications focused on cloud and data center.

We have some advanced capabilities on SDN and NFV. We're going to enhance that. We're going to accelerate what we're doing in the development of those virtual test solutions. That's to put us into a better position to serve the needs of cloud-based vendors and suppliers; testing the virtual machines and the virtual rollouts; as well as the edge from the tangible real network to the cloud. That also will enable us to gain market share, or regain market share within service providers' infrastructure tests.

Any of you who have been involved in Mobile World Congress this week, you'll have seen it's not so much about the latest wireless device, it's more about network functional virtualization. The whole discussion is about how do you get the wireless network infrastructure optimized and provide the services. So, key investment for us.

Wireless infrastructure itself, we're adding Wi-Fi user equipment emulation to our solutions. And we're looking to leverage our whole end-to-end portfolio, so we can provide the wireless carriers with the ability to model their deployments, pre-rollout of 4G LTE, and look at how the impact of the latest smartphones on their networks, and what that looks like. We can optimize the way that they deploy that, and we can save them tens of millions, or hundreds of millions of dollars on the capital equipment that they invest for those rollouts. It's a very attractive business case.

On applications and security, we're extending our security capabilities across the whole cyber security requirements. As I mentioned, critical infrastructure is a key part of that.

And on enterprise, we flagged up the product with Axon, where we package Spirent test capabilities into a lower cost, easy to use device. Now, it's all about investment in building out the channel to enterprise customers. That's going extremely well at the moment. We're building up quite a nice head of steam; still small numbers, but going the right way.

The other divisions within Spirent, so wireless and service experience, and also touch on service assurance, here there's a new business unit, infrastructure test optimization. This is taking all of the capabilities across Spirent and providing a real service to the customers so that, for example, software developers, we're demonstrating that if you take our automation test processes, our capabilities we can reduce the engineering overhead on doing product verification on software development and debugging by about 60%.

The cost of buying this from Spirent is, in some cases, funded by the reduction in capital spending that you would have needed to do under the previous models. So, very attractive business cases. Here, we're looking at $2 million, $3 million contracts for the deployment of our ITO test solutions; and that's both with developers on the equipment side, software developers, and also service providers.

On our wireless activity, so the wireless activities which are focused around device testing, the market drivers in 2014 are really about the roll out of voice over LTE. It's digital voice over 4G, that's where we see spending in the near term, and also on our location test activities. So that's still coming through.

But in terms of a growth initiative, we're looking at refocusing the business. We are developing some new capabilities, which will be differentiated, and potentially very disruptive, so watch this space for that. I can't tell you too many details about that today; we haven't launched it yet.

On service experience, this was the Metrico Wireless acquisition, it's very much about analytics on the drive test results; building out the infrastructure to deliver that. We deliver this through the cloud services and data centers. We will build out more of that.

It's very much a North American-based business, so we see opportunities to take this to the European market and build out a laboratory to run that [cold drive] test in Asia Pacific, in China.

And positioning, as I say, we saw that business growing around about 15% in 2013. We see further growth opportunities. And now it's really focused around the vulnerability on the satellite navigation signals, so global navigation and satellite signals, GNSS.

The GPS signal is a passive signal. It's a low energy signal. It's everywhere. It's actually relatively easy to either jam it, or spoof it. We have read about various reports of drone aircraft being duped into thinking that they're over their home base and being landed.

There's also some examples of an international airport that saw major disruption on its GPS systems every day at midday for an hour. It was taken out. They finally worked out that a truck driver, whose truck was being monitored on GPS, controlled by his boss, every lunchtime he stuck a $15 GPS jammer into the cigarette lighter, and he took out the airport every day at the same time.

You can defend yourself against this type of jamming, but it needs to be tested, so we're putting investment into vulnerability testing on that.

And we're also doing some radical new technology introductions on what we're doing on positioning technologies. We are the market leader in satellite navigation; we are going to push ourselves even further ahead.

Today, automated VC is an opportunity for us. Again, I've set up a startup business unit within Spirent, which is addressing the need for the data network within the vehicle.

