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CORPORATE PARTICIPANTS

Rachel Whiting *Spirent Communications Plc - CFO*

Eric Hutchinson *Spirent Communications Plc - CEO*

CONFERENCE CALL PARTICIPANTS

Nick James *Numis Securities - Analyst*

Gareth Jenkins *UBS - Analyst*

Arun George *Canaccord - Analyst*

Rahul Chopra *Citi - Analyst*

Robert Lamb *Jefferies & Co. - Analyst*

PRESENTATION

Rachel Whiting - *Spirent Communications Plc - CFO*

Well good morning, everyone. Welcome and thank you all for coming.

I'm Rachel Whiting, CFO of Spirent Communications, and I am delighted to be here today to present our 2014 preliminary results.

2014, as many of you know, has been a year where we've focused on investing in the business with the aim of growing our top line. The market is constantly changing, and as a result, we've seen considerable volatility throughout the year, but despite that, we've made some excellent progress.

Before diving into the slides, I'd just like to draw your attention to the usual Safe Harbor statement. Thank you.

As we look at an overview of this year, I want to highlight three key aspects.

Firstly, the steps we took at the end of 2013 to reorganize the business were difficult, but necessary, and they've also served to re-energize the Company. This new lease of life has enabled us to lay the foundations for growth in the years ahead.

Secondly, we made significant progress in our strategy of adding technology through acquisition. We completed five acquisitions in the year at a cost of \$86 million. These have expanded our served markets, and added enhanced capabilities to our portfolio, taking us into some interesting new areas.

And thirdly, our additional organic investment in the business has driven growth in 2014, and enabled us to establish some exciting leadership positions in some of the areas where we see the greatest potential for growth.

The reorganization and the investments we made meant that we succeeded in our aim of growing revenue which grew by 11%.

We also grew in all divisions, and in all regions.

2014, of course, wasn't without its challenges. We saw a major impact in Q3 as a large service provider reorganized and paused in its spending while it assessed how best to move to new virtual technologies. This in turn impacted the ecosystem that supplies into that service provider.

At Spirent, we saw a reduction in bookings of some \$33 million over the previous year as a result of that impact. We were also disappointed by the speed of progress that we were able to make in cyber security which we continue to see as a significant opportunity for the Company. However, we have new management in place in that business with a strong background in security tests.



We feel that to have grown our top line in spite of these challenges vindicates the rationale behind the reorganization that we undertook at the end of 2013, and the investment strategy that we have embarked on since then.

So turning to our financial KPIs. As already noted, we saw revenue grow by 11% to \$457.2 million. We grew our order book, giving a book-to-bill ratio of 103, reflecting a strong finish to the year. Operating profit was \$46 million after additional organic investment of \$24.4 million. This resulted in a return on sales of 10.1%, and adjusted EPS of \$0.052 per share.

Turning then to the Group's comparative results for 2014, we see that revenue was up to \$457.2 million, with acquisitions in the year contributing \$18.6 million.

After an increase in revenue of 16% in the first half of the year, we saw a significant slowdown in the third quarter, principally driven by a major service provider as I've already mentioned. However, we did see a marked uplift in business at the end of the year.

The reduced operating profit of \$46 million reflects the \$24.4 million of additional organic investments that we made in support services, in product development, and in sales and marketing. And I'll talk more about those investments in a moment.

The reported tax rate for 2014 was lower at 22%, due to the geographic mix of profits, and to the benefit of R&E tax credits in the US. We are proposing an increase in the final dividend of 10%, to \$0.0221 underlining our confidence in the future.

Now let me turn to each of the operating divisions.

Let's look first at our networks & applications division which accounts for 48% of Group revenue. To remind you, this division tests our customers' new technologies prior to commercial launch, allowing them to develop and deploy new networks, services and applications with confidence.

This division bore the brunt of the slowdown in Q3, and a shift in the profile of its top customers where bookings in that ecosystem were \$24 million lower than 2013.

But despite the headwinds in Q3, the division grew by 4%, demonstrating that we have gained market share with win backs at several key customers.

We saw strong growth for our mobility solution driven by 4G network rollouts, and also growth in our test optimization & solutions business, which is playing a key role in helping to automate increasingly complex network environments.

Gross margin was maintained at 68.3% but operating profit was offset by the \$11.5 million of additional investments that we made in product development and in sales and marketing. That investment meant that we extended our leadership in software defined networking and network function virtualization, launching first to market SDN capabilities for service providers on our Spirent test center platform. And although small in terms of quantum, we saw great success with our virtual solutions, which grew at triple-digit rates.

