

Spirent Communications plc 2017 Full Year Results

March 2018

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Sharp focus on target markets

2017 progress

- Portfolio rationalisation – divestments made
- Accelerated growth in Lifecycle Service Assurance and Application Security
- Key strategic wins secured – moving into ‘live’ test

Innovate – maintain market leading position

- Lead in high-speed Ethernet and Positioning
- First-to-market with new products and enhancements
- Expanded in Tier 1 service provider customers

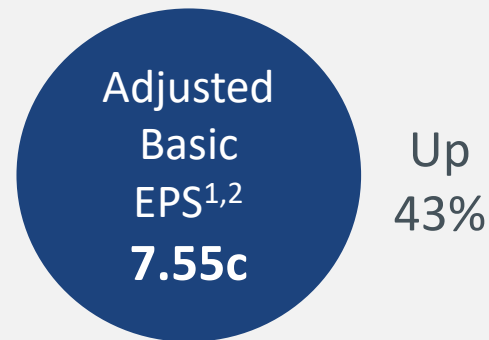
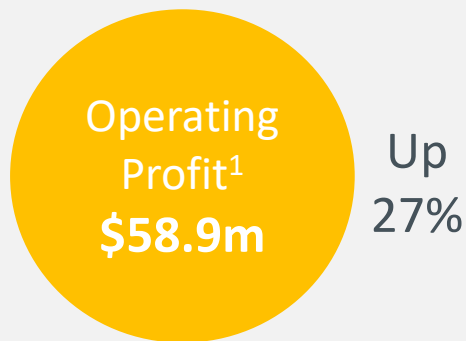
Strong financial and operational platform

- Increased profitability. Significant cost reduction
- Organisation alignment and talent review
- Doubled free cash flow
- Special dividend 5 cents per share, increased final dividend

Paula Bell
Chief Financial Officer

2017 Financial Results

Key Metrics



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

(2) Before gain on divestment, impairment of investment in associate, revaluation of deferred tax assets due to US tax reform, prior year tax and tax on items in note (1)

(3) Operating cash flow after tax, net interest and net capital expenditure

Financial Summary

\$m	2017	2016
Revenue	454.8	457.9
Gross profit	325.0	324.3
Gross margin	71.5%	70.8%
Operating costs ¹	266.1	277.8
Operating profit ¹	58.9	46.5
Operating margin ¹	13.0%	10.2%
Profit before tax ^{1,2}	59.2	44.2
Net cash	128.4	96.1
Defined benefit pension deficit	2.2	12.8
EPS ^{1,2,3} (cents)	7.55	5.29
Effective tax rate ^{1,2,3}	22.1%	26.9%
Dividend per share (cents)	4.08	3.89
Special dividend per share (cents)	5.00	-

- Level revenue, up 2.4% excluding Connected Devices – strong growth in our focus areas
- Demonstrable delivery of cost actions driving improved margins
- Working capital management drove doubling of free cash flow
- Tax benefits delivered in 2017, US reform 2018 onwards
- EPS up 43%
- Full year dividend up 5%
- Special dividend 5.00 cents per share, \$30.5m

