

The background of the slide is a composite image. It features a hand reaching out from the bottom left, a tall telecommunications tower with multiple satellite dishes, and a satellite in orbit in the upper right. A blue cloud is positioned in the upper left. Various icons are overlaid on the image, including a smartphone, a laptop, and server racks. The bottom right corner has a dark blue overlay containing the title and date.

# **Spirent Communications plc 2016 Half Year Results**

August 2016

2016 Half Year Results

# **Rachel Whiting, Chief Financial Officer**

This presentation and the subsequent question and answer session may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. There are risk factors that could cause our actual results to differ materially from those expressed in or implied by such statements.

Spirent disclaims any intention or obligation to revise or update any forward-looking statements that may be made during this presentation or the subsequent question and answer session regardless of whether those statements are affected as a result of new information, future events or otherwise.

# H1 2016 – On track for full year



- Revenue down \$5.2m in H1 - increased order book by \$8.2m
- Revenue up 6% in Networks & Applications, offset by expected declines in Wireless & Positioning down 15% and Service Assurance down 4%
- Return on sales up across all three business areas
- Adjusted operating profit up by \$4.4m
- Regionally APAC up, EMEA flat, Americas lower
- Expect typical seasonality in second half 2016

# Comparative results H1 2016



| (\$ millions)                                | H1 2016      | H1 2015       |
|--|--------------|---------------|
| <b>Revenue</b>                               | <b>213.5</b> | <b>218.7</b>  |
| Gross Profit                                 | 151.0        | 150.8         |
| <b>Gross Margin</b>                          | <b>70.7%</b> | <b>69.0%</b>  |
| Product development                          | (57.4)       | (60.1)        |
| Selling & distribution                       | (63.5)       | (63.2)        |
| Administration                               | (19.7)       | (21.5)        |
| <b>Operating Profit<sup>(1)</sup></b>        | <b>10.4</b>  | <b>6.0</b>    |
| <b>Return on Sales<sup>(1)</sup></b>         | <b>4.9%</b>  | <b>2.7%</b>   |
| Other items <sup>(2)</sup>                   | (7.3)        | (8.2)         |
| <b>Reported Operating Profit/(loss)</b>      | <b>3.1</b>   | <b>(2.2)</b>  |
| Net finance expense                          | (0.1)        | (0.1)         |
| Associate                                    | (1.0)        | -             |
| <b>Profit/(loss) before Tax</b>              | <b>2.0</b>   | <b>(2.3)</b>  |
| Tax  | (1.0)        | 1.1           |
| <b>Net Income/(loss)</b>                     | <b>1.0</b>   | <b>(1.2)</b>  |
| <b>Basic EPS (cents)</b>                     | <b>0.16</b>  | <b>(0.21)</b> |
| <b>Adjusted EPS<sup>(1)(3)</sup> (cents)</b> | <b>1.13</b>  | <b>0.69</b>   |

- Revenue down 2%
- Book to bill ratio of 104
- Gross margin improved to 70.7%
- Improved operating profit
- Tax rate 25%
- Improved operating profit also led to enhanced EPS
- Interim dividend unchanged at 1.68 cents
- Vast majority of revenue and cost base are US dollar denominated

Notes: (1) Before other items

(2) Other items are share-based payment and acquired intangible asset amortisation

(3) Before prior year tax and tax in respect of items in note (2)

## Networks & Applications – 54% of Group revenue



| (\$ millions)           | H1 2016      | H1 2015 <sup>1</sup> |
|-------------------------|--------------|----------------------|
| <b>Revenue</b>          | <b>115.1</b> | <b>108.7</b>         |
| Gross Profit            | 79.6         | 76.0                 |
| <b>Gross Margin</b>     | <b>69.2%</b> | <b>69.9%</b>         |
| Product development     | (31.2)       | (30.0)               |
| Other expenses          | (45.4)       | (44.0)               |
| <b>Operating Profit</b> | <b>3.0</b>   | <b>2.0</b>           |
| <b>Return on Sales</b>  | <b>2.6%</b>  | <b>1.8%</b>          |

- Built order book: Book to bill ratio 112
- 6% growth in revenue driven by high-speed Ethernet
- Strong demand in Americas and particularly APAC driven by infrastructure build out in China
- EMEA weaker due to delays caused by customer consolidation
- Gross margin reflects product mix
- Increased investment reflects reallocation of resources to growth areas
- Improved profitability reflecting increase in revenue