Turning now to our wireless & service experience division, which accounts for about 39% of Group revenue. Here, we test next generation mobile devices, predominantly smartphones, as well as satellite navigation and global positioning systems. This division now includes two of the acquisitions that we made during the year. Radvision, which we acquired in July, has complete test suite for voice and video over IP; and Testing Tech, which develops software-based testing tools.

These acquisitions contributed \$6.5 million of the \$10.9 million growth in revenue that we saw in the year.

We saw particular strength in China from the 4G carrier ecosystem and from the continued worldwide investment in 4G LTE technologies and services, particularly VoLTE. We increased our investment here in product development in sales and marketing and support services by \$9.4 million during the year.



Our investment has particularly focused on VoLTE and Rich Communications Services where we've established leadership with the launch of our unique elevator test platform. This platform addresses the complex new testing challenges for the latest wireless and machine-to-machine devices and services.

We saw modest growth in our positioning business, with a strong performance in commercial markets being tempered by government spending restrictions in some regions. We also launched innovative new solutions which cover multi-GNSS technologies, meaning that we won market share.

Looking at our service assurance business, which accounts for 13% of revenue in 2014, this business allows service providers to diagnose, troubleshoot and resolve issues within a live network.

Merger activity and the need to assess virtualization also caused a pause in spend from some carriers in this division and resulted in overall service provider spend remaining cautious. Despite this, revenue was up significantly, thanks partly to the acquisitions of DAX and Mobilethink, which contributed \$12.1 million in revenue.

Revenue was also boosted by a \$12 million field test contract with a major North American service provider. And in December, we received a \$16 million order for the second phase of this project for delivery in the second half of 2015.

The leap in revenue fell almost directly through to a strong performance in the bottom line, offset once again by increased spending in product development and in sales and marketing. That investment resulted in various new product launches for the division, including a new version of our field test product, Spirent TestCenter Live Virtual Probe and new capability for LTE for our customer experience management business.

Finally, turning to our cash position. Cash was \$99.8 million at the end of the year, down from \$216 million a year ago. This shift was in large part due to the \$86 million that we invested in acquisitions, the investment that we made in product development and sales and marketing, as well as \$39 million that we have returned to shareholders.

Cash generated from operating activities was lower, as the activity was skewed towards the end of the fourth quarter, resulting in a large increase in working capital, which we expect to unwind in the first quarter of 2015. Also, our capital spend was higher as we moved to new facilities in the US following the expiry of previous lease terms.

We ended the year with a healthy cash balance of \$99.8 million and no debt, which gives us the financial flexibility to continue to invest in the business, to pursue strategic acquisitions and to provide sustainable shareholder returns.

Now let me hand you over to Eric, who will discuss the market, our strategy and the outlook. Thank you.

Eric Hutchinson - *Spirent Communications Plc - CEO*

Thank you, Rachel. Okay, let me turn to some of the market dynamics where we're seeing the opportunities that arise from them and where Spirent is investing to grow the business.

So 2015; clearly a lot of fundamental changes going on in the industry. The polarization of wireless device manufacturers' performance; the impact of the build out of wireless infrastructure; the changes being sought by service providers, some of whom wish to become content providers; and the move to virtualization of networks and data centers, combined with further technology innovation.

In mobility, wireless has clearly become the access technology of choice, de rigueur, we all do that; all our businesses are run that way. And it's bringing all the benefits of new seamless services generating new revenue streams for carriers, which in turn have many challenges to their deployment.

Cyber security is at the forefront of everybody's mind. Complexity has become the new norm in the industry. and The line between laboratory and live is distinctly blurred.



Information is a resource to be monetized and this can only be done through big data analytics.

So how does Spirent position to meet the dynamic demands driven by these market changes? Spirent possesses expertise and leadership in testing and assurance to enable the delivery of ever-expanding data traffic volumes. Notably we've got leadership positions in Ethernet, cloud technologies, virtual high speed data. In applications test we have powerful denial of service test processes, security test with realism at scale, and we have satellite navigation signal vulnerability tests.

In mobile infrastructure, the evolved packet core expertise that we have in test automation and orchestration is simplifying complexity for the testers and carriers there.

Mobile device performance test and interoperability we have leading capabilities, and we're investing in data analytics in live network operations through end-to-end solutions.

So if I look at the technologies and market changes, and it's really about Spirent being able to ensure critical connectivity. So change is often bad for tech companies, especially those focused in one area. Spirent assures that critical connectivity technologies perform across the whole networks, a really evolution in change for its life blood.