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

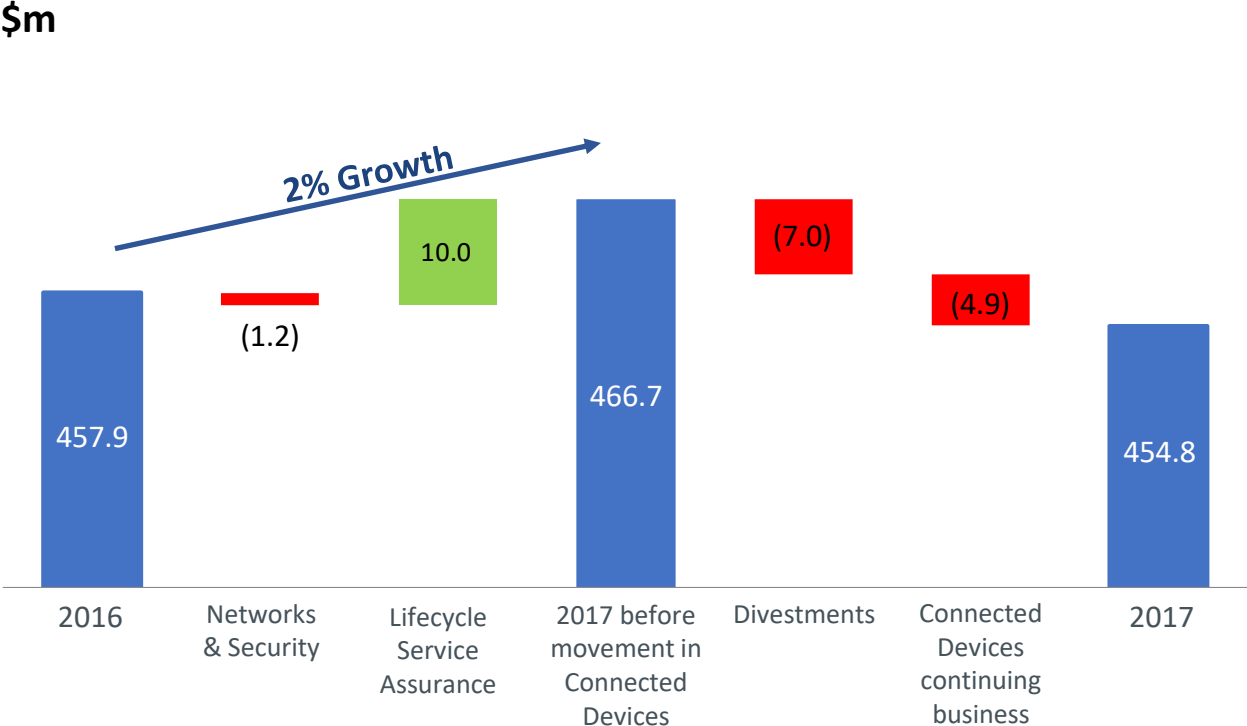
(2) Before gain on divestment and impairment of investment in associate

(3) Before revaluation of deferred tax assets due to US tax reform, prior year tax and tax on items in notes (1) and (2)

Portfolio Performance

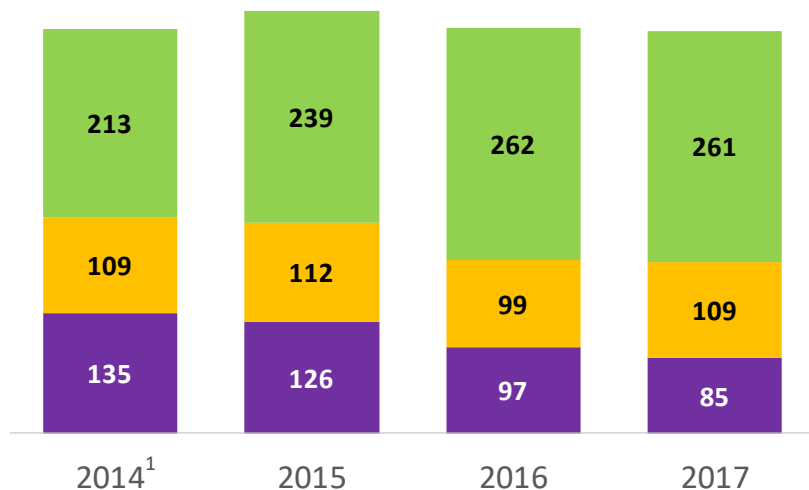
	\$m	Revenue		Operating profit ¹		Operating margin ¹	
		2017	2016	2017	2016	2017	2016
GROWTH FOCUS	Networks & Security	261.0	262.2	43.9	47.2	16.8%	18.0%
	Lifecycle Service Assurance	109.2	99.2	17.9	11.2	16.4%	11.3%
	Total	370.2	361.4	61.8	58.4	16.7%	16.2%
TRANSITION	Connected Devices	84.6	96.5	5.2	(4.4)	6.1%	
	Corporate			(8.1)	(7.5)		
	Group total	454.8	457.9	58.9	46.5	13.0%	10.2%