Note: (1) Restated for changes to the Group's operating segments effective 1 January 2016

## Wireless & Positioning – 26% of Group revenue



| (\$ millions)           | H1 2016      | H1 2015 <sup>1</sup> |
|-------------------------|--------------|----------------------|
| Revenue                 | 56.2         | 65.9                 |
| Gross Profit            | 40.0         | 45.9                 |
| <b>Gross Margin</b>     | <b>71.2%</b> | <b>69.7%</b>         |
| Product development     | (14.8)       | (18.7)               |
| Other expenses          | (20.5)       | (24.7)               |
| <b>Operating Profit</b> | <b>4.7</b>   | <b>2.5</b>           |
| <b>Return on Sales</b>  | <b>8.4%</b>  | <b>3.8%</b>          |

- Built order book: Book to bill ratio 107
- Revenue declined 15% due to softness in Wireless business as expected
- Positioning remains robust
- Gross margin improvement due to product mix
- Overhead spend reflects actions to right-size division in Q4 2015

Note: (1) Restated for changes to the Group's operating segments effective 1 January 2016

## Service Assurance – 20% of Group revenue

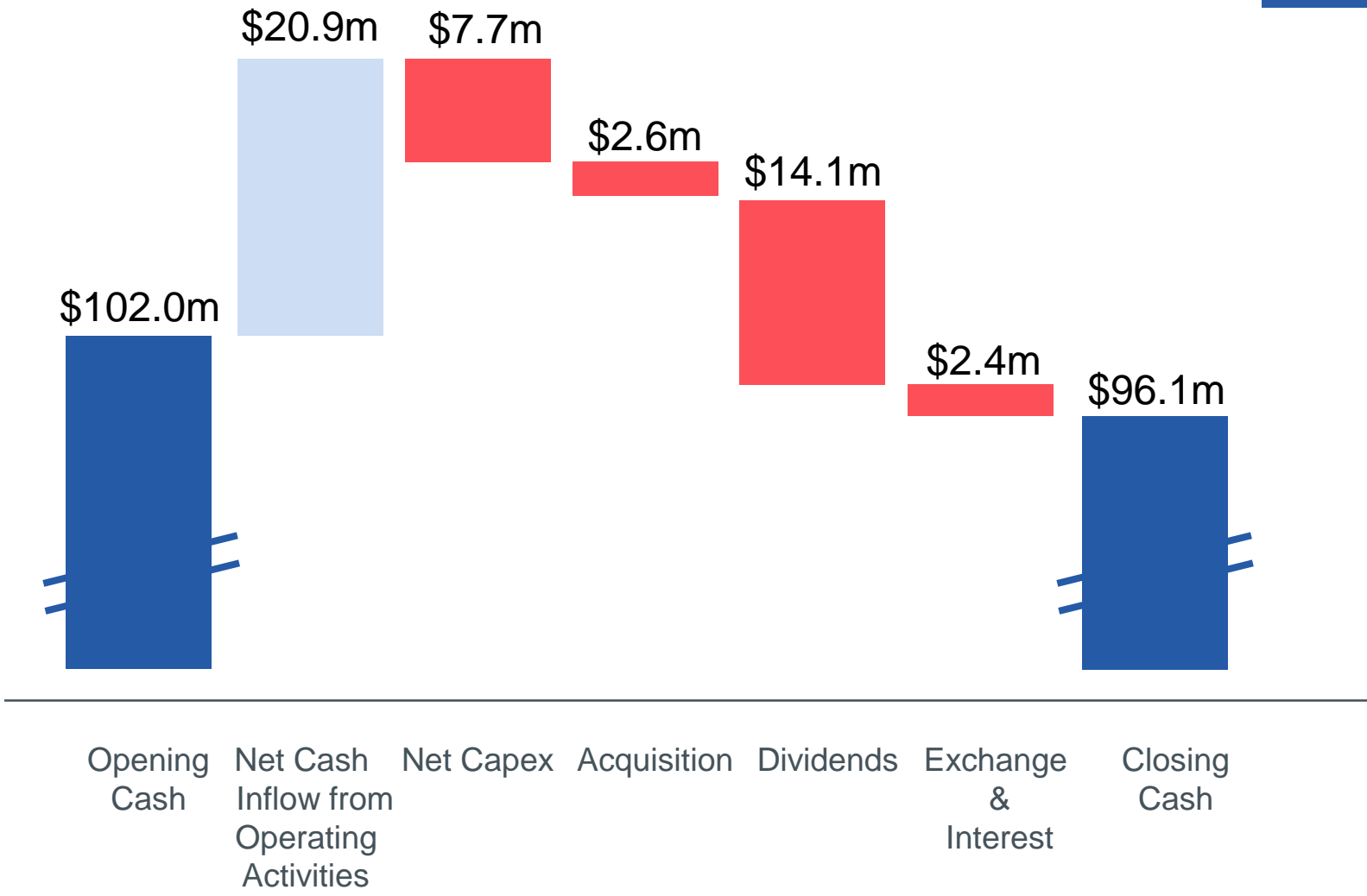
| (\$ millions)           | H1 2016      | H1 2015 <sup>1</sup> |
|-------------------------|--------------|----------------------|
| <b>Revenue</b>          | <b>42.2</b>  | <b>44.1</b>          |
| Gross Profit            | 31.4         | 28.9                 |
| <b>Gross Margin</b>     | <b>74.4%</b> | <b>65.5%</b>         |
| Product development     | (11.4)       | (11.4)               |
| Other expenses          | (13.9)       | (13.9)               |
| <b>Operating Profit</b> | <b>6.1</b>   | <b>3.6</b>           |
| <b>Return on Sales</b>  | <b>14.5%</b> | <b>8.2%</b>          |