So let me take you through the following focus areas where we're investing, and where we see opportunities and I'll give you a sense of the size of the market and the growth rate. But just put that in the context of our strategic direction, and how we see the industry evolving, the end goal for everybody is to improve customer experience; improve the performance and connectivity of data traffic and voice traffic, and quality of video.

The technologies are launched, they're operated, they go through a development phase. But nowadays, we're seeing much more feedback from live operations back into development, through to the deployment and launch. And we are bringing the test methodologies you need to assure that; the automation of those processes; and now the analytics that then improve the test methodologies and efficiency. And the whole thing is that's how we're approaching the market.

So all of these areas may look separate, but they're actually linked. So bear that in mind, that our strategic is pulling the portfolio together.

So turning to mobile networks. So now this focus is all about seamless mobility. There's significant evolutionary change in the evolved packet core network, and there's greater investment going on in wireless infrastructure worldwide. We saw that coming through significantly in 2014.

We have a leadership position in comprehensive, functional and performance testing of vEPC, offering complete end-to-end testing for cellular and WiFi ecosystems. Virtual EPC deployments will start to be made in 2015.

Carriers are seeking to grow revenue from LTE and voice-over LTE deployments with the new services. We see 71 carriers testing VoLTE technologies in 2015. We deliver emulation of real-world traffic at scale, based on a range of network topologies.

Roaming to or from WiFi is expected to see the carrier WiFi market double. We offer integrated test solutions to cellular and WiFi hand-off testing, combined again with unmatched scalability. Our expertise allows rapid set-up of complex test recessions, and segmentation of the network to identify clearly where problems may lie.

So we're able to offer very valuable solutions to a European carrier; they're able to model their deployments of the new technologies in the lab; take their real traffic patterns; remodel that; optimize their network investment; and assure those services are delivered.

And another example is, you have sporting events, everybody's crammed in to the arena, there's a huge load on the network, and carriers were looking to get WiFi to deliver additional capacity. And at the US Tennis Open we were able to resolve those WiFi service issues, and ensure that the carrier met the service level agreements they had.

It's all about ensuring seamless user experience across heterogeneous networks. So that's another buzz phrase, HetNet, if you come across that one, in mobile networks; authentication, authorization and accounting using a new technology called Diameter, which is a protocol that delivers access to new service technologies with enhanced security.

So Diameter traffic rates are doubling to 44 million messages per second in 2015. And we've developed new capabilities to deliver real, realistic world simulation, to accurately test performance characteristics for the network's equipment at scale, with automated control. This allows customers to identify capacity limits; core data performance; pre-deployment characterization; and accurate capacity planning.

New wireless services; how well do they function? So another example of our innovation in 2014 is in the area of testing new wireless services, such as VoLTE and Rich Communications Services, as Rachel referred to.

VoLTE will improve greatly user experience across all mobile devices; high-definition quality voice calls; and better video. If any of you haven't actually experienced a 4G voice call, it's 10 times or 100 times better than the quality you currently get on 2G/3G. Mobile devices are constantly tapping the network, they're always pinging the network. And VoLTE technologies allow much more effusive -- efficient use of network resources.

So again, we have the range of solutions to address these needs in the live network and in monitoring performance. And in 2014, as Rachel mentioned, we launched the new wireless test framework called Elevate, which aims at improving the quality and productivity of VoLTE and RCS development and deployment.

We've integrated our device test system, our traditional test system on device testing; the ProLab IMS suite, which we acquired with the purchase of Radvision; and we also combined that with our service experience analytics.

So the platform is open, scalable and shareable. It solves the test needs for interoperability problems. It's accessible from the developer's desktop, or indeed is accessible by remote technologies. So you can run it from an iPad.

It allows complex issues to be found prior to market release, avoiding costly and damaging poor customer experience, and therefore increased customer churn.

In fact, the illustration on the slide is from a real interoperability test that we ran. We discovered an RCS-based video chat problem, a degradation in the signal. And this was on two devices that unfortunately had already been released commercially. So we're finding things that the current test processes are not finding.

Our developer tools business unit, Radvision, which we acquired in July, has a worldwide recognized, best-in-class solution for IMS, RCS and VoLTE test validation, and enables IMS network systems to be emulated. And this is a critical enabler for our Elevate platform our VoLTE test solutions, and gives Spirent some clear differentiation.

The developer tools products have resolved issues in a Scandinavian video-hosted provider. We've improved network provision, pre-deployment and assured video and audio quality.

