

# 2009 First Half Year Results

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4 August 2009

# Safe Harbour Statement

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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.

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# Welcome

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**Bill Burns, Chief Executive Officer**

# Highlights

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- Operating profit increased 14% over H1 2008 despite soft market conditions
  - Market share gains
  - Gross margin improvement
  - Cost controls
  - Currency benefits
- Operating margin maintained at 17% (H1 2008: 17%)
- Performance Analysis outperformed industry in constant currency sales and profits
- Cost savings will achieve £11.3 million annualised rate in H2
- Maintained healthy order book and financial position
- 10% increase in H1 dividend

# Market review

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- Demand for broadband and wireless data continues to grow
- Network Equipment Manufacturers' R&D spend down 13% vs. prior year<sup>(1)</sup>
  - Better utilisation of existing labs and test equipment
  - Some orders deferred / minimal project cancellations
- Reduced spending in U.S. offset by solid Asia Pacific performance
- Spirent gained market share globally
- Investments in areas that represent the future
  - 3G / 4G wireless
  - High speed broadband (Ethernet)
  - Data Center, Virtualization and Cloud Computing
  - Applications that drive broadband and wireless data usage

(1) Spirent estimate based on latest reported fiscal quarter results from Alcatel-Lucent, Cisco, Juniper Networks, Motorola and Nokia; Source: FactSet

# Performance Analysis review

	H1 2008		H1 2009	
	£mm	\$mm	£mm	\$mm
Sales	88.1	174.4	<b>102.5</b>	<b>153.8</b>
Gross Profit	63.0	124.7	<b>73.1</b>	<b>109.7</b>
<i>Gross Margin</i>		<i>71.5%</i>		<i>71.3%</i>
Operating Profit <sup>(1)</sup>	19.2	38.0	<b>21.9</b>	<b>32.9</b>
<i>Operating Margin</i>		<i>21.8%</i>		<i>21.4%</i>
Free Cash Flow	14.4	28.5	<b>19.6</b>	<b>29.4</b>
<i>FCF Margin</i>		<i>16.3%</i>		<i>19.1%</i>

- Operating margins maintained on sales down by 12% in US \$
- New product innovations continue unabated
  - 10 GbE high density, LTE solutions, Data Center and Virtualization
- Wireless device test delivered a strong performance
  - China Telecom win also creates opportunities with their device supplier ecosystem
- Free cash flow improved to 19% of sales

(1) Before share-based compensation and amortisation of intangibles

# Performance Analysis review (cont'd)

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- Strong operating margin performance in H1

	<u>Operating Margin<sup>(1)</sup></u>	<u>Change vs. Prior Year</u>
1. Spirent PA	21.4%	-1.8%
2. Agilent	8.9%	-40.9%
3. Anritsu	2.5%	-42.6%
4. Ixia	0.5%	-94.9%

- Award winning new product introductions
  - Design for improved manufacturing
  - Greater proportion of software
  - Continuing cost controls
- Potential for operating margin expansion as market improves

(1) Most recently reported six month period; before share based compensation and amortisation of intangibles

# Performance Analysis review (cont'd)

- Outperformed industry in sales

### Sales Change % in US \$(<sup>1</sup>)

1. Spirent PA	-11.8%
2. Ixia <sup>(2)</sup>	-14.5%
3. Anritsu	-19.0%
4. Agilent (Comms)	-31.0%

- Well positioned product portfolio

	H1 2008		H1 2009		Year-over-Year Change	
	\$mm	% of Sales	\$mm	% of Sales	\$mm	%
Continuing	143.6	82%	134.9	88%	(8.7)	-6.1%
Legacy	30.8	18%	18.9	12%	(11.9)	-38.6%
Total PA	174.4	100%	153.8	100%	(20.6)	-11.8%

- Legacy products decline responsible for 58% of total sales decline
- Continuing products sales declined 6%
- Wireless device test sales up 2%

