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PRESENTATION

Bill Burns *- Spirent Communications Plc - CEO*

Morning, everyone. Let's get started. Welcome to Spirent's 2013 first half-year earnings results. I'm Bill Burns, and with me today is Eric Hutchinson, our Chief Financial Officer. Before we get started today, I'd ask that you take a minute and read through the Safe Harbor statement.

The agenda for today's presentation, I'll give you a brief overview of the first-half results; Eric will talk to financials in detail; and I'll come back up and talk a bit about the market, and our second half outlook.

Revenue in first half year was affected by near-term caution by our customers, and the shift to wireless technologies from 3G to 4G.

So what we saw during the first half year was our network equipment manufacturer customers, as well as mobile device supplier customers, experience caution in their businesses overall as they experienced challenges in their end market.

And we also saw, on the mobile device side, many of those customers that were challenged in the end markets, losing share to others, made tougher choices around what technologies to invest in, and spent their money in LTE, but spent less money in 3G in the first half year.

Good news was that our order intake stepped up in second quarter, but too late to benefit first half-year results from a revenue perspective, driving a book-to-bill to 110 for the first half year.

So the positive news is we clearly saw our order intake pick up, we saw activity levels, especially in North America, pick up in the second quarter, and we see that as encouraging as we enter the second half year.

Service Assurance reported a much improved results for the first half, increases in bookings, revenue, and profitability across Service Assurance, and some new wins in the area of field tests.

We increased our investment in the solutions portfolio across everything we do. We've continued to invest in the areas that matter most to our customers. We'll talk more about that in the second half of the presentation.

But the fundamentals within the telecom and the IT industry remain strong. The drivers and the growth drivers over the next several years remain strong, despite the short-term trading challenges and the speed bumps we're going through at the moment.

Free cash flow for the first half year was $26.7 million. We used most of that for dividends, and return to shareholders through share buybacks.

THOMSON REUTERS

The interim dividend was declared at $0.0153 per share; up 10% from last year.

If we look at our key performance indicators for first half, as I mentioned before, book-to-bill ratio was 110, on the back of our order intake in the second quarter, but too late in the quarter to actually ship for revenue.

Revenue was $190.4 million.

Operating profit at $18.2 million.

Return on sales, 9.6% for the half year.

Free cash flow, as I mentioned before, $26.7 million; most of that returned by the way of dividend and share buyback.

Earnings per share, adjusted earnings per share for the first half year was $0.0203 per share.

With that, I'll turn things over to Eric, and have him cover the financial details.

Eric Hutchinson - *Spirent Communications Plc - CFO*

Thank you, Bill. If we look at the Group consolidated P&L first, on the financial review. So looking at the first half year, you can see the dramatic fall in the revenue number.

As Bill said, we saw the impact of near-term caution by customers delaying projects; that meant that a lot of order intake actually coming in on the last of couple of days of the first half-year period. So although our order intake was down 2% compared to the prior year, we did see a big pick up in the second quarter, but some of that was too late to ship. We ended up with about $7 million of product in transit over the period end. We saw some big contracts that won't be shippable until Q4, and through the second half, and beginning of 2014.

The operating profit drop reflects the high gross margins that the business makes, so you saw that drop from $59 million to $18.2 million on operating profit.

The gross margin, at 69.6%, is mainly the effect of the fixed costs and costs of good sold, which is our field test engineering support costs. So it's really a volume effect, rather than any degradation in actual achieved margins on product solution sales themselves.

As we flagged, we're increasing the spent on product development engineering, so you can see that's gone up to $48 million, and will continue at those sorts of levels through the second half year.

The tax rate came in at 26%, against the guidance of 28%, and we see that as a sustainable rate for the full year.

The Company has restated its segmental reporting. You've seen the restated numbers, which we posted on the website, for the historic numbers.

Just to recap, Networks & Applications covers our Ethernet test activities. So it really focuses on data center/switch development, and that supports cloud computing applications. This is the business that will do applications and security testing within the IT networks, and test optimization and automation of test processes.

Wireless & Positioning is all about wireless device testing, so smartphones and similar mobile devices; also some wireless infrastructure tests. This is also where we have our satellite navigation and global positioning test revenues, and the service experience testing, which is testing handsets in the live network; that's the Metrico Wireless acquisition.

Service Assurance is live monitoring in the networks, in principally North American telcos, and cable operators. It's all about Ethernet business services, wireless backhauling monitoring, and also some new solutions on field test equipment.

Returning to those segments, looking at Networks & Applications, here you can see the main impact of the drop in revenues; $130 million down to $92.2 million.

Again, the gross margin impact here is the effect of the fixed costs, and cost of goods sold.

You can see the increase in development spending.

Other overheads, slightly down.

The large volume decrease meant that we saw a small operating loss in the period. Again, really driven by delayed project spending by major, or some major network equipment manufacturers.

We're continuing to make investments, or seeing investments being made by our service provider customers.

The order intake picked up in the second quarter, so our book-to-bill in first half came in at 115.

Wireless & Positioning, here, we saw the demand for third generation wireless test systems, so CDMA, UMTS, dropping significantly. We continued to see growth in fourth generation wireless test.

The Metrico business is included in these results. That contributed $13.4 million of revenue in 2013; obviously, not in 2012.