Turning to the high-speed Ethernet market. Clearly, the exponential growth in data traffic is continuing. The only way that the world can deliver capacity to support this exponential growth in data is to develop higher and higher speed Ethernet technologies.

We've invested in the expansion of our 100 gigabit Ethernet test capability, and that's put us in a leading position. This has resulted in a significant win back of business in major accounts during 2014, and that's continuing in the first quarter of 2015.

The development has delivered much needed functionality to those people who are developing these technologies.

And we also demonstrated the world's first working test for 400 gigabit Ethernet, working with leading equipment developers and a chip manufacturer.



And such high-speed rates, disruptions have a much greater impact on network availability. And expertise in testing at these speed rates is gapped across the entire industry. Timing accuracy in the order of picosecond is needed for these measurements.

Our latest test platforms have cloud core processing with deep real time analysis, delivering enhanced realism at scale. And this enables the test of highly scaled terabit networks and devices.

We address the needs of complex, converged IP systems, cloud data centers and high performance mobile networks. These capabilities allowed us to grow in the market that arguably shrank in 2014.

We achieved growth in customers outside our top two accounts, where those, as Rachel flagged, cut spending dramatically in 2014.

So cloud and virtualization; so the transition itself is a complex one. So the transition to software defined networking and network functions virtualization is bringing complexity. Legacy systems that are already out there are complex. And the migration to cloud-based technologies is causing concerns for IT leaders. They're worried that those migrations could fail.

It would severely impact service availability, which is the key delivering economic benefits for any network user. This in turn drives the need for new test solutions and test methodologies. And our virtual test solutions are the first to deliver infrastructure and application test solutions for open flow controller, open flow switch performance and end-to-end tests between the virtual world and the physical world.

You can't forget the physical world. It's always going to be there. It might go virtual, but physical's always going to be there.

These dynamics are seeing an increased demand for our cloud and IP test solutions. Again, Rachel mentioned that.

So in 2014, the served market was probably about \$10 million. As we enhance our capabilities, we think that will be more like \$110 million, and clearly it's a fast growing area.

Network security. So I mentioned cyber security attack. Those breaches are hitting headlines every day. And some examples are on the bottom of the slide. Cyber security threats are worldwide, from different regions. We see new malware intrusions into networks on a daily basis. And the key is to discover and resolve exploits before others find the weaknesses, to test against the fuzzing of application traffic and protocols.

Our systems currently test for over 10,000 known malware attacks, and we will expand on that this year. We're investing in enhancements to our platform in 2015, and expect to show further progress in the second half of the year.

We have validation solutions that test whether network security systems perform as expected, to deliver the protection required for compliance with the United States National Institute of Standards and Technology cyber security framework. And this is critical for US service providers, enterprises and network equipment manufacturers.

In addition, Spirent has unique capabilities to simulate satellite navigation applications, to test their resilience to threat.

Spoofing and blocking. We test vulnerabilities in systems that are built into critical applications, whether these are logistics, infrastructure or indeed the time stamping in financial trading systems.

And now equipment manufacturers are using our simulators to carry out timing measurements to assure network performance. So a lot more to navigation signals than just navigation.

So a key part of the strategy is to expand the value we deliver to our customers from test assurance and monitoring activities. There's a vast amount of data residing in our data centers, and our customers' data centers, generated by test activities in the lab, and from network experience.



And we made two key acquisitions in this area, in data analytics, in 2014. The first being the purchase of a business focused on customer experience management, which is DAX Technologies, in February.

The analytics solution gives operators real-time insights into what's being seen by the customers, and the likely cause of any service deterioration. The solution enables actionable analytics for operational support, engineering teams, and their marketing functions.

Our strategy is to expand our capabilities in this business, so we can address the needs of other network operators, wireless or wireline, to extend the reach worldwide. And to engineer analytics solutions that can be added to and built into our test solutions across the entire portfolio.

Great progress has been made in the last year, both in top-line growth, and expanding the capabilities, and expanding the resources we have here.

The team's integrated well into the Spirent family, with energy and enthusiasm, and this in itself is inspiring. It takes us into a significant new served market that's growing rapidly, so our estimate is \$220 million, growing at 20%.

One example of an application is with a tier 1 carrier. It's reduced the time that they're taking to resolve customer issues from many, many hours to less than 30 minutes. And it's saving them over \$60 million a year in operating expense, so the return on the investment with us is measured in months.

We've also created specific algorithms to identify emerging issues in the network, well before the traditional systems, alarm systems are triggered, and before many customers are impacted. This in turn improves customer satisfaction, network performance and utilizes fewer resources to resolve issues.