(1) Most recently reported six month period

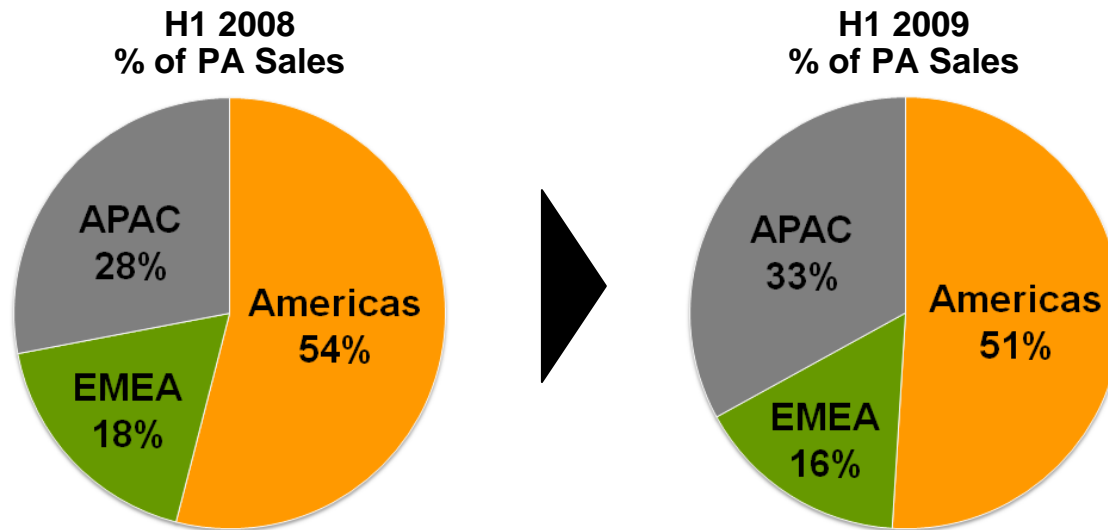
(2) Contains Q1 2009 actual result and Q2 consensus estimate; Source: FactSet



# Performance Analysis review (cont'd)

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- Global distribution capability



- Sales and services distributed globally to capitalise on shifting regional demands
- Solid Asia Pacific performance driven by broadband and wireless sales
- U.S. may outperform in 2010 due to
  - recovery in broadband spending
  - early adoption of LTE

# Performance Analysis review (cont'd)

## 2009 new product innovations



- Continue to enhance our UMTS and CDMA solutions
- LTE infrastructure and device performance testing
- Multi-GNSS positioning test solution



- Higher density and higher speed Ethernet (10 / 40 / 100 GbE)
- Realistic end-to-end network emulation, applications and security testing
- Datacenter, virtualization and cloud computing



- Test Automation Alliance
- NoCode suite of automation capabilities

**Investing in the areas that matter most to our customers**

# Performance Analysis review (cont'd)



Spirent TestCenter voted by T&M Magazine readers as the best product in test



Spirent recognized as Market Leader for enterprise network testing in research and evaluation labs



Spirent TestCenter recognized for its significant impact made in the IPTV marketplace



Spirent TestCenter Virtual nominated for making significant technological advancements in the areas of data center and enterprise networking



Spirent TestCenter High Density 10 GbE HyperMetrics Module recognized for product innovation



Spirent Landslide recognized for vision and leadership in WiMAX






Award winning portfolio of products recognized by customers, peers and industry influencers



## Performance Analysis review (cont'd)

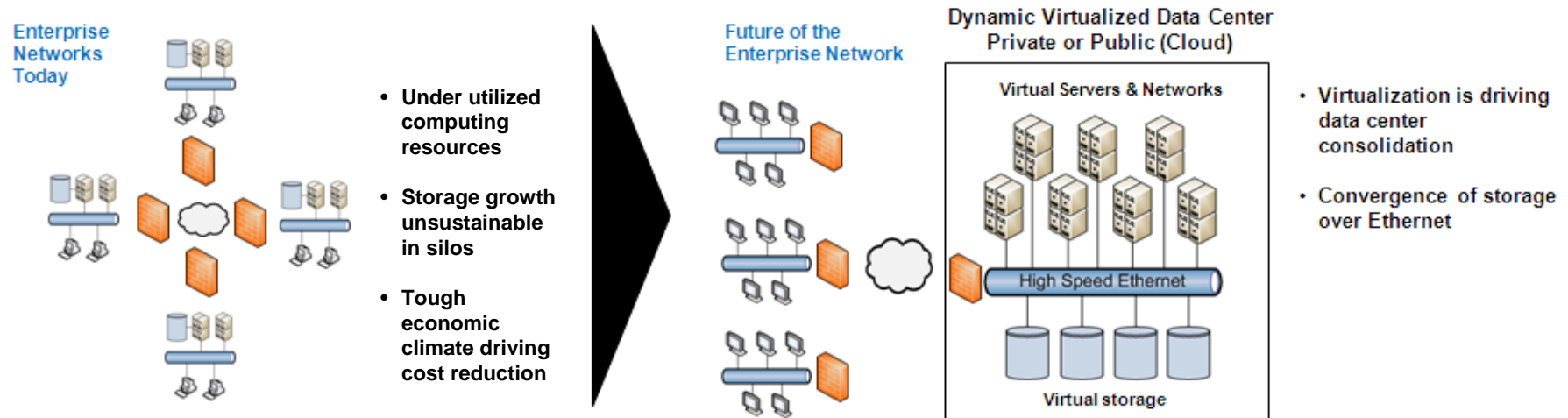
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Spirent TestCenter is the preferred platform for testing tomorrow's networks and solutions today

