

A wide-angle, high-angle photograph of the Hong Kong skyline, showing a dense cluster of skyscrapers and buildings along the waterfront, with a large green mountain in the background under a cloudy sky. The image is partially obscured by a white diagonal graphic element on the right side.

Spirent Communications plc 2017 Half Year Results

August 2017

Safe Harbour Statement



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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.

Overview



Continued focus on strategic positioning

Spirent navigating market dynamics across the portfolio

Networks & Security – transition from 100G to 400G Ethernet testing

Lifecycle Service Assurance – ongoing shift from the lab to active test in network

Connected Devices – transition from 4G to 5G

Operating margin improvement continues

Solid cash generation



Paula Bell
Chief Financial Officer

2017 Half Year Results

Financial Summary



(\$ million)	H1 2017	H1 2016
Revenue	213.6	213.5
Gross profit	151.3	151.0
Adjusted operating profit¹	17.4	10.4
Exceptional items	(1.8)	-
Other items ²	(4.3)	(7.3)
Operating profit	11.3	3.1
Free cash flow³	28.7	13.4
Adjusted basic EPS^{1,4} (cents)	2.10	1.13
Dividend (cents)	1.68	1.68

- Revenue level
- Book to bill 93 (H1 2016: 104), second half orders weighting
- Adjusted operating profit up 67%
 - Strong performance from Networks & Security
 - Lifecycle Service Assurance second half weighted
 - Strong cost focus – Connected Devices turnaround
- Operating margin improvement to 8.1%
- Strong free cash flow
- Tax rate 26.4%
- Adjusted basic EPS up 86%

(1) Before exceptional items, acquired intangible asset amortisation and share-based payment
 (2) Being acquired intangible asset amortisation and share-based payment
 (3) Operating cash flow after tax, net interest and net capital expenditure
 (4) Before gain on disposal of operations, prior year tax and tax on items in note (1)

Networks & Security



(\$ million)	H1 2017	H1 2016
Revenue	126.0	113.7
Gross profit	90.4	80.5
<i>Gross margin</i>	<i>71.7%</i>	<i>70.8%</i>
Product development	(26.9)	(26.9)
Other expenses	(44.0)	(41.6)
Operating profit¹	19.5	12.0
<i>Operating margin¹</i>	<i>15.5%</i>	<i>10.6%</i>

- Robust revenue growth of 11%
- Strong operating margin improvement
- Good momentum in Asia offsetting some weakness in the US particularly in Q2

(1) Before exceptional items

Lifecycle Service Assurance



(\$ million)	H1 2017	H1 2016
Revenue	44.9	51.4
Gross profit	33.1	39.5
<i>Gross margin</i>	<i>73.7%</i>	<i>76.8%</i>
Product development	(15.6)	(16.4)
Other expenses	(17.3)	(18.6)
Operating profit¹	0.2	4.5
<i>Operating margin¹</i>	<i>0.4%</i>	<i>8.8%</i>

- Ongoing shift from the lab – live testing remains of key interest
- Key trials underway; second half weighting expected
- Gross margin reduced due to lower software content

(1) Before exceptional items

Connected Devices

(\$ million)	H1 2017	H1 2016
Revenue	42.7	48.4
Gross profit	27.8	31.0
Gross margin	65.1%	64.0%
Product development	(11.3)	(14.1)
Other expenses	(16.0)	(19.6)
Operating profit¹	0.5	(2.7)
Operating margin¹	1.2%	N/A

- Device testing requirements continue to decline
- Focused cost management delivers improved trading performance
- Initiatives to support 5G downstream continue to develop
- Exit of Device Intelligence / Developer Tools 30 June (c. \$15m annual revenue)

(1) Before exceptional items

Cost Base

(\$ million)	H1 2017	H1 2016
Product development	53.8	57.4
Selling and distribution	59.4	63.5
Administration	20.7	19.7
Total overhead costs¹	133.9	140.6