We saw better results from the Positioning business due to demand for BeiDou-2 test systems out of the Chinese satellite navigation system that's been developed and rolled out there; and we saw some recovery in commercial test systems, and government spending.

Order intake here grew 2%, and the book-to-bill ratio for the business was 108.

The gross margin in this business is at an expected level. The Metrico business, because it's a service business, reports a lower gross margin, so that 70% gross margin is the normal level. And the business returned just over 20% operating return on sales.

Again, we're investing more in product development to bring new products to market, mainly on 4G LTE test solutions.

Service Assurance, here, we saw a modest increase in the revenue. It's really driven by demand for Ethernet projects on LTE rollouts by the service providers, and the bandwidth demands being driven by cloud services.

Here, the gross margin has expanded as a benefit of the product mix; and also, some of the benefit of some of the restructuring that we did last year.

Here, you can see the overhead reductions year on year, which, again, is the result of the restructuring.

So the profitability has improved significantly in this business. And this is where we had a large order from a major service provider for the new field test equipment, which we'll start to ship in fourth quarter, and then the balance will go in the first half of 2014. So operating profit here up from $0.6 million to $6.6 million.

Free cash flow, so, clearly, the operating profit significantly lower than the prior period; however, you can see that there was a significant reduction in working capital. So we've got good customers, they pay up on time, inventories are tightly managed, so low activity levels have seen a release of working capital.

THOMSON REUTERS

The tax payments track the profit because we pay on account in the US with the US profit streams.

Our capital expenditure is running at normal levels, so in line with depreciation charge.

So $26.7 million free cash flow. Actually, a very high conversion ratio compared to earnings. And you can see, as Bill said, that effectively it was used to fund dividend payments, and share buybacks.

Turning to shareholder distributions, as you know, we have a progressive dividend policy. We've announced a 10% increase in the dividend to $0.0153 per ordinary share. At $1.52 to GBP1, that's 1.01p. That's up 13p (sic - see slide 14 "13%2) in sterling.

[And] we've used $9.8 million; on a cover basis, that's 1.3 times covered.

We will recommence the share buyback after this announcement, and we will return the balance of the $18.3 million on the divestment that was made in 2012.

Okay, with that, I'll hand back to Bill to talk about the markets, and the outlook.

Bill Burns - *Spirent Communications Plc - CEO*

Thank you, Eric. We've said for some time that the fundamentals within the IT and telecom industry remain strong, and that continues to be true, despite our near-term trading challenges.

This timeline takes you through a lot of different data points, but you can see everything from the increases in mobile data traffic, from 0.4 terabytes, all the way to 91 million terabytes -- 0.4 million terabytes to 94 million terabytes, over a seven-year period, or so; to connected devices to the Internet from 9 billion growing to 24 billion in 2020; to the advent of connected vehicles, and the idea that vehicles will be connected [through] navigation and Ethernet, and Wi-Fi, from 10 billion new vehicles, growing to somewhere 67 million new vehicles in 2018; the number of smartphones, new devices, such as smart meters and connected devices, and machine to machine.

All of this refers to really the global connectedness, the Internet of things, or Internet of everything, as people are referring to it now, and really the fact that it's just getting started. The demand for mobile traffic, the use of smartphones, the connecting of vehicles and smart meters, all of these things will continue to drive the telecom and IT industry.

And despite the short-term challenges we're seeing by part of our customers, either in their end markets or in their market share, we believe these things will continue to drive the industry.

When you look at things like 3.1 connected devices per person, or 40% of the information in the cloud will be entertainment driven by consumers, and the rest really being more business services-type trader traffic, these kind of things will continue to drive our industry over the next many years.

If we look at Spirent, today we're making the right investment decisions for today, as well as for the long term, to continue our competitive advantage into the marketplace.

So high speed Ethernet underpins all the things we talked about before. Mobile backhaul, the connecting of the Internet, connecting of large business through carrier grade Ethernet, the connections to people's home through DSL or cable modems is all underpinned by Ethernet inside the live network; but also inside the datacenters that serve all of those connections and host the applications in which people want to have access to.

Application-aware networks and devices, paired with security, is another area of key focus for our customers as, really, what's most important to them is not just the traffic that rides over the Ethernet traffic, over the Ethernet network, but how are the applications delivered in a secure way to any device anywhere in the world in a connected way.

Virtualization and software defined networking we see being applied inside both the data center, where we're seeing servers being virtualized, but now network equipment being virtualized in the concept of software-defined networking, where you break away data plane and control plane inside routers, creates a new testing opportunity for us.

The more complexity you have by breaking those two apart, the data plane and the control plane and the applications riding upon that separate from the data, creates complexity in new test environments for us, and more complexity in the networks, that ultimately drives more test equipment.

Our customers are looking to virtualize inside their development areas, where they're using virtualization to develop on their hardware, and using our virtual test tools, and we're the leaders in virtualization in the area of testing today. But we're also seeing virtualization looking to be moved into the live network as well, paired with Ethernet, to have a more efficient and effective way to manage and control networks moving forward around software defined networking, and other acronyms around that.

The enterprise network, we've taken our Spirent test center product and our Avalanche product and taken the best of those and applied those into the enterprise market; I'll talk more about that in a couple of slides.

We find this is an exciting new market for us, and it really shows that Spirent organically can enter new markets. We've done that in the area of wireless R&D, and now we've done it inside the enterprise market; just getting started in that area.