The data network within vehicles is actually an Ethernet two-wire network, and is broad reach. We're the experts in Ethernet testing. We see opportunities here. There's clearly wireless, [cellular] connectivity, GPS, Wi-Fi, and security is absolutely critical.

Driverless cars exist. They have been running around. It's also been demonstrated that you can take control of them remotely, control the engine management system. That's not a particularly desirable feature of having connected vehicles and driverless cars, so that needs to be worked out. Clearly, brand reputations are considerable in this market, so we see opportunities there.

Within service assurance, we are experts in Ethernet deployment of live traffic. There's an opportunity to take those products into the data center deployment. We'll do some investments in that, and expand our Ethernet service assurance coverage.

What does that mean? Well, the investments in SDN and NFV technologies should expand our served markets, we estimate, by about $200 million, within that area. That's, overall, a 10% expansion in Spirent's served markets.

Then going into other verticals, machine to machine, so Internet of things, critical infrastructure, enterprise, and automotive, the test market's there, some of them are nascent in terms of the type of testing we're doing. But the spending that goes on in those markets are in the billions, so if we can gain a sensible market share in there could be very attractive long-term growth opportunities for the Company.

Spirent has all the pieces to deliver differentiation on end-to-end testing. If you talk to some of our guys on what we're doing on wireless infrastructure testing, I know some of you have met them, again, at Mobile World Congress, you'll see that we're very excited about the opportunities in that.

I've mentioned on the automation and infrastructure test optimization; again, there's a $2 billion outsourcing test market that we don't play in today. So, we have the expertise. We probably have more expertise than the current providers of those outsourced tests. So that's, again, an interesting opportunity.

A lot of this depends on having data analytics to provide added value to our customers so it will give them actionable answers, not just data. With that thought, we made the acquisition of DAX Technologies last week.

DAX is a big data analytics software business. It was founded in 1996; it sits in New Jersey, it's very close to the current Spirent operation; about 30 employees; and annual profits, as I said, $6.8 million a year.

It's a software-based business. It's very much about providing software and services. And it supplies wireless carriers.

It's a big data analytic solutions. It's agnostic about the sources of those data, so it will pull from network elements, probes. It's independent. It will collate that and aggregate that data with customer service -- sorry, customer experience records. It analyzes billions of records daily. And they will provide the analytics and answers within about 15 minutes, which is why we say it's near real time.

The main competition are based on proprietary systems from equipment manufacturers, or probe suppliers. DAX is fairly unique in being agnostic to those elements.

We believe the market is currently about a $400 million market, it's a new market for Spirent, and that market's projected to grow around 14%.

Just an illustration of the DAX product; it's known as InTouch. It pulls from the network data elements, so all of the different elements over here. It's collating that with the experience data. It will look at cellular base stations; it will see the voice quality, data quality of connections, it will put a score onto those.

It will then aggregate that data up to the service provider, and it means that they can focus on delivering personalized responses to high-value users who are getting outages or poor service. So, looking at those users, what's the right response; upgrade or change their user device; give them free call minutes?

But the other thing that you've responded to them very, very quickly, so you get to the customer before they complain to you.

It's then all about the engineering to improve the experience, so go fix the issues on those base stations or switches or devices. And it's very customer pro-active and focused. It's about protecting the revenue stream, primarily; and it's not so much about optimizing the engineering overhead.

The big issue for wireless carriers is subscriber churn. Depending on the carrier you're serving it's either between 17% to 14% -- 40% of attrition on churn is due to service quality issues. If you can reduce this number by 1%, it's worth a fortune.

Carriers look at a wireless subscriber. It costs about $500 to win a customer, so if you can reduce that churn it's very, very valuable. And it gives you differentiation in the marketplace if you can be much more responsive.

The other acquisition that we're announcing today is a small investment in Testing Technologies, based in Berlin. This was a startup; it was a spin-out from the Fraunhofer Institute.

It's, clearly, a technology company. It develops a testing scrip process which is focused on wireless. All of us in the industry use these technologies for meeting the standards set for IMS, voice over IP, video location test.

They are closely involved with standard-setting. As part of the theme of being much more closely involved in the leading parts of the industry, this is an enabling business that will help us do that.