- Cost base reduced by 4.8% despite inflation
- Sales restructure delivering to plan
- Product development – focused investment approach
- Increase in administration due to favourable FX impact in 2016

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

Cash

(\$ million)	H1 2017	H1 2016
Operating profit¹	17.4	10.4
Exceptional items charge	(1.8)	-
Depreciation, other amortisation and loss on disposal	9.4	10.4
Working capital reduction	22.0	12.0
Provisions movement	(0.6)	(6.5)
Pension	(3.1)	(1.5)
Taxation	(5.3)	(3.9)
Net interest received	0.2	0.2
Net capital expenditure	(9.5)	(7.7)
Free cash flow	28.7	13.4
Divestments	(2.1)	-
Dividends	(14.2)	(14.1)
Acquisitions	-	(2.6)
Exchange	1.7	(2.6)
Closing cash	110.2	96.1

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

H2 Segmental Outlook



	H1 Performance	Outlook
	Revenue	
Networks & Security	+11% Boosted by Ethernet and Security	<ul style="list-style-type: none">• Positive momentum into H2 – Positioning & Security• Accelerated transition to 400G Ethernet testing• Expect to see usual H2 weighting
Lifecycle Service Assurance	-13% Reflecting shift from lab to network test	<ul style="list-style-type: none">• Multiple trials coming to fruition in H2• Anticipated H2 weighting
Connected Devices	-12% Decline in smartphone testing	<ul style="list-style-type: none">• Exit Developer Tools and Device Intelligence• Market decline continues – ongoing cost mitigation• Focus on 5G activities

Active cost control and strong cash management – well positioned for market opportunities

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Eric Hutchinson Chief Executive Officer

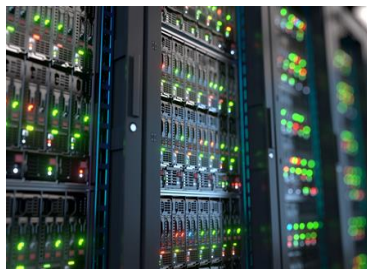
First Half 2017 Business Performance

Focus and Differentiation Gives Spirent Our Edge

Our Focus: What we enable



CONNECT



PERFORM



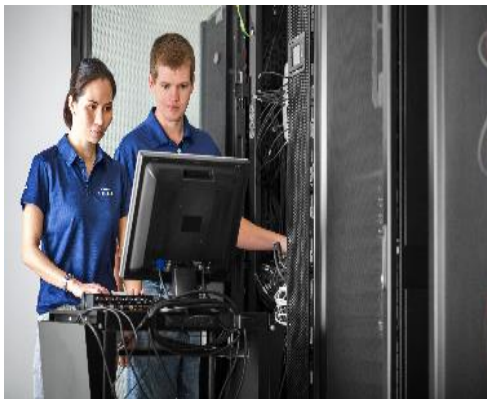
SECURE

Competencies that provide our competitive differentiation



Network Functions Virtualisation (NFV);
Pre-deployment Testing;
Report on Validation of NFV Environments and Services

Test Methodologies



Active Test



Analytics



Automation

Organised for Sharp Focus on Target Business Opportunities

Networks & Security



Maximise opportunity driven by virtualisation and security

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

59% of Group revenue

Lifecycle Service Assurance



Maximise opportunity driven by virtualisation, mobile networks and the Internet of Things

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

21% of Group revenue

Connected Devices



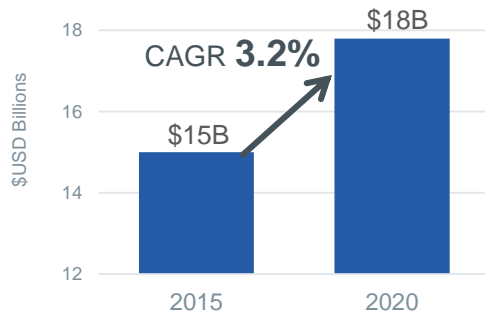
Maximise opportunity driven by the Internet of Things and 5G