Mobile backhaul and packet core, again, that mobile traffic from the 4G networks has to be carried back through the network somewhere, and connected to data centers somewhere around the world. It has to have authentication, and billing, and all the things associated with the mobile packet core today. It has to be able to handle traffic, like voice over IP traffic, moving forward. All those things need to be tested, and Spirent's the leader in mobile backhaul and packet core testing today.

4G LTE, we've seen the shift clearly from 3G to 4G. We've seen our 3G business decline, but we've continued to see growth in the 4G market. We're seeing a transition here from just LTE deployment into new opportunities, like Voice over LTE; LTE-Advanced, that we'll talk about in the next couple of slides.

And we're going to see over time, moving beyond just the North American market in high scale, and the Japanese market, deployments of LTE over the next several years throughout Europe, and throughout Asia.

Mobile user experience, again, it's not just enough to test the mobile device inside the lab. The reason we acquired Metrico is our service experience business is to really test the next step outside the lab, and get real performance data once the device is actually into the live network. Today, we're seeing more and more interest in these solutions around voice over IP, and high definition voice, and video, and [what's] the user experience on a device actually in the actual network and outside the lab.

Global positioning, again becomes part of everyday life. Whether it's connected vehicles. or just navigation overall, whether it's supplying information to applications to feed you the right information, Spirent's the world leader in global positioning testing.

So our investments continue to be in the right areas that will continue to drive our customers in their development areas to meet the demands of the Internet moving forward.

If you specifically at Networks & Applications, and we'll spend some time looking at first half year, and then looking at second half year, across Networks & Applications, Wireless & Applications, and Service Assurance, we clearly saw cautious spending by the network equipment vendors, and capital expenditures pushed to second half year. We especially saw that in the first quarter of this year, but we saw bookings uptick in the second quarter, which is encouraging for second half year.

Some of our equipment manufacturers actually spent more with us in first half year; the largest ones and the ones doing well into the marketplace. Others spent a lot of time internally figuring out what their plans are to move forward. What are they going to do differently? Once they get those plans sorted, some did, and spent some money with us in the first half year; the others will in second half year.

THOMSON REUTERS

We're seeing the increased investment by some of the large service providers in North America, and in Europe. So it tells us that we're aligned in the areas that matter most to them, and that where they are spending money we're actually seeing those dollars come to Spirent from a test equipment perspective.

Mobile packet core testing and application security testing continue to be on the forefront of the opportunities we have with our customers; along with data center, where we released in the May timeframe the industry's highest density 40 gigabyte and 10 gigabyte interfaces into the marketplace, really servicing this data center market overall.

And we also released the next generation of 100 gigabyte long-reach interfaces. So we're the first test equipment to market with CFP2 100 gigabyte interfaces, which is a new optical interface for a long-reach optics in 100 gigabyte, which applies to the service provider market versus the data center.

So we continue to move ahead into the market with next generation hardware around performance and density to meet our customers' needs.

If we look at second half year, we're going to build on this leadership and performance of scale, and we're going to release even new hardware to continue to meet the demands of our customers. So additional variations of 1,400 gigabyte interfaces, and 10 gigabyte in second half year; we'll have new appliances that meet the applications' security market. We'll take some of our appliances today and our hardware and apply them to different lines of business, so we get more synergies across our different lines of business, allowing us to more easily add end-to-end testing capability for our customers, something they're interested in.

We're looking at end-to-end services specifically, or testing, in the area of Voice over LTE, where our customers are looking to test across 4G networks, but all the way out to Wi-Fi offloads and wireless backhaul, in a single test solution because they've got to test Voice over LTE from the device all the way back in through the access network, into the core network, and back into the servers that support Voice over LTE.

We're seeing a rise in continued interest in security, and a lot of focus in this area recently, but in application test functionality, so in the September timeframe we're going to release our next generation performance and security test product. That's based on a combination of our best-in-class Avalanche product, which is around application test; and our acquisition with Mu Dynamics, that we said from the beginning was really marrying our strength in application test, their strength in security test, and bringing out the highest performance, most easy to use piece of test equipment on the market today from an application and security perspective, in the September timeframe.

Service providers and new equipment manufacturers continue to demand virtualization and software defined networking, as I said before. So a lot of talk about software defined networking testing going on today. Spirent's tied into many of the standards bodies associated with that.

We've written a [conformance] suites around software defined networking early on in the development here, and have released that product to market.

We continue to work closely with the network equipment vendors and the standards bodies to be on the forefront of this change within the Ethernet market overall; again, as the idea of splitting data plane and control plane and creates new opportunities in ways people provision networks, provision data centers, and look at their network moving forward.

Virtualization, again, we're the world's leader in virtualization from a test perspective. We virtualized our application test product, as well as our Spirent test center product, several years ago and continue to build upon that. We're seeing more and more applications of that inside our customers' environment.

From an enterprise initiative perspective, inside Networks & Applications we launched our Spirent Axon product, focused specifically on large enterprise, large business customers, and data centers in the April timeframe.

It really is truly entering a new served market. As we've talked about entering the wireless R&D market in the past, this is another new market. We've been able to show that we can take our technologies and apply them in a different way into new markets.

THOMSON REUTERS

It's still very early days, but we've got first blue chip customers around this; really about the focus in large banking, building data centers, maintaining data centers are our first customers.

We're still building out our enterprise channels for this, so we don't have an enterprise sales teams today. So we're building out those channels around the world.