They also have something called TTworkbench, which enables the automation of machine processes in test operations. Our iTest product, which we acquired with Fanfare and we've built into our automation test, is very much about how engineers utilize the equipment. This is an entirely complementary piece of technology that allows you to automate at machine level.

They also are closely involved with standard-setting bodies in automotive data. They've got quite a long portfolio, list of customers in automotive, so that's interesting for us in building out the automotive business.

By way of summary, clearly, it's a turning point for us in inflexion for Spirent and investment for the future. The reorganization's about putting agility back into the Company. We have expertise and solutions that enable us to have the capability to address the opportunities. We are investing in the business to get back top line growth.

There, clearly, are some uncertainties in the near term. We're seeing that in current trading. But current trading activity levels have started well, so we're on track during the first quarter to see revenue growth. We're seeing increase in order intake, and we're making investments.

The guidance is for high single-digit. We aspire to achieve high single-digit organic revenue growth in 2014, and whatever we do by way of acquisitions will be in addition to that.

Okay, thank you. We'll open up for questions. If you could take the microphone and announce who you are and where you're from for the benefit of the webcast, please. Thank you.

QUESTIONS AND ANSWERS

Nick James - *Numis Securities - Analyst*

Nick James, Numis. I guess, a couple of questions. One, in terms of the historic underinvestment, I guess, all the presentation is about all of the hot areas in networking and in devices. I'm just trying to understand what the underinvestment precluded Spirent from addressing in this year, and in the last year, and how long it takes to catch up?

I guess, the second one is kind of a longer term thing in terms of the business went to 25% operating margin at the peak of the last cycle. Obviously, it came down sharply in the last year. What do you think is the mid-cycle operating margin of a business like this?

Eric Hutchinson - *Spirent Communications plc - CEO*

Okay, really, the question was, well, where did we under invest, and what impact was that? The impact was primarily around being late to market on some of the rollouts of the high-speed Ethernet technologies. That clearly impacted our market position; not because necessarily it was a big market opportunity to win some 100 gigabit Ethernet, but it pulled through a lot of other revenue. That's one example.

The other area that we underinvested on was in terms of our support services. We were -- we pulled back. We didn't have people on site, we weren't engaging with the customers, so we weren't getting that input back into the organization.

And we were late to develop some of the 4G technologies, particularly on TD-LTE, for example. That hurt the business in terms of revenue growth, primarily.

In terms of the margin, the 25% margin was partly a feature that, perhaps, we should have ploughed some of that back into investment for the longer term growth and health in the business.

If you look at the profit and loss account and see where we're sitting at the moment, if you project out revenue growth, say, 10% per year, with modest levels of increase in overhead from 2014 then you can see that it's achievable to get back up to a high-teens, 20% operating margin in a three- to four-year timescale. If we are successful in getting top line growth back at good margins and we increase our software element then that looks to be achievable.

James Goodman - *Barclays - Analyst*

Thanks. Yes, James Goodman, Barclays. If I could come back on the guidance, Eric. It's quite a specific guidance and, given the volatility of revenue that we've seen, I wondered whether we should think about that as the mid-point of, perhaps, a larger range of potential outcomes?

I was also curious, in terms of the organic element to the guidance, does that include or exclude the slip deals from Q4?

And then if you could comment on the phasing as well, given the comps are easier, I guess, in the first half? Thanks.

Eric Hutchinson - *Spirent Communications plc - CEO*

Yes, our aspiration is to grow more strongly than that. The level of investment we're putting in would be that we could -- we can see opportunities that could drive higher rates of growth. It's clearly not prudent to go out with that as guidance.

There is downside risk, particularly with large equipment manufacturers, who are constraining their spending, on what my colleagues call, big iron test equipment. Hardware test equipment is a tight market these days.

It's really predicated on that we see a recovery in the Chinese market. The Chinese equipment manufacturers and service providers, I met them. They have , assured me that their plans are to see growth of around about 15% in 2014 compared to 2013. But that does need to come through to deliver our growth aspiration. A long rambling answer to say, yes, it's a mid-point guidance within a range, of course.