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

20% of Group revenue

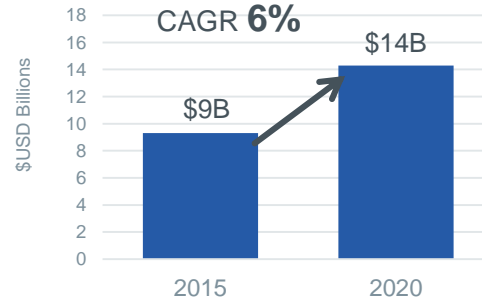
High-Speed Ethernet

Datcenter Ethernet Switch



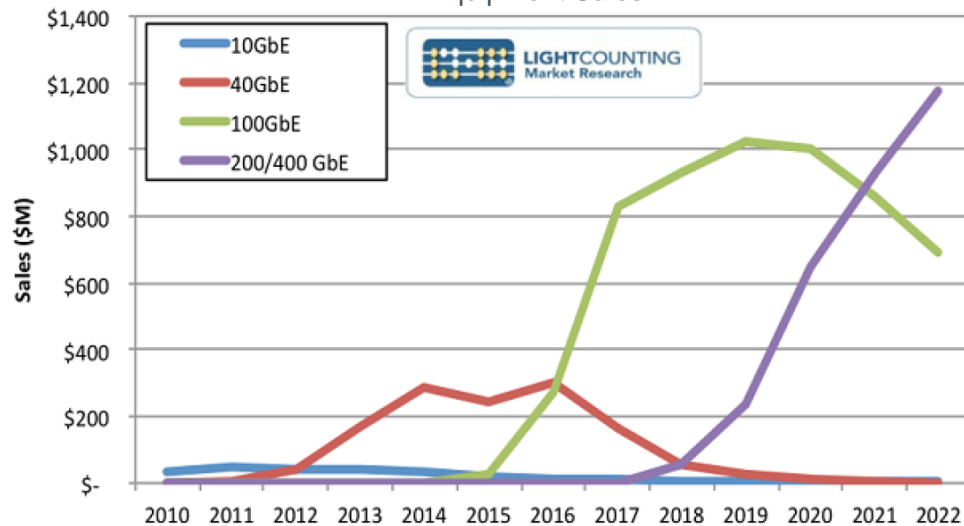
Source: Technavio (November 2016)

Wireless LAN



Source: Dell'Oro (January 2017)

Equipment Sales



Source: LightCounting Market Research (April 2017)

Strong Performance in Our Core Business

Robust market dynamics supports our mid/long-term business outlook

Market disruptions:

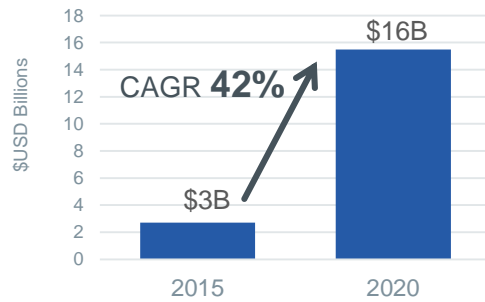
- Transition from 100G to 400G projects creating a short-term investment hiatus
- Organisational restructuring and network re-architecting at major service providers