	Cisco Nexus 7000 Data Center Switch	networktest
	Cisco ASR 1000 Edge Router for Data Center and Service Providers	networktest
	Cisco's Medianet IP Video services for Enterprise and Service Providers	EANTC
	H3C S7500E/3Com S7906E Data Center Ethernet Switch	iometrix <small>THE STANDARD FOR TESTING</small>
	Juniper SRX 5800 Services Gateway and Firewall	networktest

# Performance Analysis – data center opportunity

## Data Center, Virtualization and Cloud Computing



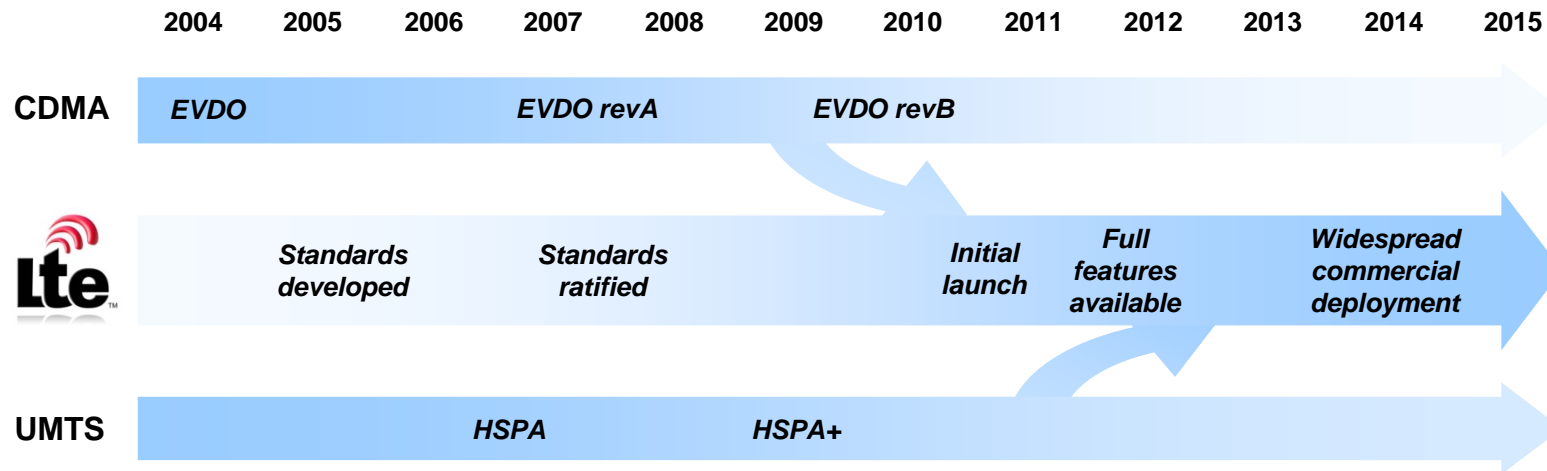
- Market Dynamics
  - Data Center Networking is a growing \$10B market today for our NEM customers
  - Spending on virtualization technologies alone are forecasted to grow at a 33% CAGR through 2013
- Spirent's Solution
  - Unlike traditional devices, virtualization requires a different approach to testing and represents a new market opportunity
  - Spirent TestCenter Virtual is industry's first application to test the performance across all elements of Data Center
  - Best in Class solution in a growing market

# Performance Analysis – wireless update

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- Performance Analysis wireless product lines
  - Device test solutions (performance testing of applications on wireless devices)
  - Air interface testing (simulation of real-world effects on wireless radio signals)
  - Global Positioning including Location Based Services
  - Emulation of core packet data networks
- Principal wireless standards supported
  - CDMA Primary 3G technology in US and parts of Asia
  - UMTS (WCDMA) Primary 3G technology in Europe and rest of world
  - LTE Proposed 4G technology
    - complementary to CDMA and UMTS networks
    - significant increases in data rates