And we continue to focus in the areas where enterprise -- we'll spend money around network infrastructure in second half year, around, where they're moving the Cloud applications away from the users, you need to test that user experience overall and assure that user experience of their customers or their employees that are using Cloud based infrastructures overall.

What's different about this product compared to most enterprise test tools is most just monitor the network and do analytics. This is -- allows you to do active testing between locations, and truly diagnose the applications between two locations, or multiple locations, and tell the performance of your network overall. So it's something unique in the area of enterprise testing. And we've seen initially good -- early days, but positive feedback from the customers who've bought it so far.

If we look at wireless first half year, smartphone growth continues, but the vendors aren't benefitting equally, and we all see that in the marketplace today.

I think what we've seen, though, on a positive side, is some new entrants over the last 12 months, or so, into this marketplace, such as Intel, or Microsoft, spending money in the areas of test equipment to really be a player in mobility.

I think that what you won't see happen is everybody kind of concede the smartphone market to the two top leaders today. We'll see the others continue to develop new products in this tablet area, in the smartphone area and others, to regain the market share that they've lost to the two that are leading today.

From our position, we'll continue to serve the two leaders. And we'll continue to make sure that the others in the industry have a way and a path to grow their business to regain their health and strategic position in the marketplace, as well.

So we've got to see a little bit more health on more of these vendors, but I think we'll see that over time.

We're continuing to ship our investments, or seeing our customers shift their investments, from 3G to 4G. We've seen that more marked in the first half than we expected; a lot of that driven really by the first bullet point here.

As customers struggled for market share, they made more difficult choices. If they weren't struggling in the market for share, they likely would have bought 4G test equipment along with 3G.

When their business wasn't doing well they made tougher choices. And they bought LTE equipment because they've really got to grow their business moving forward, and they re-used some of their 3G equipment they already had.

So these two bullets kind of tie together with the larger decline in 3G test equipment in the first half year.

Testing required for new technologies, so what we're seeing is we spent a lot of development dollars and a lot of development resources in the first half year, focused on voice over LTE, and LTE-Advanced. So next generation LTE; really focused here around more the chipset and early devices for late 2014. Here, more late 2013 and into 2014.

But we're working closely with our customers, both service providers and network equipment vendors, in the area of voice over LTE, and a lot of focus here as the people that have rolled out LTE really want to get that spectrum freed up from 3G and want to move the voice traffic onto the 4G network.

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THOMSON REUTERS

Again, this creates opportunities for second half year. A lot of development in first half year. But what we're going to see is that voice over LTE testing for the mobile devices and infrastructures will continue through second half year, into 2014, as we see larger scale launches.

Initially, we'll see that inside the lab, the developments we're doing today, working closely with customers; and then we'll see a shift to our Metrico service experience business into the live network as we see more devices in the live network that need to be tested before they roll out.

LTE-Advanced will become a player from idea of the developments in the chipset side, and early devices will need testing equipment, starting late second half year, and then into 2014.

We'll continue to look at, from a measurement perspective, our Metrico business. Our service experience is not just voice over LTE, but we're also seeing high definition voice, which is part of voice over LTE and video, and where people want to really understand what the user experience is as they roll out something new in the area of voice.

And now we're beginning to see more interest in video traffic and video downloads; how well has that come through on smart devices overall by the operators? And they're looking to do that inside the live network with our services experience solutions.

Location services, leveraging our global positioning business. E911 is a regulatory environment in the US around emergency services; marries our positioning business with our wireless test capabilities. We'll see an uptake in second half year on our business as people look to roll that out, and to make sure they have these emergency services in place before doing that.

Our Positioning business, chipset R&D, we benefitted in the first half year around Chinese BeiDOU-2. The specification was released back in December. In second half year, we'll start to see those chips being integrated in the devices, so you'll see these two kind of link together.

We've seen some recovery in the commercial market around antennae performance, and device performance overall. And we've seen some growth in government contracts, not just in the US, but outside the US as well, in the first half year.

What we see in second half year again is this integration of BeiDou-2 into devices overall.

GLONASS. We've talked about the combination of GPS and GLONASS, the Russian constellation, being an opportunity for us in the past around the chipset side of the business. This has really now become a must-have in the commercial applications for our business. So we're seeing a lot of upgrades to our systems, moving from just GPS to GPS and GLONASS both, so really a must-have.

We're seeing the need for navigation solutions around resiliency in government spending, so making the GPS system more resilient overall. From a government spending perspective, we're seeing kind of mixed. We've seen some large contracts go through in first half year; we're seeing most of the major contracts to large contractors outside the US government still being delayed.

When people get money they spend it very quickly is what we're seeing today, so they're having difficulty securing funding. When they get it, they spend it quickly.

But these larger projects are basically in the pipeline today, and now they need to be funded. And as we come to the end of September with the government year-end, we'll see whether some of those are funded before year end, or we actually see that happen right after year end. But there's clearly a backup of projects in this area that we see could boost our positioning business moving forward in late 2013 into 2014.

Service Assurance. Really driven first half by service providers looking to deploy LTE networks, and the deployment and moving of traffic into the cloud data centers. So carrier-grade Ethernet is driving this business as our Ethernet Service Assurance solutions is [running] backhaul into data traffic.