Spirent well positioned to meet the emerging requirements for higher speed rates

Demonstrated New H3C has highest density 100-Gigabit Ethernet Datacenter Switch

Network Functions Virtualisation

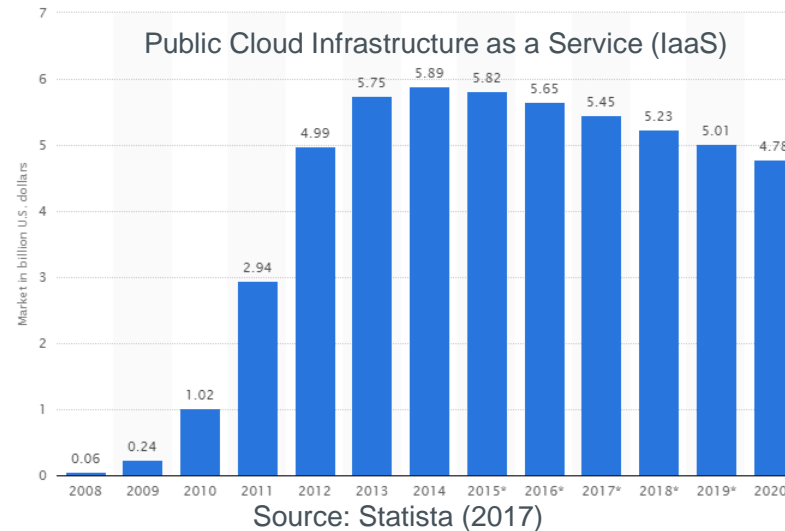
Network Functions Virtualisation Market



Source: IHS (2016)

Cloud Service Providers

Public Cloud Infrastructure as a Service (IaaS)



Emerging High-Growth Opportunities

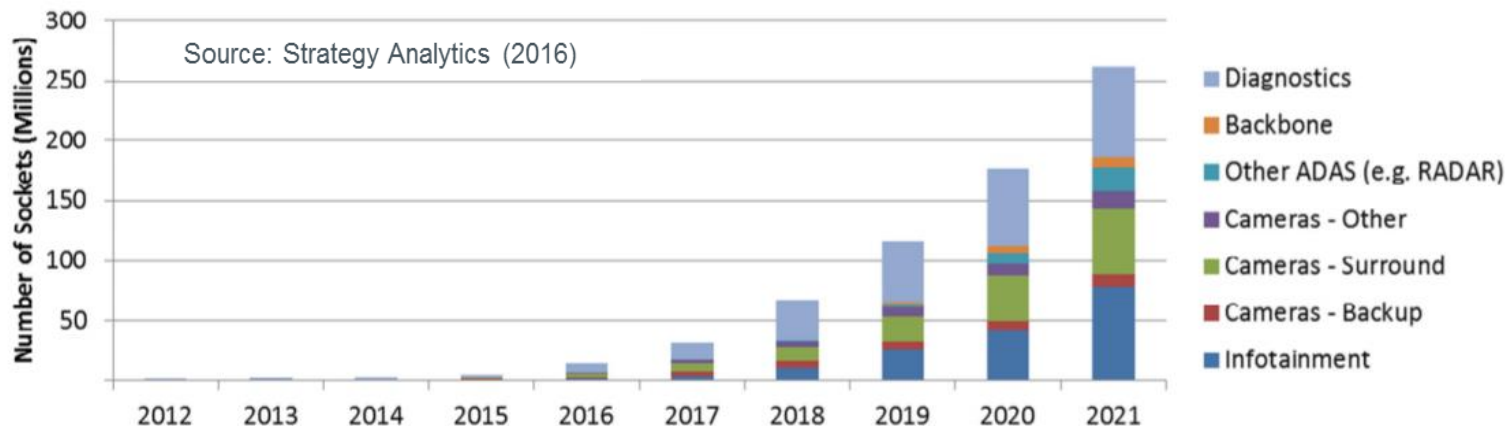
Spirent has test solutions for emerging high-growth opportunities:

- Network functional virtualisation
- Cloud infrastructure performance testing
- Automotive Ethernet testing
 - Launch first protocol conformance test suite
 - WAVE-DSRC conformance test suite; for USDOT certification