- Book to bill 78: typical seasonality
- Revenue impacted by \$5.7m non-repeating contract in H1 2015
- Improved gross margin due to product mix
- Overheads flat
- Improved profitability reflecting higher gross margin
- Continue focus on live networks, virtualisation and analytics

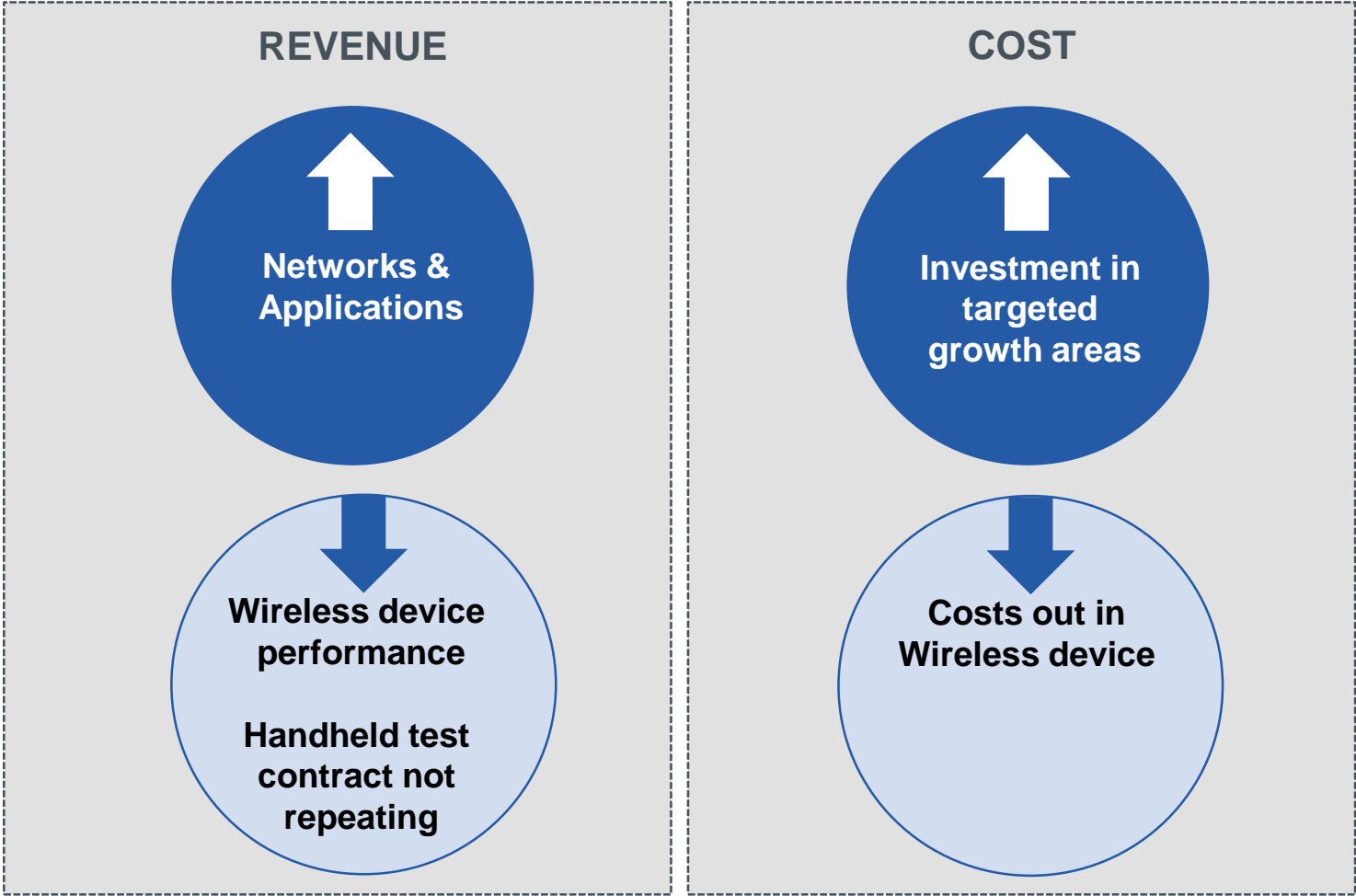
Note: (1) Restated for changes to the Group's operating segments effective 1 January 2016