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



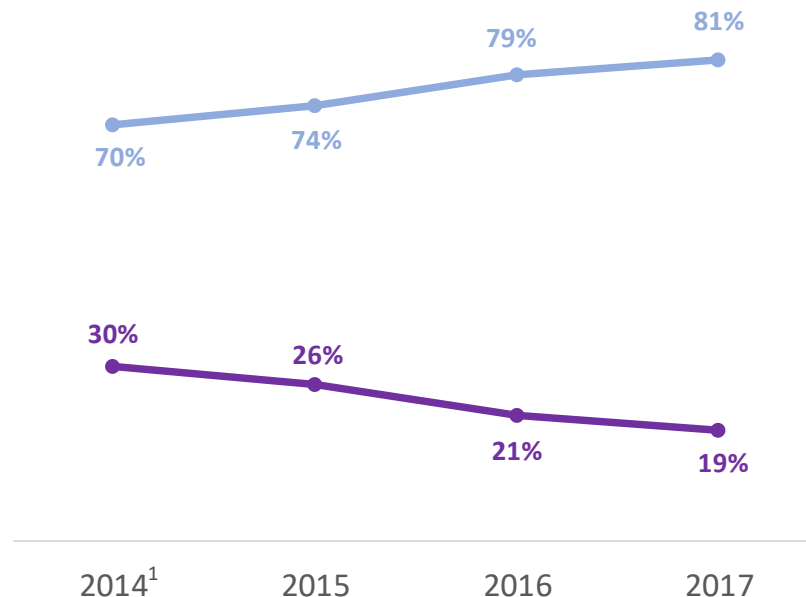
Segment Share of Revenue (\$m)

CD LSA N&S



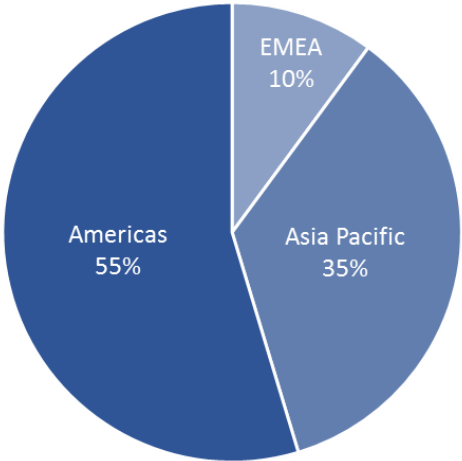
Segment Share of Revenue (%)

Connected Devices Growth Businesses

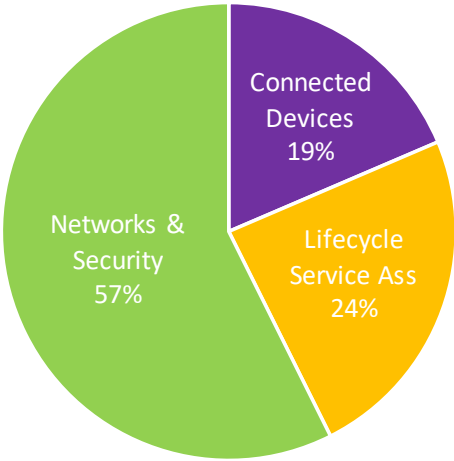


(1) 2014 operating segment revenue are estimates

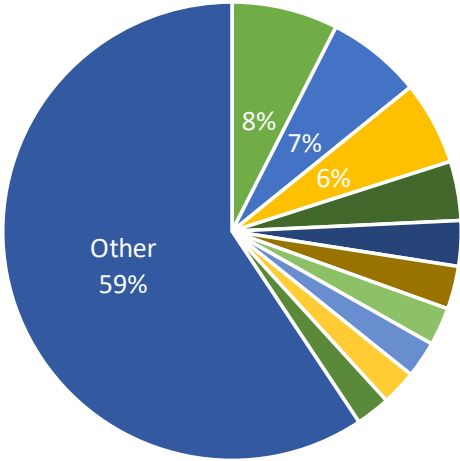
Revenue by geography



Revenue by segment



Revenue by customer



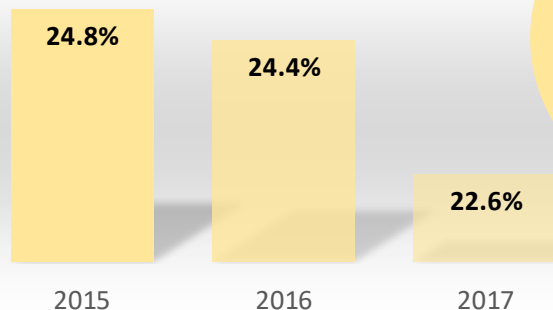
Focused Cost Management

\$m	2017	2016	2015
Product development	103.0	111.7	118.3
Selling and marketing	116.8	125.4	127.2
Administration (excl. FX)	44.7	44.1	45.8
Total	264.5	281.2	291.3
FX loss/(gain)	1.6	(3.4)	(1.6)
Total operating costs¹	266.1	277.8	289.7