THOMSON REUTERS

We received a large Tier 1 -- large order from a large Tier 1 service provider for next generation in-home testing on the handheld side. That equipment will ship in the fourth quarter, and first quarter of 2014. That's a nice win for the Service Assurance team; a nice order in first half year, and then revenue in second half year, and into the first quarter of 2014.

Market drivers of second half year, continued preparation for voice over LTE rollouts; continued to look at the Ethernet network, the backhauls in mobile traffic associated with that. Our focus on our developments is really to add more diagnostic capabilities around this mobile backhaul and carry our Ethernet, where we're really seeing the most interest by our customers inside the North America service provider market.

In summary, uncertainty and volatility in demand, exhibited by many of our major customers, in the first half year impacted our results and trading.

Book-to-bill ratio was 110, as I talked about before, in the first half year, driven by late orders in second quarter, but certainly an uptick in order activity in second quarter.

We're executing on our new market strategy, both in wireless R&D, the acquisition of service experience, and in the enterprise market, showing that we can enter new markets both organically through our organic investments, supplying the technologies we have and the knowledge we have around testing the new markets, but also do it in a successful way around acquisitions.

We'll take the new acquisition and integrated that with our Avalanche product, release that product in the September timeframe; that was our plan from the beginning.

So we're executing both organically and through acquisitions on entering new markets, and enhancing our portfolio overall.

We'll continue t o invest in the new technology areas that will drive ongoing and long-term competitive advantage for us. We believe that today, and we believe that long term, we're making the right investments in the business to position well for the future.

July order intake was satisfactory, still early in the second quarter -- or third quarter overall. But combined with the new product launches we've had at the end of second quarter, and have coming out in third and fourth quarter, gives us confidence in the performance of third quarter overall.

With that, Eric and I will take questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(technical difficulty) periods when you may or may not [develop] (technical difficulty). What's the latest stages based on what you're seeing (technical difficulty)? Like maybe that hasn't come through in the first half, but I wondered if you could talk about the second half of the year.

Obviously, well publicized plans from carriers there on TD-LTE in the back end of the year, so I wondered if you could talk about any opportunities there. Many thanks.

Bill Burns - *Spirent Communications Plc - CEO*

Sure. Others have said that they believe they've gained share; we don't believe that we've lost market share in the industry overall.

What we've seen is that many of the large names spent money with us, so consistent behavior across the industry; the ones that didn't held back, and we have opportunities for in second half year. Sometimes you see timing differences between us and our competitors on when different labs and different customers we're aligned to will spend money.

THOMSON REUTERS

I think our Q2 bookings numbers, when we look at that, if you just compared our revenue number to someone else you'd say, boy, possibly they've lost share. But when we look at our Q2 bookings compared to others, we believe it's a positive sign that we haven't lost share.

We continue R&D investment for that reason. We believe that not only that many of our customers will spend starting in second half year and beyond, that the industry will return to growth, and that the areas that we're investing in are the right areas; that our customers will buy products and solutions moving forward, so the right areas of investment overall.

China has been one of our strengths in the past. Unfortunately, we've seen the Chinese equipment vendors specifically not have a lot of new opportunities inside their home market, and certainly have continued to struggle in the European, and Middle East, and Eastern European markets.

Places like Egypt and Syria were strong markets inside the Middle East. The European market overall hasn't been spending a lot of money. So the end markets for some of the Chinese equipment manufacturers have not been strong. That certainly hasn't helped us.

We're well positioned at those, still very well positioned, so when they begin to spend again, we believe we'll get the lion's share of that investment overall.

So I think in this case some of our strengths are diversified customer base. The strength in China and others are -- been our weakness in the short term, just as people haven't been spending money.

But I think overall, when we look at the numbers, we believe we're not losing market share; that we're making the right investments in R&D. And the China market's a tough market at the moment for us. It's been a strength in the past, and it will be a strength moving forward in the future as we see things move ahead in China.

Jonathan Imlah - *Canaccord Genuity - Analyst*

Jonathan Imlah, Canaccord. Three questions. Can you, first, give us some -- a bit more detail in terms of the relative growth rates in Wireless & Positioning, 3G/4G and positioning sub-segments?

Secondly, can you talk a little bit about customer concentration, and here I'm specifically thinking of, again, the Wireless & Positioning segment?

And lastly, and probably most importantly, as you sit here today, can you talk about relative visibility compared with a year ago? Obviously, a year ago you had a sudden slowdown in middle of Q2; this year it seems you've had a bit of a pickup in Q2. What is your level of confidence about Q3, and, probably more importantly, Q4?

Bill Burns - *Spirent Communications Plc - CEO*

I can start with the customer concentration one, and then come back to the growth rates, if you want.

I think that the -- firstly, in the Wireless space, we've seen more concentrations of those taking market share into the top two, and many others struggling in that marketplace around share. We certainly would much rather see healthier customers, and more of them, in the wireless device space.

I think positively we've seen some people enter that space that weren't there before. So the investments Intel's making; it has publicly said that they want to be a player inside the wireless chipset area. The investments we're seeing by Microsoft to encourage others to use their operating system. Investments by Google, as they've acquired the Motorola; everybody talked about the patents, but their play in -- inside mobility in general.

THOMSON REUTERS

I don't believe that the other mobile device suppliers will sit back and concede the market to the top two. I think they'll continue to work really, really hard to gain share inside the smartphone market, the tablet market, and that market overall. If you look at what's happened most recently, it's pretty confined to the guys that are making money.