Later in the year, we expanded a position with the acquisition of Mobilethink, our device intelligence business unit.

Here, we enter into the live network device configurations for operators and MVNOs. We now have a database covering just about every mobile device on the planet. The system delivers analytics, giving deep insight to the activity at the device level, enabling carriers to optimize their service delivery, deployment and rapid response to issues.

So those are key areas where examples of where we're investing. We're seeing real traction in the market, so we're investing in the business for long-term growth.

As Rachel mentioned, we've reorganized, we've got a much more agile responsive organization. We've hired new people at all levels. I've got new managers coming in, particularly in cyber security. We've got experts coming in to run those businesses. We've got guys with expertise on mobile technologies and we've promoted people internally. So we've reinvigorated the organization.

We've done some outsourcing, so we've got a much more flexible business model on some of the areas that we're working in. We've entered into a series of technology partnerships to broaden our capabilities and fill gaps in an economic way where we see some gaps in the portfolio.

We developed an open platform approach to testing, so that people can get to use some of our functionality and then, if they want additional capability, come and buy that from us.

Our M&A strategy is very focused around the pieces that we see add real value to our portfolio. And I hope I've demonstrated where some of those fit in. And we're developing new channels to market to get into new adjacent areas.

Some of these are longer term, so connected car and automotive is a longer burn, but we've got capabilities on Ethernet which will be in the car; we've got the cellular test; we've got WiFi test capability and we've got the satellite navigation. So all of those pieces are used in automotive.

We've invested in facilities, so that we now have a world-class development laboratory in Southern California and we've got a world-class customer demonstration lab on the east coast of the US.

We're demonstrating progress. We've released 80-plus, 85, releases of new solutions and new functionality, some of them major in 2014, and here's a list of some of the examples.

I've touched on 100 gigabit; VoLTE; the Elevate platform. We've actually refurbished, renewed and increased the capability on our satellite navigation platform. We've got some interesting technologies on measuring mobile battery life performance in the live network, which everybody knows is probably one of the biggest bugbears anybody using a mobile smartphone has these days.

We develop virtual network probes for deployment in live networks, and we have a product called Velocity which is an open framework and cloud-based platform that delivers test optimization and test automation. So we're now delivering products over the web or accessible through the web.

We have a strong pipeline for new developments coming through in 2015.

So by way of wrap up, I think we're delivering revenue growth; we're releasing the solutions; the organization is much more responsive. There's a high level of energy and commitment in Spirent these days and we've been expanding capabilities and we're expanding our sales and marketing reach to access the market. We're winning back share.

By way of outlook, broadly the message is we're comfortable with where people are expecting 2015 to come out. We are flagging that on a comparative basis, it will look to be a slower start in Q1.

We've got a major contract timing shift that Rachel's referred to, moving to the second half compared to Q1 last year, but we do see an increasing level of demand as the year progresses and we expect to see further progress in 2015.

So thank you for your attendance and we'll move into Q&A.

I think Nick was the first hand up.

QUESTIONS AND ANSWERS

Nick James - *Numis Securities - Analyst*

Nick James, Numis. I guess a couple of questions. One was on the leadership in software defined networking. You said this was like a \$10 million market for you guys in 2014, but it's like \$100 million. So who's got the rest of it and how do we get convinced that Spirent has got a leadership position in this market?

Eric Hutchinson - *Spirent Communications Plc - CEO*

Well, in our \$10 million, we've sold about [\$4 million]. Clearly, our key competitor has got capabilities to turn the Ethernet test into virtual and they're doing some virtual tests there. Clearly, Ixia has got a focus on growing in SDN and NFV. So we see that we're the two key vendors that can move and transition into delivering that.

We believe we have an advantage because we wrote our software in a way that it could be virtualized much more rapidly, so we were first to market with doing that, and we're enhancing that capability.

I've yet to see any meaningful new competitors in the test and assurance on SDN and NFV, but a number of customers are developing their own internal processes to test their developments clearly, and the guys that are coming from a software Internet services data center background are still doing a lot of this themselves. So the main competition for some time will be internal.

Nick James - *Numis Securities - Analyst*

Great. And how do we think about the financial impact of this transition? Because I know there was some concern about it, that it's moved from selling hardware devices to selling software would be a bad thing to Spirent. So how do we think about that going forward?

Eric Hutchinson - *Spirent Communications Plc - CEO*

The interesting thing is that when we're talking to the guys that want the big ion hardware test, they still want that. So whatever the dynamics are on that part of the business will be what it is and it's not really being impacted on the virtual test.