# H1 2016 Cash flow



# Same factors continue to influence our performance in H2 2016



Board’s expectations unchanged for 2016 - heavy seasonal weighting to H2

2016 Half Year Results

# **Eric Hutchinson, Chief Executive Officer**

# Strategic Direction

*Continuous innovation in test, measurement, and verification solutions, leveraging analytics, automation and methodologies, to enable the development and operation of communication equipment, networks and services and to deliver easy-to-use solutions for complex issues. Create a sustainable revenue stream for long term growth.*

Growth in our core business

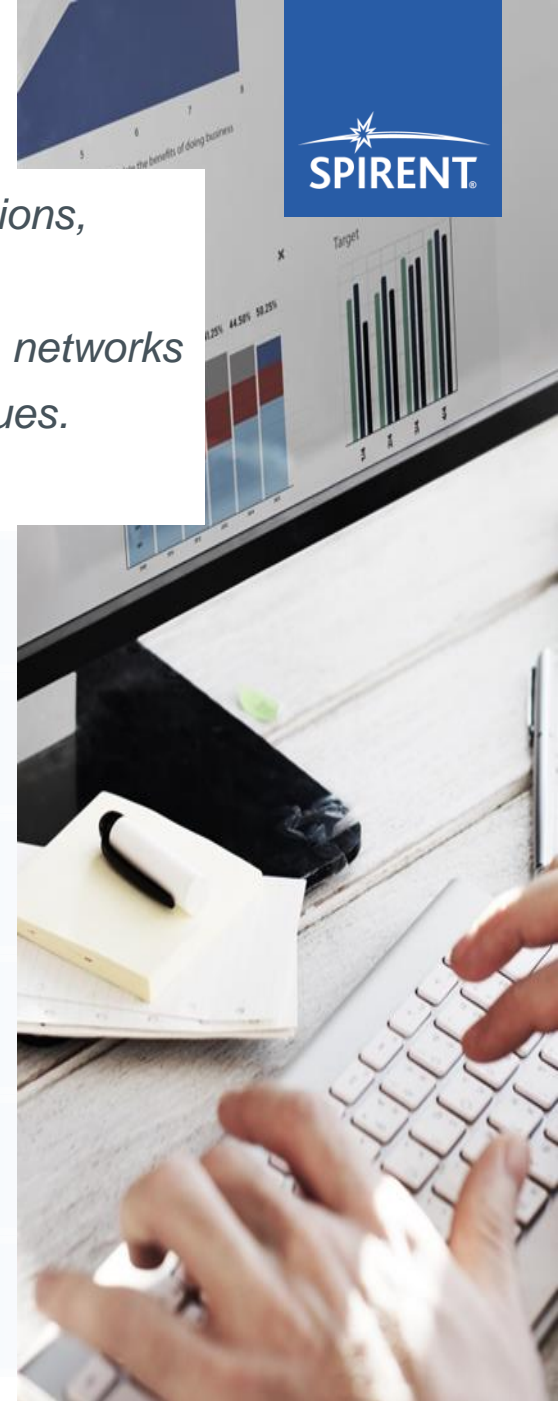
Demonstrating technology leadership

Close customer involvement

Launched cyber security test solution

Successful Proof-of-Concepts for mobility infrastructure