But all the manufacturers are still spending money to reinvent themselves and bring new devices to market. It hasn't been at the same rate, or same level, in the past, and they're spending on really LTE test equipment and not on 3G test equipment.

But overall, we'd like to see a healthier, larger concentration of customers overall. But I think they will continue to spend to regain their strength into the marketplace. They're not just going to concede that market; it's too big a market for it to concede just to the top two. I think you'll see more new entrants into that market of trying to play a bigger role.

Visibility wise, I think that we saw an uptick in activity, especially in North America, at the very end of Q2. Visibility beyond Q3 becomes more difficult; that's why we spoke primarily in the release about Q3.

We enter Q3 with some order book, as we saw from first half year. It's too early, even in Q3, with one month behind us -- as we said, July was satisfactory overall, but it's too early to call the quarter. I think that we have confidence in Q3; we have less visibility into Q4.

We've seen a lot of customers internally look at their business unit structures, and reorganize around that. We've seen others change leadership and bring in folks that they call cheap efficiency officers to look at their entire organization.

We've seen others come out with some clarity, right, and say I'm going to focus on IP networking, and I'm going to manage my wireless infrastructure business for cash. Once that happens, then we see spending again inside the testing, and we've seen that happen, quite honestly, in the folks that have laid out clarity.

So the challenge is how could we really get to those processes, and will we see the orders come in here in the fourth quarter?

Eric Hutchinson - *Spirent Communications Plc - CFO*

And in terms of the growth rates and the technologies within Wireless, we've been seeing the 3G, so CDMA and UMTS, dropping 40% to 50% year on year; and the growth in LTE has [dipped] to about 25%. So a positive momentum in LTE, and the leading investors in wireless technologies are spending money with us. So (technical difficulty) is up year on year by about 10%. (technical difficulty)

Gareth Jenkins - *UBS - Analyst*

Gareth Jenkins, UBS. Just a couple, if I could. On the Axon enterprise product, I just wondered if you could talk about the margins, given, I guess, that the channel is somewhat different from what you're used to.

And secondly, in terms of competition there, are you competing primarily against in-house home-built test solutions? Or are you going up against more of the kind of traditional conformance -based testers?

And then secondly, in terms of the gross margins in Q2 looked very solid, I just wondered if you could talk about the pricing environment? Doesn't seem like there's been a lot of price aggression out there generally, so nothing fundamentally has changed along pricing lines, it's just really a straightforward volume issue that we've seen in the last few quarters.

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Bill Burns - *Spirent Communications Plc - CEO*

Yes, so Axon would see margins consistent, even though it's a different selling model. Our in-house selling team, because of the technical expertise paired to our account managers, we spend about 20% on sales and marketing. So we see overall is, despite us using a different channel model of enterprise channel, that the margins will be about the same inside our Axon product. We don't see much of a difference there.

From a competition perspective, it really is something unique. What we were able to do is we saw the largest enterprise networks by test solutions from us and our competitors, but it was only the largest to large. And we saw an opportunity that many enterprise customers and data centers could use a test tool similar to what we'd offer, in a smaller scale, less performance, and an easier to use interface overall, and that's what we really brought to the market.

So we leveraged our strengths inside the lab, and took those into the live network; taking the best of what we did there, scaled it back, put a new user interface on it. And it really, truly is unique in the enterprise market.

Most enterprise testing is done around analytics; pulling data traffic off the network, tapping that, analyzing that data, and then making backwards-looking decisions on what went wrong after the fact.

This is really about the active turnout; actively testing if you've got a problem on specific facilities, or specific lines, or with specific applications. It's really around application performance tests from an active perspective, so it truly is unique in the industry.

As I said before, our first few customers are blue chip customers, and we're excited about the ones that have bought it. It's still very early days. We're just signing up enterprise customers, or enterprise channels around the world. But we feel pretty good about the customers we've got so far, and the fact that we've entered this market. From --

Eric Hutchinson - *Spirent Communications Plc - CFO*

Pricing perspective in the second quarter? We haven't seen any real changes to market dynamics at all. I think, as I said, the gross margins on the product solution sales are at normal levels, so we haven't seen any frantic discounting, or scrabble to win, market share particularly.

Nick James - *Numis Securities - Analyst*

Nick James, Numis. A few questions; one was a follow up on the enterprise product. You talked about you need to build up the sales team there. How quickly can this ramp and be a material part of the business?

Second thing was on Wireless. The Wireless piece excluding Positioning, the underlying trends were clearly quite weak in H1, both from a revenue and an orders perspective. Can that get worse before it gets better? I understand you're feeling the market has to start investing again beyond the top two, but do we have a visibility that, that will happen before things get worse?

And the third one's just on Service Assurance. Historically, that was about a $60 million business; very concentrated with one customer. It seems that your proposition's wider, that potentially there is the potential for other customers. Can that become a much more [maturer] part of the Group in the future?

Eric Hutchinson - *Spirent Communications Plc - CFO*

Enterprise channel?

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Bill Burns - *Spirent Communications Plc - CEO*

Enterprise channel, we're building that channel today. It'll take some time. We've got our first two value-added resellers signed in North America, both East Coast and West Coast, and we're using our Spirent Federal organization to sell into the Federal Government in North America.