# Expected wireless industry network development



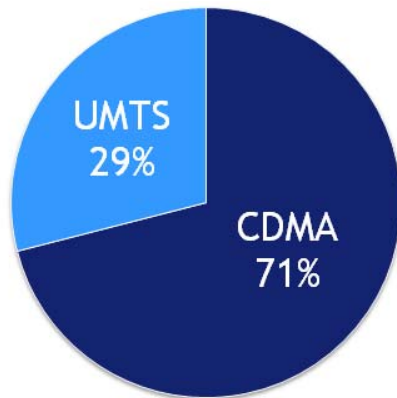
- Expectations unchanged from last year's forecast
- LTE complements but does not replace existing CDMA or UMTS networks for the foreseeable future
  - LTE will initially support data only
- New handsets will be multi-mode
  - LTE + CDMA
  - LTE + UMTS
  - Requires ability to test backward compatibility

## Expected wireless industry network development (cont'd)

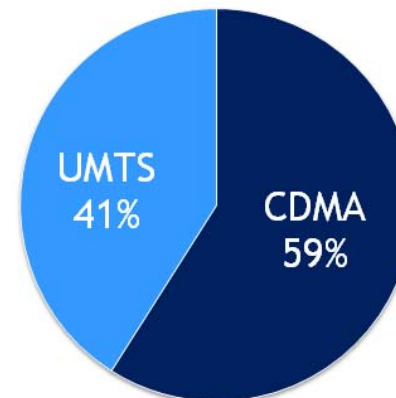
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- Spirent continues to expand in UMTS – broadens LTE opportunity
  - Strong position in backward compatibility testing for both leading technologies

H1 2008  
% of Device Test Orders



H1 2009  
% of Device Test Orders



- First major deployments of LTE expected to occur in the U.S.
- Spirent to deliver first LTE device test systems to U.S. operators in H2 2009



# Service Assurance review

	H1 2008		H1 2009	
	£mm	\$mm	£mm	\$mm
Sales	15.8	31.3	<b>18.3</b>	<b>27.4</b>
Gross Profit	8.0	15.9	<b>10.6</b>	<b>15.9</b>
<i>Gross Margin</i>		<i>50.8%</i>		<b><i>58.0%</i></b>
Operating Profit <sup>(1)</sup>	2.5	5.0	<b>2.6</b>	<b>3.9</b>
<i>Operating Margin</i>		<i>15.8%</i>		<b><i>14.2%</i></b>
Free Cash Flow	2.2	4.4	<b>7.7</b>	<b>11.6</b>
<i>FCF Margin</i>		<i>14.1%</i>		<b><i>42.3%</i></b>

- Gross margin improvement through outsourced manufacturing and product mix
- Increased product development spend in H1 2009 to launch Ethernet centralised test and new field test solutions
- Demand for Ethernet test and wireless backhaul
- Cash flow boosted by reduction in working capital

(1) Before share-based compensation and amortisation of intangibles

# Systems review

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<i>(£ millions)</i>	<u>H1 2008</u>	<u>H1 2009</u>
Sales	16.6	<b>18.3</b>
Gross Profit	5.4	<b>6.9</b>
<i>Gross Margin</i>	32.5%	<b>37.7%</b>
Operating Profit	2.1	<b>2.1</b>
<i>Operating Margin</i>	12.7%	<b>11.5%</b>
Free Cash Flow	2.0	<b>2.1</b>
<i>FCF Margin</i>	12.0%	<b>11.5%</b>

- Medical mobility business robust
- Industrial product demand fell significantly
- Exchange rate boosted revenue to give growth in Sterling
- Profit maintained on constant currency revenue decrease of 11%

# Outlook

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- Remainder of 2009
  - Market conditions in H2 similar to H1
  - Well positioned product portfolio to take share
  - New products could benefit sales and margins in Q4
- New products focus on areas of industry growth for 2010
  - Wireless infrastructure and LTE device performance testing
  - Higher density and higher speed Ethernet (10 / 40 / 100 GbE)
  - Data Center, Virtualization and Cloud Computing
  - Global Positioning including Location Based Services

# Financial review

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**Eric Hutchinson, Chief Financial Officer**

# Comparative results

<i>(£ millions)</i>	<b>H1 2008</b>	<b>H1 2009</b>	<b>YoY % Change</b>	
			<b>£</b>	<b>Constant Currency</b>
Sales	120.5	<b>139.1</b>	<b>15%</b>	<b>-10%</b>
Gross Profit	76.5	<b>90.7</b>		
Product Development	21.4	<b>25.1</b>		
Selling & Distribution	22.0	<b>25.4</b>		
Administration	12.1	<b>16.2</b>		
Operating Profit	21.0	<b>24.0</b>	<b>14%</b>	<b>-16%</b>
Finance Income/(Expense), Net	1.6	<b>(0.4)</b>		
Tax Expense <sup>(1)</sup>	(2.4)	<b>(3.6)</b>		
Net Income	20.2	<b>20.0</b>		
EPS <sup>(1)</sup>	2.67p	<b>3.01p</b>	<b>13%</b>	
EPS Before Items <sup>(2)</sup>	2.83p	<b>3.13p</b>		
Average Shares Outstanding	757.2	<b>664.5</b>		