Improved financial performance



# Spirent's Growth Markets and Initiatives



**N&A**

**High-Speed  
Ethernet**  
SAM \$400M

**N&A**

**Cloud &  
Virtualisation**  
SAM \$50M

**N&A**

**Mobility  
Infrastructure**  
SAM \$200M

**N&A**

**Cyber Security**  
SAM \$300M

**SA**

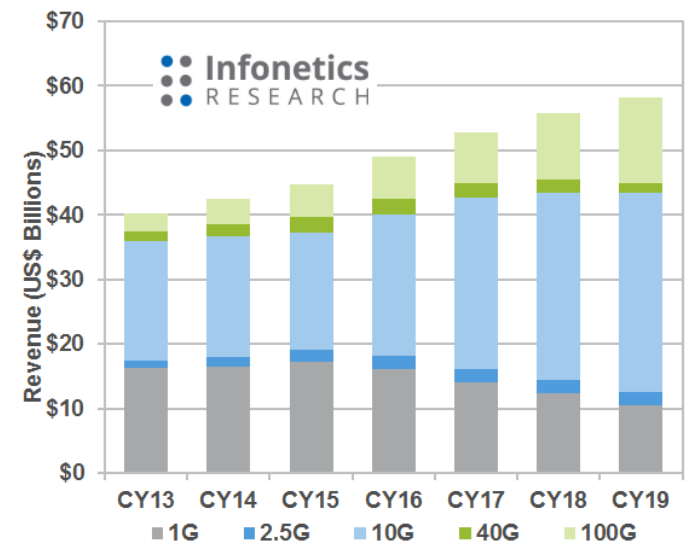
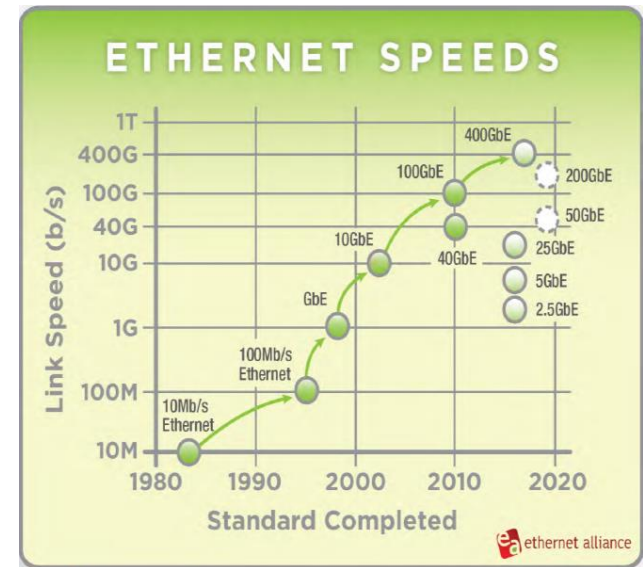
**Big Data Analytics**  
SAM \$500M

**New Growth Opportunities**

**Automotive &  
Internet of Things (IoT)**  
SAM \$250M

# High-Speed Ethernet: Market Dynamics

- The market demand for high-speed Ethernet/IP performance test systems is fuelled by the evolution of Ethernet speeds to 100G and 25G for both data centre and service provider markets.
- Infonetics reported total revenue for Ethernet equipment grew 6%. Revenue growth came from 2.5G, 40G and 100G.