We've held an event inside China with about 40 participant companies to select some enterprise distributors inside that market. We've got a distributor signed in Japan and Australia already. So we're moving that ahead.

Europe, we have a small enterprise sales team, so we'll sell direct as well as signing additional channels, and we have some channels here in Europe.

Still very early days; the product just came out in the April timeframe. We'd expect more meaningful revenues in 2014.

We believe overall that, and it links a little bit to your Service Assurance question, entering new markets, as we've seen some of our customers challenged in the short term, is an important aspect for us. We've talked about that for a long time.

Entering more the wireless R&D market so we can serve both the chipset and the reference design customers, that'll play into things like the machine to machine, even though the mobile device guys may not be doing well. So that's an example of a new-serve market for us.

Enterprise is another market that plays into Service Assurance. So Service Assurance as we know it in the enterprise test space has more customers than it's had in the past. It was never one, it was a few, large service providers. But they've got more customers inside the North American market diversified into cable and inside of the wireless operators now than they've had in the past. So they're just diversifying. They've got a couple of customers here in Europe in a smaller way.

But Service Assurance playing in the live network, the acquisition of Metrico moves us out of the lab and more into live network. That's been a focus area for us overall, so enterprise is a step in that direction.

You may see us channel some of the Service Assurance resources in that area over time as well to play more inside the data center, or do some different things inside the live network. But it's all about what we talked about over the last couple of years; is expanding our served markets; getting into -- out of the lab into the live network with service experience; acquiring Mu and Metrico to play a bigger role inside security; organic investments of R&D testing inside wireless; and enterprise overall.

Our fanfare acquisition two years ago, which is going well, around automation and changing the conservation with our customers about how do they become more effective, and more efficient in their labs, that's all about growing our serve market beyond our traditional customer base.

Wireless, I don't see it getting worse before it gets better. I see, quite honestly, some investments being made in second half year that weren't made in first. I think that, again, no-one's going to concede the wireless market to just a few, and I think we'll continue to see others invest in the market overall.

So I think that while it's been tough, especially in the 3G area, masking that decline, our LTE product portfolio, we've got a lot of things coming out in the August timeframe around Voice over LTE; around Carrier Aggregation, which has a lot of interest around the world on aggregating carrier channels together based on the spectrum available. So we've got a lot of good things coming.

We own our own network emulator now, and control our own destiny early on in the development cycle. So we'll develop -- that press release will come out in the third quarter, of our own LTE network emulator.

So we're pretty excited about wireless overall. We're challenged from a customer perspective at the moment, but the investments we're making in the right areas, where customers are going to spend money.

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Kai Korschelt - *Deutsche Bank Research - Analyst*

Kai Korschelt, Deutsche. I have three. The first one is really on the Q3 outlook. I think you talked about performance, or expectation for performance; just wondering if you could maybe be a bit more specific. Should we think about low, or mid, or high single-digit sequential growth in the third quarter from a revenue perspective?

The second one was really on your share price. It's fairly depressed. Currently, you have almost 30% of your market cap in net cash. Is there any reason why you're not starting to increase or accelerate the buyback in the interests of shareholders? Or is it because you are thinking or considering further acquisitions?

And the third one was then just on OpEx. I think it's up 10%, or so, year on year. Are we now at a more normalized run rate where you've made the investments required for the new product launches? Or will there be further growth and step ups in OpEx from here? Thank you.

Eric Hutchinson - *Spirent Communications Plc - CFO*

Okay, so in terms of Q3, the market expectations, that I can see from the rollup of notes, is around about $107 million of revenue. I think what we're saying is that we can see our way to get to that sort of number.

On a sequential basis, we're going from $93.6 million to $107 million, so in percentage terms that's a very attractive growth rate sequentially. Year on year, that would be level pegging really; slightly down as a Group number.

But I think the more important thing is that we see that there's new order intake that supports that level of revenue activity. So I think that's the positive there.

In terms of the buyback, we've said that we will utilize the $18.3 million. So we'll be back in the market. We've been in a closed period, so we haven't been in the market. That's our commitment at the moment. Once we've got through that level of money then, as a Board, no doubt we'll look again.

But principally, the money on the balance sheet is really being focused on targeted acquisitions to expand the server markets of Spirent.

In terms of OpEx numbers, we have increased the resources we allocated to engineering in the first half. There'll be a little bit more current plans coming in the second half, but our guidance was that it will be about $98 million/$99 million of spending on engineering on a full-year basis. So, yes, in terms of OpEx, probably fairly stable from here.

Alban Cousin - *Arete Research - Analyst*

Alban, Arete Research. Thanks for taking my question. I've got two, actually. I wanted to know, first, on security, what's the size of that market? And how does the customer landscape map against your legacy customer base?

And I would ask the same question for Wi-Fi; whether we're going to see a different customer base here as well, going forward.

Bill Burns - *Spirent Communications Plc - CEO*

Yes, I think that on the security market we see that, that market is primarily focused today around next generation firewalls. We're seeing, clearly, the traditional security folks, as well as new entrants over the last several years, including [Powerton], networks, and others. Cisco recently did an acquisition of space, a large acquisition.

So we continue to see security be a growing market for us. The reason why we did the new acquisition was to marry that, their security testing capabilities, along with our Avalanche product line. And we'll release a new product, a combined product, to the market in the September timeframe.