In terms of the organic growth rate, that does include the $12 million of deferred revenue recognition. Those shipments will take place predominately in the first quarter, but certainly in the first half, so you'll see that coming through.

And on your third question, I've --

James Goodman - *Barclays - Analyst*

Phasing.

Eric Hutchinson - *Spirent Communications plc - CEO*

Phasing, sorry, yes. Phasing, it will be -- you'll see revenue growth should be on track for that sort of guidance number in the first quarter.

I think the phasing of order intake growth first quarter's always a bit slower, but at the moment it's certainly looking to be positive. But we will be shipping out of order book in the first quarter, because we'll be shipping that deferred revenue. If you adjust for that then the underlying trends are looking okay at the moment.

Alex Duval - *Goldman Sachs - Analyst*

Alex Duval, Goldman Sachs. Just a couple of quick questions, if I may. Having done the DAX acquisition, wondered if you could give a little bit more color on the margin structure, and the kind of incremental margin you can drive on that going forward?

Secondly, just on your M&A policy going forward, how do you think about that?

And my final question, obviously, you've put out some sort of market share estimates in some detail. Obviously, there have been some issues around market share slippage in a number of areas. Where do you think you have really the biggest upside in terms of potential for market share gain? Thank you very much.

Eric Hutchinson - *Spirent Communications plc - CEO*

The DAX acquisition, it's clearly a software services business. It is, by its very nature, a high return on sales business, because you're getting the benefit of the investment in the development of the software in previous years.

Clearly, I'm not explicitly stating what the revenue number is for that. But, needless to say, its return is considerably higher than the Spirent average, or even the Spirent aspiration for the average. The opportunity there is to take that into a wider customer set, so grow that business strongly.

In terms of M&A activities, clearly, we've got a couple done here. There are some similar sized opportunities that we're looking at, at the moment, and it's building into the same strategic thinking about bringing in additional technology expertise. They are of similar scale, at present. And we'll see how our pipeline matures on -- in terms of acquisitions, as we move forward.

In terms of market shares, Alex, you can see that in networks and applications our market share is a bit below where we would have been, historically. We're doing a lot to win back share in that segment.

If you look at our financials, clearly, networks and applications is the one that's operating at below par in terms of operating return, and in terms of topline development. So, market share gain is critical there; but also, taking that technology into new markets so we can see growth, rather than just completely slugging it out with the competition.

Wireless and service experience, the majority of that business is to move to take us into new areas, so service experience, the wireless technologies that we acquire into.

Wireless device itself is a brutally competitive market, at the moment. I think we're looking to hold our market share in that particular segment in 2014, and then, as I say, change the game as we look into 2015/2016.

Service assurance, the DAX acquisition sits within that. It's about getting market expansion and, therefore, grow that business that way.

Gareth Jenkins - *UBS - Analyst*

Gareth Jenkins, UBS. I've got quite a few, if that's all right. I just wondered if you could give us a sense. You mentioned wireless device testing's been quite competitive, and I just wondered whether you could give us a sense of what percentage of revenues you feel are legacy, if you like, and what percentages are coming from the new areas today, so that we can maybe measure the milestones, going forwards, in terms of that progress?

Secondly, I just wondered if you could give us a sense of, again, the revenue movement between MEMs, operators, and other institutions and enterprises for the course of last year.

Then, just finally, it's more of thematic. One of the things that came through from Barcelona for SDN and NFV was very much that these would be self-organizing, self-testing, far fewer probes in the networks generally. I just wondered whether structurally in networks we see less testing requirements, going forward, or fewer testing requirements, going forwards, because of the nature of these networks being more application Layer 4-7. Thank you.

Eric Hutchinson - *Spirent Communications plc - CEO*

Okay, in terms of wireless devices, the main shift here, as you're aware, is from 3G markets to 4G. Overall, the 4G market, in terms of revenue for us, was flat in 2013 compared to 2012. We saw a decline in that business of around about 20% in terms of activities; it was all related to decreases in 3G sales.