The one area that we are seeing a bit of a shift is that we can now do much more regression testing at scale by running virtual machines on file servers. That does impact hardware utilization but it's at a point where you simply can't buy enough hardware to scale in that market. So it's not as though you're really impacting directly.

Where we do sell SDN and NFV, it's usually to new customers who are looking for virtual test capabilities who, quite honestly, would never really have bought the hardware test tools anyway. And clearly, the model is software and services. So the gross margins are attractive.

The near term will be that we've got to put a lot of effort into developing that capability, so like with most things in tests and test methodologies, it takes you 12/18 months, 24 months before you turn it into a net profit.

Nick James - *Numis Securities - Analyst*

Great. And I guess just to follow up on that. You mentioned Ixia. I think on their call the night before last, they made this claim that they were going to move the business more to enterprise. That's something that Spirent's talked about before. They seemed to de-emphasize Ethernet testing and said that was a flat market now. I know Spirent seems to have outperformed them in 2014, so just to contrast the two strategies as we look forward.

Eric Hutchinson - *Spirent Communications Plc - CEO*

Ixia are reinventing themselves as a network visibility business focused on service provider, data center, enterprise and latching into virtualization. I think they said it's not an executive focus on Layer 2/Layer 3 switch testing. Not that they're going to exit the market I don't believe them for a second. But it is a change of emphasis.

We positively decided that we were not going into that network packet broker market where they made investments. So we have got a divergence of strategy.

Where we're tackling enterprise, it's where we have capabilities that we believe offer some, probably niche advantage. But we're not going down -- we're not developing a huge enterprise test business.

We think probably longer term machine-to-machine Internet of Things and connected vehicles are probably a diversification that is well worth pursuing. But we think that focusing on what we're good at and getting build leadership and expertise in our served markets will offer growth for Spirent.

Nick James - *Numis Securities - Analyst*

Great, thank you.



Gareth Jenkins - UBS - Analyst

Gareth Jenkins, UBS. A few, if I could. Just to follow on to Nick's question actually on the financial impact. Should we expect gross margins to creep higher as the software content increases from these virtualized products? You've obviously got very high margins on your hardware already, but more software content higher gross margins.

Rachel Whiting - Spirent Communications Plc - CFO

Yes. So over time, as we see more software content, then we expect -- and we expect that shift to be 1% to 2% a year. So gross margins will see some steady improvement. But on the other side of things, whilst we've got high margins on hardware, services tend to be a little bit lower margin because of putting bodies in there. So it will be a slow shift.

Gareth Jenkins - UBS - Analyst

Sorry, just to be clear, that 1% to 2% a year is not the gross margin, that's the shift in the capital percentage of breakdown?

Rachel Whiting - Spirent Communications Plc - CFO

No, that's the shift. That's the shift in hardware to software.

Gareth Jenkins - UBS - Analyst

Right, okay. And just secondly, on the 400 gig market, it feels like it's just really starting to gain traction if I look at releases from some of your key customers. How do you see that playing out over the next two years? And then really, we're into I guess, the terabit market; how do you see that cycle coming through?

Eric Hutchinson - Spirent Communications Plc - CEO

So we would normally expect first movers to do some interesting thing on 400 gig, and actually we're talking to, I think there's six equipment manufacturers that are all doing work on 400 gig at the moment. The main attraction for us is that it pulls through all of our other capabilities on 100 gig.

The data center market is moving in in an opposite direction, so 25 gigabit Ethernet is now the de rigueur of the future in data center, multiples of that. So that's another area that we're tapping into.

So 400 gig, it may actually develop more rapidly than we expect, but we wouldn't expect it to be a significant revenue stream for a couple of years. But what it does do, it demonstrates leadership and it actually makes sale of our 100 gigabit products more attractive to customers because they can see the product roadmap that gets them to terabit.

Gareth Jenkins - UBS - Analyst

That's great. Without dwelling too much on a negative, cyber security, you said you were disappointed with the pace of entry. Why do you feel that's been the case? I understand you've management change to kind of rectify or you're reorganizing --?



Eric Hutchinson - *Spirent Communications Plc - CEO*

Yes. We've brought in a manager who's got great experience in security tests, particularly in software solutions in security, and he's got more experience in the use by government and enterprise.

I think the main thing there's been gaps is, we're very good at high functionality, firewall development tests, so everything is very specialized; we've got the world's leading cyber security test processes, which is why we're doing more realistic tests at greater scale.