Well positioned to capitalise on these opportunities as these businesses grow

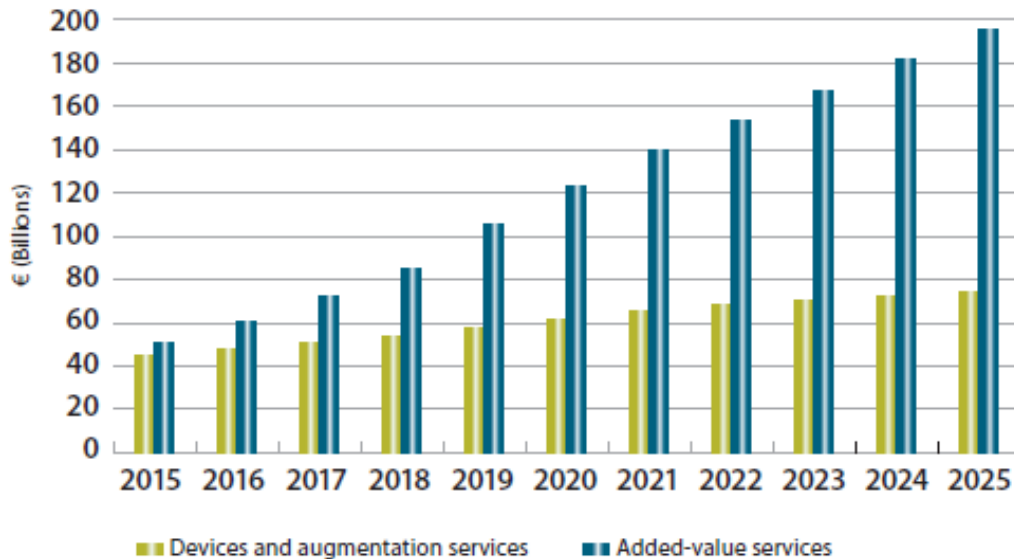
Automotive Ethernet

Source: Strategy Analytics (2016)



Positioning, Navigation and Timing

GNSS Device and Service Revenue



Source: European Global Navigation Satellite Systems Agency (2017)

Growth From Market Leader

Business outlook supported by growing GNSS device and services for market driven by the advent of 5G, automated driving, smart cities and IoT

Spirent remains the market leader for global navigation satellite systems (GNSS) simulators and provides solutions for vulnerability detection and testing

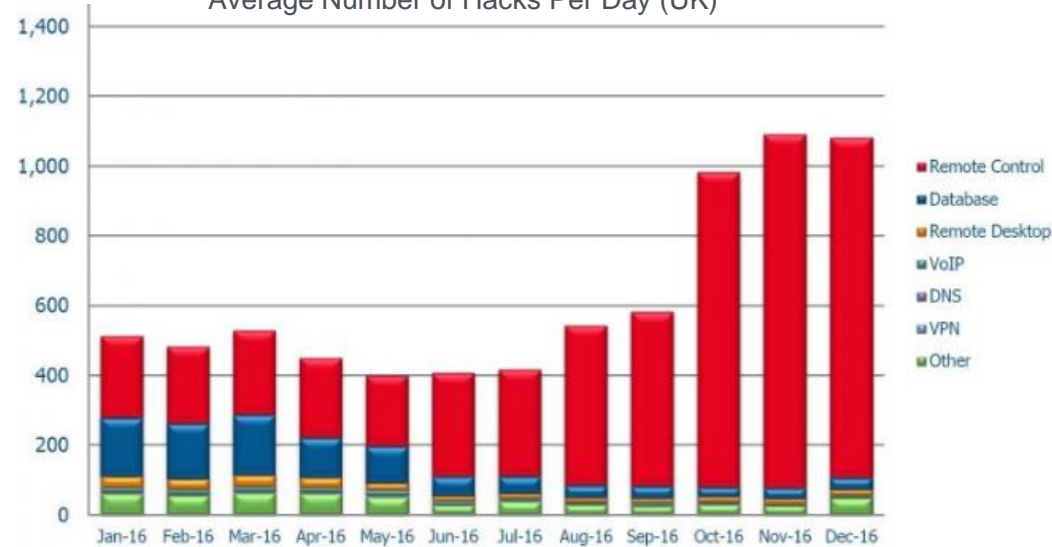
Strong performance from the US Government and China

Launched PT TestBench and Global Navigation Satellite Systems (GNSS) Vulnerabilities and Threats Test Suite