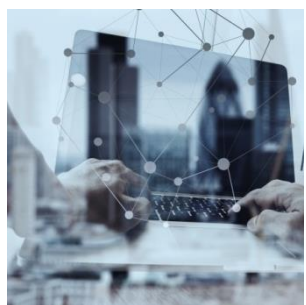




## High-Speed Ethernet: Major Advances

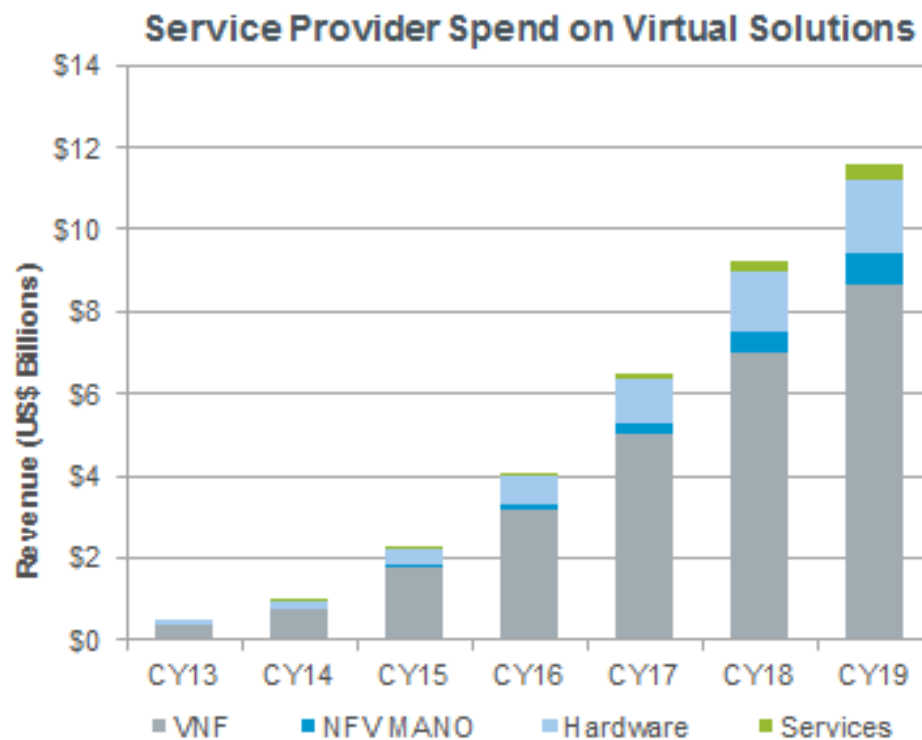


- Bookings growth of 23% in H1 2016.
- Innovative new products launched:
  - The industry's first **Quint-Speed High-Speed Ethernet** product family covering 100G, 50G, 40G, 25G and 10G Ethernet.
  - The industry's first **2.5G and 5G BASE-T Ethernet** test solution, enabling enterprise and service providers to quickly and efficiently deploy scalable high-capacity solutions.
  - **Spirent TestCenter WLAN** test capability has the highest-performing and most realistic 802.11 wireless local area network (WLAN) multi-client emulation scenarios available on the market today.
- Automation: **Velocity** reduces test time & costs.

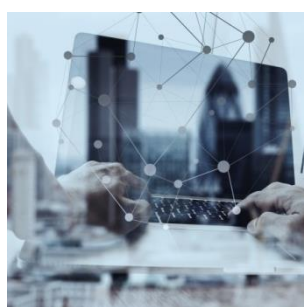


## Cloud & Virtualisation: Market Dynamics

- Infonetics predicts NFV market will top \$11B in 2019.
- Operators are conducting Proof-of-Concepts and field trials.
- We expect our cloud & virtualisation business to ramp in 2017.







## Cloud & Virtualisation: Major Advances

- With industry partners, Spirent drafted **ETSI specifications** for:
  - “Pre-Deployment Testing”.
  - “Active Monitoring and Failure Detections”.
- **Launched Spirent Temeva**, Software-as-a-Service (SaaS) solution for network and cloud testing offers web-based applications covering network traffic testing, Network Functions Virtualisation (NFV) infrastructure benchmarking, cloud performance and capacity planning.