In terms of the 3G revenue stream, at the Spirent Group level it's about 8% of revenue; and it declined -- it's declining at around a 40% rate.

The other parts of the business that we categorize as legacy is around about 2% of the business. It predominantly sits in networks and applications, so that declined at around 50% last year. It's probably going to stabilize at these lower levels now, because some of these technologies are just out there. There's always a nascent demand for some of it.

The main impact will be the 3G technologies, which could halve again; that 4% headwind.

In terms of our wireless device test, I said our aspiration was this year, in terms of our planning, to hold our hand. Well, holding our own means that the growth in LTE would offset the decline in that 3G.

In terms of the proportions of the business, it's quite interesting that the service providers are now spending more on test and monitoring. They've now become a bigger proportion. They're clearly leading the market in terms of the testing that's done, because they're looking at trying to optimize their deployments and assure the quality of their deployments. The service providers are now around about 20% of the business.

The equipment device manufacturers, that used to be around about 66%, are now actually about 56% of the business, even on a reduced revenue number. So, you can see, that's really where the impact's been. That's both with large equipment manufacturers, some exiting the market, and a whole change in the profile of spending by the wireless device manufacturers.

The other areas that are growing, we're seeing increased activity with enterprise; research institute; test labs; government. Proportionally, has been a better environment. And looking forward, I would expect those themes to continue.

So whilst NFV is a self-healing technology in working out how you assure that you've got the deployment right there is pre-deployment requirements. We're being approached constantly now by service providers looking to see how can Spirent help us with the test methodologies to assure that when we roll things out they, indeed, deliver on what's promised.

Arun George - *Canaccord Genuity - Analyst*

Arun George, Canaccord. Just two questions. Eric, you highlighted the intense competition in networks and applications that led to significant pricing pressure. Can you give us a sense of the scale of that pricing pressure in 2013, and what your expectations are for 2014?

The second question is on China. I guess, I want to get a sense of your confidence of participating in that 15% growth these Chinese equipment vendors are talking about, given that you underinvested in TD-LTE in 2013. Thank you.

Eric Hutchinson - *Spirent Communications plc - CEO*

The intense competition really manifests itself with the very large equipment manufacturers. What's happening there is that they need such large scale of test equipment to test the huge switching devices that the price per port that they can rationally afford to pay keeps dropping. So, they're looking to get a better deal all the time, and the competition are equally willing to step in there.

Around about 25% of the revenue stream in networks and applications has seen margins squeezed quite significantly with our large equipment manufacturers. That is in the numbers.; that's in the gross margin mix for 2013. Do I see that being a further deterioration in 2014? We think probably not.

There is a trend towards wanting more software automation within that market, and moving to virtual. The downside is that the customers who are developing those types of solutions tend to look at virtual and software as a way of spending less money, of course.

If the less money is I don't have to deliver them hardware then that's all fine and good, because you can make good margins on the software. But if it's a reduction overall then that's a tough place to be, which is why we need to move the Company, long term, into serving a different market.

In terms of China, we have a very large market share in -- with the equipment manufacturers and the service providers. The main revenue opportunity we say -- see there is more to do with the build out of the infrastructure, rather than the device.

So, where we were late with TD-LTE, that's really impacting the opportunity to sell wireless device test. From our perspective, there's actually a bigger market opportunity for us in the infrastructure build out.

So it's not -- being late with TD-LTE on device is not quite as bad as you might think it could be in terms of our revenue opportunity, but it is missed upside. We are catching up, needless to say. And when they start to put voice over LTE out there then we do have some leading test solutions, so it's not all bad.

Hannah Harrison - *Morgan Stanley - Analyst*

Hannah Harrison, Morgan Stanley. Going back to the product development point, you guys spoke about the underinvestment, I was wondering if you'd give us an indication of what margins would have been had you invested more appropriately?

Secondly, can you give me an indication of headcount in 2013 versus 2012, ex-acquisitions? Thank you.

Eric Hutchinson - *Spirent Communications plc - CEO*

The peak margins were in 2012, if you can take the employee question, Rachel, of 25%, were probably 3% to 5% too high for the long-term growth of the business. But that would be a mixture of product development and support services, really. That's the way I'd characterize it.