- Exchange rate benefit in H1 2009 (average rate of \$1.50 / £)
  - Sales increased by £31.0 million
  - Operating profit increased by £6.4 million
- EPS improved by 13%
- Group operating margin of 17% unchanged from prior year

(1) Before prior year items and exceptional items in 2008

(2) Before share-based compensation and amortisation of intangibles

## Comparative results (cont'd)

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- 2009 cost reductions of £11.3 million at annual rate
  - H1 2009 reduced by £4.0 million compared to H1 2008
  - H2 2009 reduced by £5.7 million compared to H2 2008
- Performance Analysis operating margin >21%, unchanged from prior year
  - Cost reductions offset 12% US \$ revenue decline due to market conditions
- Well positioned for margin expansion when markets improve
- Outperformed industry in revenue and margins

## Pro forma EPS analysis

- Pro forma H1 2009 EPS increases to 3.16p under current assumptions
  - Cost improvements in H2 offset \$ / £ exchange rate movement

	<u>£ million</u>	<u>EPS (pence)</u>
Reported H1 2009 Results <sup>(1)</sup>	20.8	3.13
Pro Forma Adjustments to H1 2009 Results		
Cost reductions achieved in H1 2009	1.0	0.15
Additional cost savings to be recognized in H2 2009	1.7	0.25
Exchange rate translation at 1 July rate of \$1.65 / £	(2.4)	(0.36)
Tax effect on pro forma adjustments	(0.1)	(0.01)
Subtotal Adjustments	<u>0.2</u>	<u>0.03</u>
<b>Pro Forma H1 2009 Results</b>	<u><b>21.0</b></u>	<u><b>3.16</b></u>

(1) Before share-based compensation and amortisation of intangibles

## Half year EPS sensitivity analysis

- Pro forma half year EPS sensitivity to change in U.S. \$ Performance Analysis sales from H1 2009 actual

Sales % change	Pro Forma (pence)	
	Change	EPS
10%	0.94	4.10
5%	0.47	3.63
0%	-	3.16
(5%)	(0.47)	2.69
(10%)	(0.94)	2.22

- Each 1% change in PA sales changes EPS by 0.094p, assuming no further cost reductions
- Costs may be reduced further if sales are at lower end of range

- Sensitivity to exchange rate movements

\$ / £ Rate	Change			Pro Forma EPS (pence)
	Sales (£ mm)	Op. Profit (£ mm)	EPS (pence)	
1.55	6.0	1.5	0.20	3.36
1.60	3.0	0.8	0.10	3.26
1.65	-	-	-	3.16
1.70	(3.0)	(0.8)	(0.10)	3.06
1.75	(6.0)	(1.5)	(0.20)	2.96

- Each \$0.01 change in \$ / £ rate changes EPS by 0.02p





## Free cash flow

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<i>(£ millions)</i>	<u>H1 2008</u>	<u>H1 2009</u>
Net cash flow from operating activities	18.7	<b>30.0</b>
Net interest income	2.5	<b>0.2</b>
Net capital expenditure	(3.4)	<b>(3.1)</b>
<b>Free cash flow</b>	<b>17.8</b>	<b>27.1</b>
Share capital	0.3	<b>0.2</b>
Transferred from long-term deposits	0.8	<b>0.3</b>
Cash inflow before dividend and share buyback	18.9	<b>27.6</b>
Dividend paid	-	<b>(4.0)</b>
Share buyback	(30.3)	<b>(0.1)</b>
Cash inflow / (outflow)	(11.4)	<b>23.5</b>
Effect of foreign exchange rate changes	0.1	<b>(2.7)</b>

- Closing cash and cash equivalents of £80.5 million, or 12.1p per share
- H1 2009 free cash flow equals 19% of sales
  - Equivalent to 4.1p per share for the half

# Shareholder distributions

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- Ordinary dividend
  - Payable 17 September 2009
  - Maintain high dividend cover
  - 10% increase over interim 2008
    - interim dividend 0.55p per share
    - cash required £3.7 million
    - dividend cover 5.5x
- No share repurchases year-to-date

# Summary

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- Market conditions in H2 similar to H1
  - New products could benefit sales and margins in Q4
- New products focus on areas of industry growth for 2010
- Strong financial performance, free cash flow generation and margins
- Potential for margin expansion as market conditions improve