# Mobility Infrastructure: Market Dynamics

- Operators will invest \$83.6 billion in wireless network equipment and software (annual growth 1.1%) in 2016. <sup>[1]</sup>
- The number of mobile broadband subscribers passed fixed broadband subscribers in 2011, and the gap will only grow; there will 7.5 billion mobile subscribers by 2020. <sup>[1]</sup>
- 494 commercially launched LTE or LTE-Advanced networks in 162 countries. 550 commercially launched LTE networks by end 2016. <sup>[2]</sup>
- 5,104 LTE user devices have been announced. There are 1.1 billion LTE subscriptions globally (Q4 2015). <sup>[2]</sup>

[1] Source: IHS "Mobile and Telecom Network Equipment and Software market Forecast 2016" (July 12, 2016)

[2] Source: GSA "Evolution to LTE Report April 2016" (April 8, 2016)



## Mobility Infrastructure: Major Advances



- Launched two new test products:
  - **Landslide Core S100-M2** high capacity server that has allowed companies, like Nokia (announced on June 21, 2016), to test at a very high scale.
  - **Landslide Edge E10**, active testing in the operational network.
- Several trials for active mobility infrastructure test systems.

## Cyber Security: Market Dynamics

### Security Continues to be Top of Mind and Spending Priority

- President Obama asked for \$19 billion for cyber security for 2017 budget, an increase of \$5 billion over this year.
- December 8<sup>th</sup> 2015: EU agrees on security laws that will force firms to disclose cyber threats.
- SWIFT warns customers of multiple cyber fraud cases after \$81M cyber theft from Bangladesh central bank using the SWIFT network.

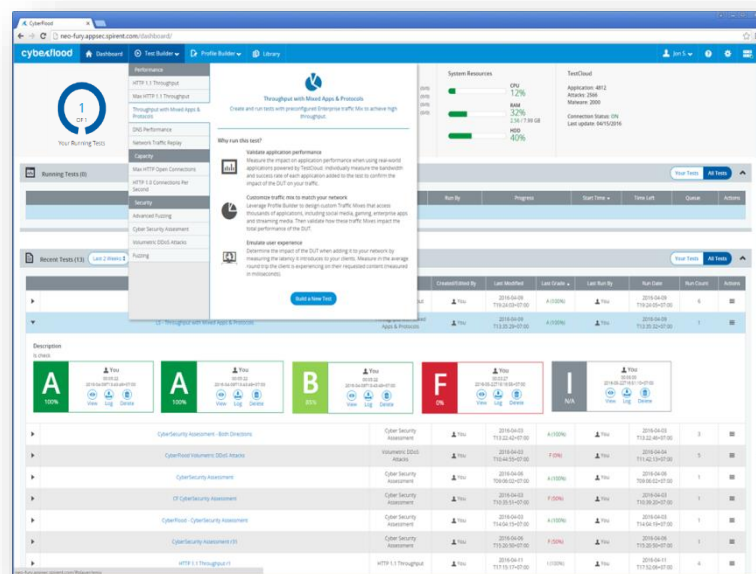


# Cyber Security: Major Advances

- Launched **SecurityLabs**, our new ethical hacking service.
- Launched **CyberFlood**, our new security and applications performance test product". The world's highest performing layers 4-to-7 testing solution emulates realistic application traffic while validating your security coverage from enterprise to carrier-grade network capacity.
- Strong bookings growth in Q2 2016.

**securitylabs**

**cyberflood**





## Analytics: Market Dynamics

- Strong operator-driven demand: need to increase revenues and improve profitability while selling into saturated and very competitive markets.

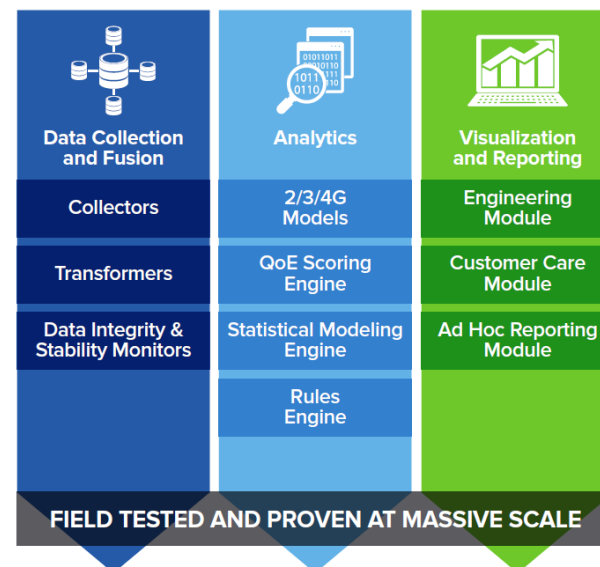
- Big data and virtualisation driving change. Possibility of predicting errors and correcting them automatically or operator-assisted.
- Analysts estimate the customer analytics and big data market is a \$3B global business which is growing at 26% per year. <sup>[1]</sup>