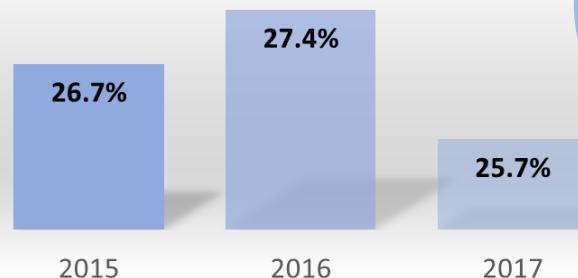
\$16.7m reduction from 2016,
\$26.8m from 2015

Product Development Cost % Revenue



**Headcount
reduction of
135 &
\$15.3m of in
year savings
(2016 + 2017)**

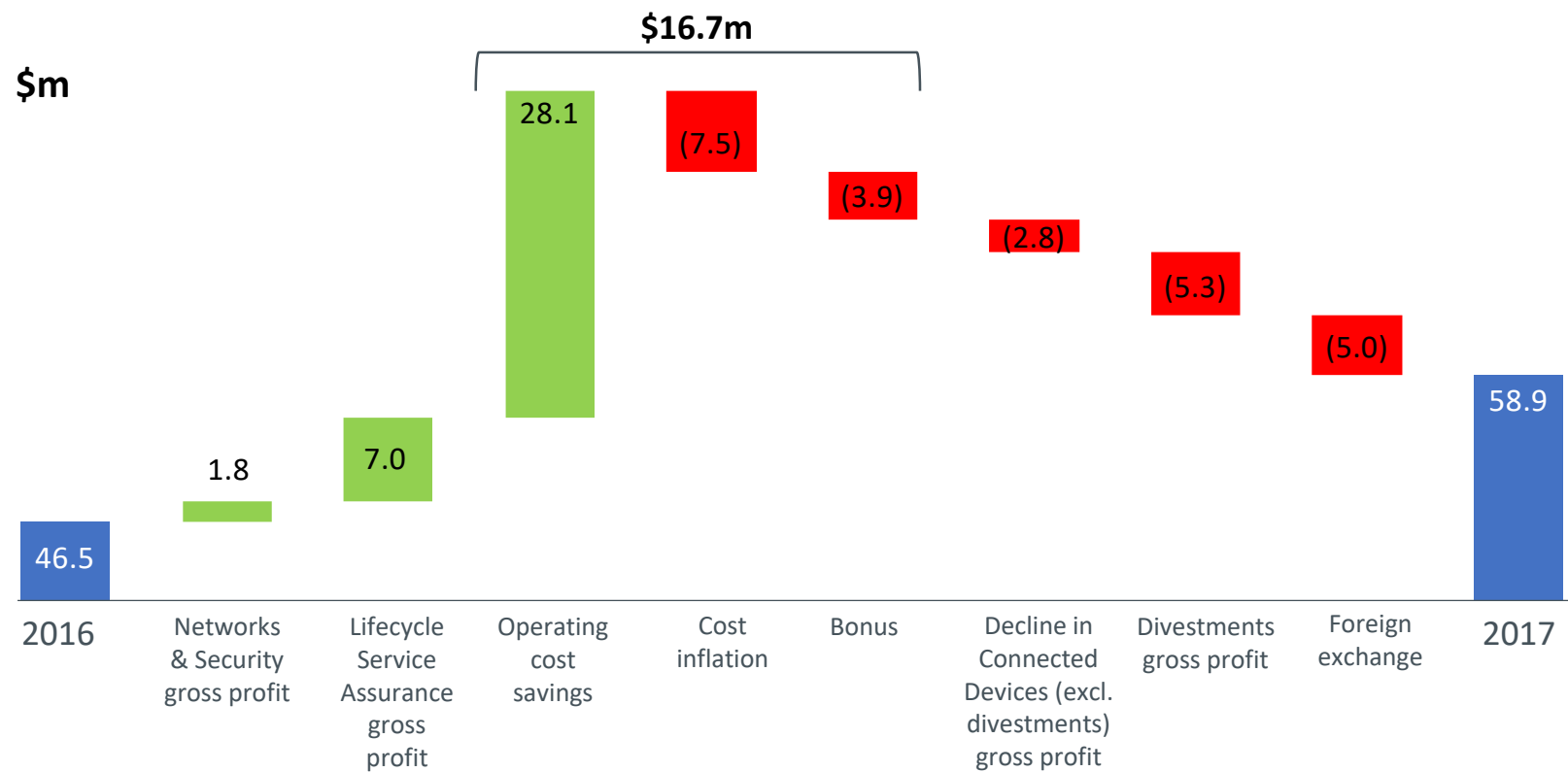
Selling and Marketing Cost % Revenue



**Headcount
reduction of
69 & \$10.4m
of in year
savings
(2016 + 2017)**

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

Operating Profit Bridge¹



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

	ETR ¹ %
2016	26.9
UK Patent Box	(1.3)
Divestments (DI and DT)	(2.8)
Other	(0.7)
2017	22.1
US tax reform	~(8)
Other	~ 3
2018	~ 17

US Tax Reform impact:

2017

- Deferred tax asset write-down of \$7.9m in 2017 to \$23m

2018

- US rate reduction from 35% to 21% effective 1 January 2018
- Foreign Derived Intangible Income (FDII) – rules not fully formed
- Domestic Production Activity Deduction (DPAD) repealed
- US tax reform continues to evolve, we expect further change over coming years

(1) Tax on adjusted pre-tax profit, excluding tax on adjusting items, revaluation of deferred tax assets due to US tax reform and prior year tax

Strong Cash Generation

\$m	2017	2016
Operating profit ¹	58.9	46.5
Depreciation, other amortisation and loss on disposal	19.0	20.2
Exceptional items charge	(6.7)	(4.8)
Working capital (including provisions)	12.6	(8.4)
Pension	(6.1)	(6.1)
Taxation	(8.4)	(4.7)
Interest received	0.6	0.3
Net capital expenditure	(13.5)	(17.1)
Free cash flow	56.4	25.9
Dividends	(24.6)	(24.2)
Acquisitions/divestments and investment in associate	(2.7)	(2.7)
Foreign exchange	3.2	(4.9)
Closing cash	128.4	96.1

- Key focus during 2017 to drive working capital improvements