Where we've been gapped is trying to package that into an easier-to-use test system to compete with the guys who are really mopping up in enterprise and government, part of standard sets of tests, easy-to-use.

So we're looking to rectify that to some extent, but also to really push on the advantages that we bring which is doing realistic testing outside those sort of box-ticking processes.

Gareth Jenkins - *UBS - Analyst*

And then just a last one from me and probably one for Rachel. What's the right level of cash that you need in the business? Should we expect more M&A, so further reduction in cash going forwards, given the returns you're making? Or what's the right level?

Rachel Whiting - *Spirent Communications Plc - CFO*

So we wouldn't really want to go below \$75 million to \$100 million on the balance sheet. So acquisitions at the moment are likely to be small technology add-ons or we would need to take on debt if we were to look at a big acquisition.

Arun George - *Canaccord - Analyst*

Arun George, Canaccord. I have three questions. Firstly, if look back at the Q3 trading update you highlighted, I guess the pricing pressure in China is one of the reasons. I'm just wondering how that has played out in Q4 and what's your outlook for that in 2015?

Eric Hutchinson - *Spirent Communications Plc - CEO*

So China in particular we had a really strong Q4. We did a lot of business there; we saw growth with the major equipment manufacturers and service providers in China. The pricing issues are ones where there's capability that can be substituted. Where we've bought out new products, then you don't see that pricing pressure.

So I'd say it's much more benign than we'd anticipated. There was so much activity in the fourth quarter that it's almost as though our customers are pausing to taking breath at the beginning of 2015. But we expect them to come back into the market. And we'd expect to see growth in 2015 at good margins.

Arun George - *Canaccord - Analyst*

The second question is on the large field testing order of \$16 million. Looking into 2015, is there a third phase to be expected?

Eric Hutchinson - *Spirent Communications Plc - CEO*

So 2015 will be the delivery of the \$16 million. 2016, that will probably turn into more of a maintenance type of activity with that key customer. So we'll probably run up, I don't know, \$5 million-plus. And then we're looking to see if there are other customers who can utilize that capability, so

expand the customer base. In the meantime, we're growing the other service assurance software, assurance products strongly. So it will probably come out in the wash.

Arun George - *Canaccord - Analyst*

And just a final question, one for you Rachel. You mentioned that you're happy with consensus as it stands for 2015. But you also highlighted a second half weighting. Can you give us a rough estimate on what you expect the H1/H2 split to be either on revenue or profits?

Rachel Whiting - *Spirent Communications Plc - CFO*

Yes. So revenue, probably 45/55, in that region.

Arun George - *Canaccord - Analyst*

Thank you.

Rahul Chopra - *Citi - Analyst*

Rahul Chopra, Citi. Just one question. In terms of -- can you just give some sense of organic increase in market share -- market size for investments in 2014?

Eric Hutchinson - *Spirent Communications Plc - CEO*

So the market size dynamics, our estimate of the wireless market was a growth of around about 9%. The service assurance market in traditional monitoring was probably flat to down. In the new areas we see 20% growth. So net-net it was probably a 9% growth market.

In the networks & applications served market, as I say, that probably was a net down of around about 4%/5% in 2014.

If I look forward over the next three years, we'd expect networks & applications served markets to grow at around about 7%; wireless at about 8%; and the service assurance on a combined basis at around about 9%.

Rahul Chopra - *Citi - Analyst*

Thank you. And just one more thing in terms of any color on the outlook for product development costs for FY15.

Rachel Whiting - *Spirent Communications Plc - CFO*

The costs?

Rahul Chopra - *Citi - Analyst*

Yes.

Rachel Whiting - *Spirent Communications Plc - CFO*

So we're expecting to grow our cost base at around -- we flagged this in the press release -- grow the cost base at around 3%, plus some additional investments in sales and marketing and a little bit extra because of the run rate on the acquisitions.

Rahul Chopra - *Citi - Analyst*

Thank you so much.

Robert Lamb - *Jefferies & Co. - Analyst*

Robert Lamb, Jefferies. Just a quick one on packet core market. I think Nokia have called out some good trends there and I just wanted to get a sense for revenues in 2014, potential growth rates and the product line-up, given the move to virtual packet core coming in.

Eric Hutchinson - *Spirent Communications Plc - CEO*

So we're probably going to grow that product line by about 20% in 2015. Over the next two or three years, that could well double. It's currently about 7% of the total Group, just to give you a sense of the scale of that business at the moment.