[1] Source: Heavy Reading, “Big Data and Advanced Analytics in Telecom” (December 2013)

## Analytics: Major Advances

- Completed the first release of **InTouch CNA**, our new customer and network analytics product family, supporting sophisticated wireless control-plane analytics.
- Expanded our carrier customer base
- Have several field trials of our analytics solution integrated with our active mobility infrastructure test system called **VizionWorks**.
- Expect to grow our business capitalising on mobile network expansion, new mobile services, virtualisation, and high-speed networks.

# New Growth Opportunities

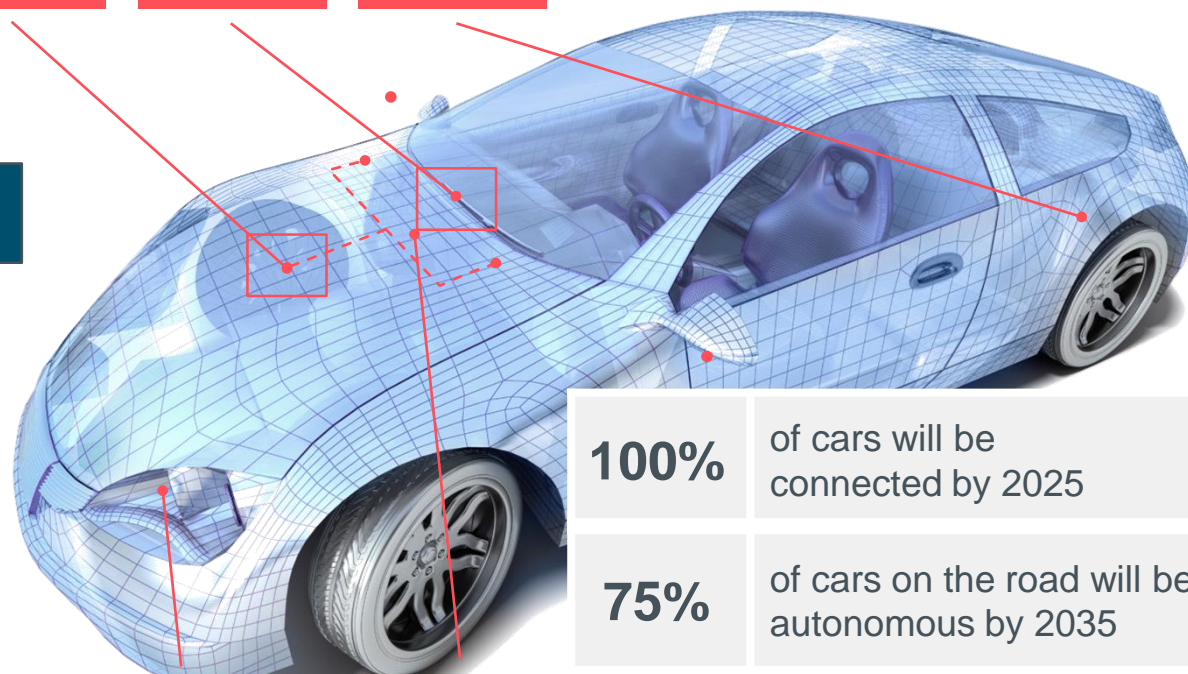
On-board  
diagnostics

Infotainment

Safety  
sensors

## Automotive

Released Audio-Video  
Bridging (AVB)  
Performance and  
Conformance Test Suites



**100%**

of cars will be  
connected by 2025

**75%**

of cars on the road will be  
autonomous by 2035

360°  
Camera system

Seamless connectivity  
with mobile devices

## Internet of Things

Exploring new businesses to support developers and network operators:  
device client, connectivity, connected device test, analytics, service  
assurance, and security.

Demonstrations at Mobile World Congress (Barcelona) and IoT World (Santa  
Clara) and sponsored the IoT SLAM virtual conference.



# Conclusion and Outlook



Growth in core business

Improving gross margin

Focus on growth opportunities

New products and services launched

Major Proof-of-Concepts trials completed

Pipeline good for second half 2016

Outlook unchanged for 2016





# Thank you

[spirent.com](http://spirent.com)