In terms of headcount, we're about today 1,505 employees. Where were we in 2012?

Rachel Whiting - *Spirent Communications plc - CFO*

2013, we had 1,500 employees. And 2012, it was a similar number, so fairly flat. And flat on spend on employees, as well.

We've just added 55 employees with the acquisitions of DAX and Metrico. And they're spread about 600 in product development; a similar number in sales and marketing; and the rest in admin and other support services and cost of sales.

Eric Hutchinson - *Spirent Communications plc - CEO*

[There] was roundabout 250 people in cost of goods sold, which is a mixture of our supply chain activities and the engineers on site with customers.

Gareth Jenkins - *UBS - Analyst*

Gareth Jenkins, again. I just wondered, the buyback obviously here is taking a pause, or maybe stopping. I just wondered whether that's because you see more M&A opportunities, going forwards, or whether we should expect a re-approval, seeking to re-approve and move forward with the buyback.

I'm just thinking, if you're confident on your margin progression, like you are, on a three- to four-year view, and confident on the revenue progression in the markets that addressed, it would maybe make sense to buy back and invest in your own shares, given the investment in R&D.

Eric Hutchinson - *Spirent Communications plc - CEO*

Okay, so, research topic, discuss are buybacks good or bad things to do? And you'll find a whole range of responses on that.

We feel that we've bought back an appropriate level now, and we were buying back because we did believe that the future prospects of the Company were greater than currently reflected in the share price. We've seen that coming through.

We've now moved into quite a significant operational restructuring, reorganization, and investment level, and we've now started to close a number of acquisitions. So it would strike us as being prudent to conserve the resources on the cash basis within the Company, both for operational reasons, but also in looking at the acquisition prospects.

And we have -- our major shareholders have also indicated that they would support that as a financial management initiative, at the moment.

Hugo Mills - *Citi - Analyst*

Hugo Mills, Citi. Just a couple from me, please. Just on the DAX acquisition, that looks like quite a nice deal for you. Is it something you can really accelerate that quickly? That's the first question, I guess.

Secondly, from the auto sector, when you're selling in there, do you have to build a whole new sales channel up out there? How are you going to do that?

Then thirdly, just around the returns on your investment, can you give us an idea as to how you're thinking about the timing of the returns, when they might come back? If you're putting $33 million in now, how do we -- I think you said in the statement that's at least 16% return on capital employed, or something, but how should we think about when that comes back as revenues?

Eric Hutchinson - *Spirent Communications plc - CEO*

Clearly, the objective is to take the DAX technologies into a series of new customers. So where it's taking pretty much their product set into new carriers, particularly into the European market, but also North America, we're hoping that that can be something that we can achieve within a 6- to 12-month timescale.

Of course, the issue here is that selling this type of solution is quite a long lead time. It's not something you can go in and get done within a month; it's typically a 6- to 12-month lead timing going into new carriers.

We are already talking, and DAX have been talking, to some new opportunities, so, hopefully, we can see some really quite attractive expansion in that business within 12 months and 24 months. I hope to be able to surprise on the upside with that.

In automotive, you're quite right, we don't have much channeled directly to automotive developers. We do sell GPS technologies into automotive, so we do have some contacts; we do have some of our direct sales contact. But we are learning a lot about building out channel with enterprise, and so we'll take some of that learning into the automotive market.

I would think development of a meaningful automotive business is, probably, two years away in terms of is it significant to Group numbers.

The return on investment is looking at the returns on capital, so it applies much more into an M&A context. In terms of the returns on investing through the business itself, we would mainly look for a revenue multiple. A $33 million investment in the business should be driving a 5 times revenue out of that; and, hopefully, if you can get it right, higher.

But it starts relatively small at the beginning, and builds ahead of steam. But the test being -- the nature of test is that you have to reinvent yourself every two or three years; that's the nature of the industry.

Any more questions from anyone? Well, with that, I'll close the session. It's actually been quite a long one, really, hasn't it? But thank you very much for your attention. And I'll catch up with you again, no doubt, over the next few days. Thank you.