THOMSON REUTERS

That was our plans from the beginning of the acquisition. So generate as much revenue as you can from the standalone product in the short term, it's a very good security product; but really to marry it with our Avalanche product, which is the highest performing application test product in the market.

So we see the sweet part of that market really being around next generation firewalls. Moving forward, we see security playing an ever increasing role across both the network, the end devices itself, both. But traditional customers inside security space will pretty much be the same; it'll be the suppliers of security devices.

In the Wi-Fi side, it's been predominantly been that the traditional network equipment vendors in that space as well, and the service providers in mobile device. So it's been kind of all three have had access or interest in mobile packet core around Wi-Fi offload on the device side; how well you transition from one cellular technology and others and then hand off to Wi-Fi.

That's both in the lab, in the live network, both, but it is still a traditional customer base, so it's the mobile device suppliers, the network equipment folks, and the service providers really driving that. So not a lot of new entrants in that area, from our perspective.

Lee Simpson - *Jefferies & Co. - Analyst*

Lee Simpson, Jefferies. Just a couple of quick ones, if I could? Handset testing; maybe if you could just give us a sense for, when it comes to LTE, should we be looking at this as perhaps the number of handsets that Samsung are scheduling to bring out, and other larger players that you mentioned there? Or should we be looking at this more as a game of what is the test cases? Is it E911 positioning? Is it VoLTE? Is it Carrier Aggregation? Just to get a sense for how things can grow back half of the year, and into next.

And maybe on 3G as well, We hear a lot about, at device level, at chip level, a lot of new 3G handsets coming out of Asian market, quad cores and such, so a lot of extra performance in mass market Asian handsets expected back end this year. Is that a driver for second half recovery in wireless as well?

Bill Burns - *Spirent Communications Plc - CEO*

On the device side, we'd like to see more devices come to market than less; that drives more test equipment needs across multiple labs inside our customers, so that's a preference of ours.

On the second area around the -- the second driver really, in addition to devices, as you mentioned, is really technology. So it may not be the number of devices, but it may be different technology aspects of that device. So whether it's Voice over LTE, whether it's HD voice on top of that, whether it's E911 on top of that, whether it's Carrier Aggregation, or it's handoff between cellular and Wi-Fi, all those things and permutations of different types of aspects of complexity need to be tested as well. So that drives our business, just as multiple devices do.

Low end devices many times use reference design, so the design and the testing's done by the Qualcomms, and the Intels, and Marvells and others, before the chips come to market and they release the reference designs to lower end phone manufacturers. That's always been the dynamic.

Larger brand name phone designers and manufacturers typically take the reference design, modify it, change it, add their own features and functions to it, and spend more and test equipment.

So while you see some test equipment stay also at the low end devices, most of that testing and the test equipment's bought by people making the reference design overall. That'll include things like -- but we do sell some equipment to the lower end manufacturers.

We'll see the same thing in places like device/device, you'll see more people play in that market; machine to machine type of mobility, where a lot of reference design will be made and designed, which will need test equipment. So we see that as a growth driver over time as machine to machine and device to device communication continues to be more.

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So I think overall we'd like to see lots of devices come to market; that benefits us in general in the lab, and certainly in our service experience business with the Metrico acquisition. But we're okay with technology inflections as well if not as many devices come to market. That's a key driver to our business overall, is new technologies.

And really, you get the uptick in revenues and test equipment from more the reference design manufacturers and designers versus the low end handset, so.

Well, thank you everybody -- sorry, (inaudible)?

Eric Hutchinson - *Spirent Communications Plc - CFO*

One more question.

Unidentified Audience Member

Thanks for letting me squeeze one more. Just on SDN, when do you think that, that technology starts hitting you materially? The first controls are, I think, being released into the market in Q3, so any clarity on that would be helpful. Thanks.

Bill Burns - *Spirent Communications Plc - CEO*

Software defined networking, as I mentioned in the presentation, is really the idea of splitting data plane and control plane. It adds complexity inside the Ethernet and transport networks today.

As Alban said, there's controllers that then control hardware data plane. We simulate both, so both the data plane and the controllers, inside a lab environment. We see our first sales of that. We're working closely with the optical networking forum, optical networking lab, the University of Indiana. We're looking to actually host a plugfest over the coming months here, aspiring to host that event.

We're seeing a lot of interest in, and first sales inside, the SDN area for early developments that have taken place. As you said, the first products have come to market end of Q3. That will ramp over time. As most things inside telecom and IT, there's more hype at the moment than there is real deployments or further ahead.

But with the hype comes the first sales of test equipment, and we're in a position where we look to lead that market overall, to make sure we're well positioned inside the SDN and testing market. As I said before, that ties back to virtualization and network function virtualization. And we're leaders inside test from a virtual perspective.

So I think it's really more meaningful in 2014. I think we'll continue to see sales that we did in the first half year in the second half of the year, but I think it continues to ramp over time.

I think there were some folks that questioned whether it was real in the past. I think it will be real. To what degree and where it'll be rolled out, just the data center inside live networks, what it will look like and how long, that's another question.

But I think that from a development perspective, we're starting to see early orders now, or have been over the last probably 6 months to 12 months. But I think just in its infancy, just as you see things like 100 gigabits and 40 gigabits, just early days, and probably even earlier than those two.

Well, thank you, everybody; appreciate your time.

Eric Hutchinson - *Spirent Communications Plc - CFO*

Thank you.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.