Robert Lamb - *Jefferies & Co. - Analyst*

And then just on the Siemens industry consolidation, which I think you've touched on at the Capital Markets Day and on the last call, is there an update in your view I guess vis-a-vis larger players and smaller markets in the market?

Eric Hutchinson - *Spirent Communications Plc - CEO*

I think, if you look at the position of the number of larger players, that they are in the process of spinout from other divisions, so their management teams are dealing with that process and the public market processes that take six months or so and clearly they're setting their strategy. And some of them look like they might be going in some different directions.

Some haven't clearly stated their strategic direction. What you are seeing is that there are more pure play communications, test and measurement vendors out there now, so they're being decoupled from other businesses.

So logically, you'd expect to see a consolidation phase happening. We will look to be a consolidator, if it makes sense and we can do deals at sensible prices and we can see some complementary businesses and we can see some businesses where an overlap might make sense.

But clearly there are a few very large companies who may decide that they want to consolidate. So I think it'll be interesting to see how it plays out. I'm not sure when it's going to start.

Robert Lamb - *Jefferies & Co. - Analyst*

Okay, great. Thanks.

Eric Hutchinson - *Spirent Communications Plc - CEO*

Any other questions? Gareth, have you got another one?



Gareth Jenkins - UBS - Analyst

Gareth Jenkins, UBS. A couple more, if I could. The large customers that you saw pauses on in Q3, can you talk to us about 2015, what your expectations are. Shall we expect them to start growing again or were your market share gains within them mean that you grow? So that's the first one.

Then secondly, I just wondered if you've got any sense of the breakdown between I guess what you may class as legacy products and the newer products, the virtualized products, cyber security? You mentioned packet core 7%. Any sense of how that dynamic is playing out? It's always difficult to --

Eric Hutchinson - Spirent Communications Plc - CEO

Yes. In terms of the two major customers who saw a decrease in total spend, we're continuing to see gain of market share within the equipment manufacturer side. With the service provider and the equipment manufacturer we would expect to see growth this year. So we'd probably expect to see that grow high single digits.

We're working on some projects with them that could exceed our plan but we probably won't see that until the second half. So we are expecting to see growth there. And we've got a pretty positive outlook across the portfolio generally.

In terms of the proportions of the business that we would say is legacy, it's pretty tiny.

Rachel Whiting - Spirent Communications Plc - CFO

It's very small but what we truly call legacy is only about \$4 million of revenue.

Eric Hutchinson - Spirent Communications Plc - CEO

That's about 1%.

Rachel Whiting - Spirent Communications Plc - CFO

Yes.

Eric Hutchinson - Spirent Communications Plc - CEO

Now, you'd probably say there's still a bit of a drag potentially from 3G/CDMA over the long term.

Rachel Whiting - Spirent Communications Plc - CFO

That was down about 18% in the year.

Eric Hutchinson - Spirent Communications Plc - CEO

So thinking about legacy and futures --



Gareth Jenkins - UBS - Analyst

Maybe I'll rephrase that. How much of the revenue is coming from products that you've developed over the last 24 months or 12 months? I'm just talking about some of the newer areas that you're talking to that are posting up the CAGRs at 40% and 20% as opposed to those that --

Eric Hutchinson - Spirent Communications Plc - CEO

The ones that are in the high growth area account for about 15% to 20% of the portfolio. There are some traditional Ethernet test products that we won't see much growth at all. That's probably about 25% of the portfolio.

Nick James - Numis Securities - Analyst

Nick James, Numis Securities. Just to follow up on security, I guess the way that you've tested for this traditionally has been about known threats, but I think some of the security vendors now talk about being able to find unknown threats as they are arising. So I just wanted to understand how you interface with that.

Eric Hutchinson - Spirent Communications Plc - CEO

So we work closely with the guys who are looking to build the security. If we can build unknown threats into our test systems, we will. I'm not sure that we're in a position that I could say that we can do that today, I don't think we can.

But we're all about delivering the test processes to the developers of security. So if there's something we can do there -- a lot of it is around the fuzzing of the application traffic so that it looks different.

Nick James - Numis Securities - Analyst

I guess people make lots of claims but given they're claiming that they can test for unknown threats, if they can find unknown threats, it would suggest that they've been testing like that. So who's doing the testing?

Eric Hutchinson - Spirent Communications Plc - CEO

I can't comment. I don't know.

Nick James - Numis Securities - Analyst

Great. Thank you.

Eric Hutchinson - Spirent Communications Plc - CEO

How do they know when they've found an unknown threat? I don't know.

Okay, very good. No more questions? With that I'll wrap up. Thank you very much for your attendance.



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