Provided test system for European Union's TREASURE project

Cyber Security

Average Number of Hacks Per Day (UK)



Source: IoT Now (2017)



Growth From New Security Products and Services

Market drivers remain strong:

- Number of attacks
- Sophistication of attacks
- Ransomware demands higher

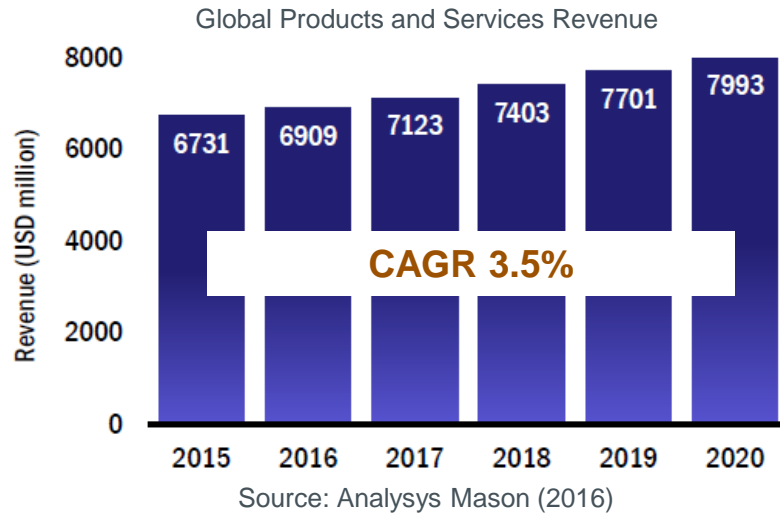
Spirent introduced new security product (CyberFlood) and service (SecurityLabs) in 2016

Expanded CyberFlood capabilities: WannaCry ransomware, IoT, Industrial Controls and DDoS Attacks

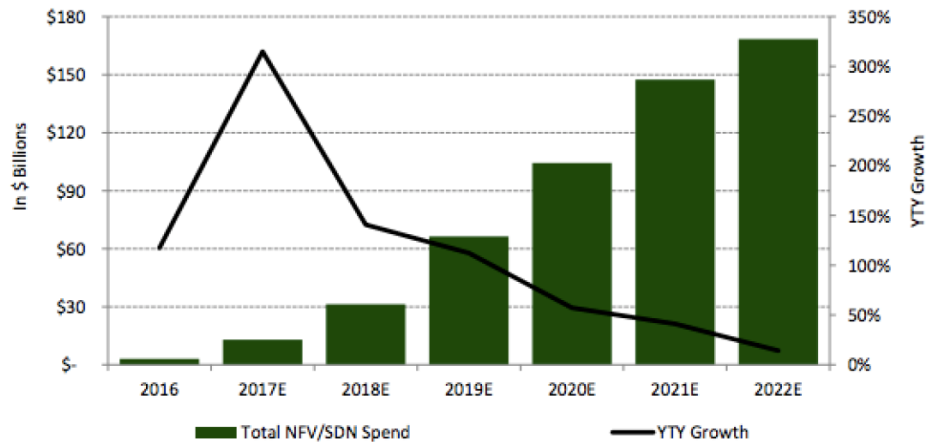
Delivering revenue growth in H1-2017:

- Strong growth in APAC
- Increased orders from enterprise and government

Service Assurance



NFV/SDN Investment



Source: TBR Data (2017)

Successful Trials Give Momentum For Second Half

Market outlook for service assurance systems remains strong

On the front-end of network function virtualisation (NFV) and software-defined networks (SDN)

Spirent introduced active test and analytics solution (VisionWorks):

- Two major customer deployments in 2017
- Customer trials progressing well

Expect to close significant contracts in second half to drive growth in our Lifecycle Service Assurance business



VisionWorks deployed in two Tier 1 mobile network operators

- Accelerates service onboarding by automating the verification of virtualised LTE Enhanced Packet Core (EPC) functions
- Monitors quality of business-critical mobile services that terminate in enterprise customers' cloud networks



TM Forum Live: Demonstrated rapid service innovation in virtual networks.

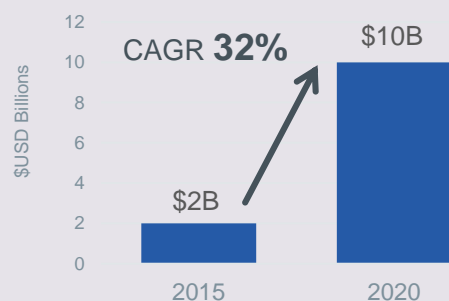
- Sponsored by AT&T, Orange and TIM
- Working with Huawei, IBM, Infosys and Tech Mahindra



Mobile World Congress (Shanghai): Demonstrated automated testing for virtual core networks with China Mobile Research Institute

5G

5G Equipment Market



Source: Technavio (October 2016)

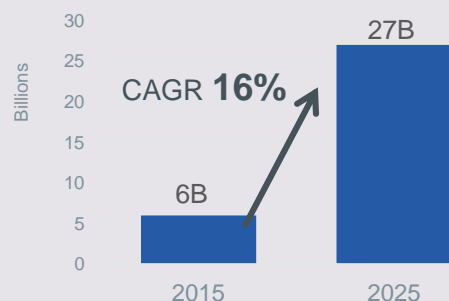
Enable new applications requiring ultra-low latency or extreme bandwidth: virtual reality and augmented reality

Early adoption: Korean Olympics (2018)

Standards: 2018-2020

Internet of Things (IoT)

Internet of Things Connections



Source: Machina Research (August 2016)

IoT connections (2015):

Connected Business	29%
Connected Home	26%
Consumer Electronics	21%

Cellular IoT connections:

334 million in 2015 to 2.2 billion in 2025;
Connected cars will be 45%.

IoT Application Revenue (2025): \$1.3 Trillion

Improving Profit in Declining Market

Market demand for smartphone test systems declines. Outlook for 5G and IoT development test systems are promising

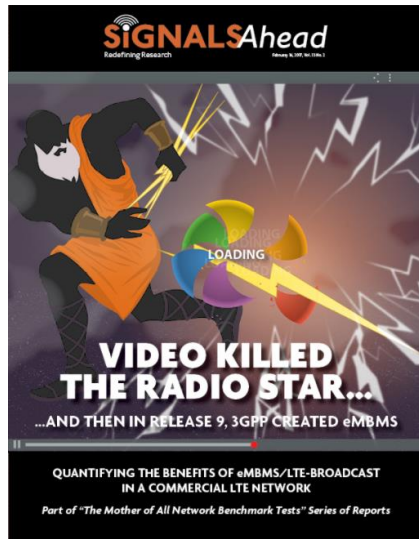
- Spirent introduced a new channel emulator (Vertex) and sales are strong
- Enhancements for carrier acceptance, location and video testing
- Service experience systems and services are stable
- Divested Device Intelligence and Developer Tools business

Expect to manage expenses to offset revenue decline



15-17 JUL 2015 • 2015年7月15-17日

Mobile World Congress (Shanghai): Demonstrated Enhanced Voice Services (EVS) with China Mobile, using Spirent UMetrix system



Signals Research Group completed the first study of a commercial video service over an LTE network, exploring enhanced Multimedia Broadcast Multicast Service (eMBMS), using Spirent UMetrix system

Summary and Outlook



First half results show increase in margin, strong cash flow



On track to meet our expectations for 2017, albeit on flat revenue



Right strategy in place. Prioritising the right areas



Extend our leadership position in high-speed Ethernet performance test, GNSS simulation, and mobile infrastructure testing in the lab and network



Leverage our products and expertise to **grow our businesses** in security test products and services, active test and analytics service assurance solutions, network function virtualisation and cloud infrastructure testing, and channel emulation for 4G and 5G



Invest for next cycle driven by 5G, IoT, automotive and autonomous vehicles

Thank You

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