- 2016 capex included a site refurbishment – c. \$15m going forward
- Free cash flow up \$30.5m or 118%
- Cash conversion 122% (2016: 80%)

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

Dividend Policy

- Progressive dividend as business delivers growth
- Earnings cover ratio of 2 to 2.5 times

Balance Sheet & Capital Allocation Policy

- Maintain a cash positive balance sheet to manage
 - Technology cyclical risk
 - Working capital requirements
 - Small inorganic investments
- Allow flexibility for larger inorganic investments may use modest level of debt
- Return excess cash to shareholders

Dividend
4.08c up 5%

Final dividend
2.40c

Special
dividend
5.00c
(\$30.5m)

7.40c
May 2018

Invest in areas where the following criteria are met... to drive improving margins



- Plans are built on growth drivers and disruption
- Carefully manage Connected Devices – sustain profits
- Growth areas are delivering :
 - Lifecycle Service Assurance
 - Application Security
- Robust financial cost and cash platforms will drive operating margin leverage

Eric Hutchinson
Chief Executive Officer

Performance Update

Connecting a Smarter Future

Smart Industry (4.0)



\$195 billion market (2022)

Smart Home



\$121 billion market (2022)

Smart Enterprise



\$255 billion market (2019)

Smart Cities



9.7 billion connected things (2020)

\$156 trillion market (2020)

Autonomous Vehicles

Intelligent Transportation Systems

Connected Cars



\$152 billion market (2020)

380 million Connected Cars on the road (2021)

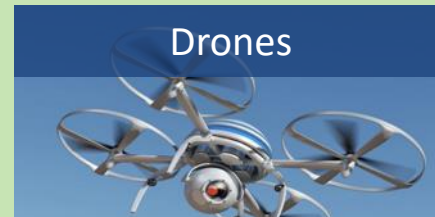
Fleet Management



\$27.9 billion market (2021)

Unmanned Aerial Vehicles

Drones



\$28.2 billion market (2022)

*We provide innovative products and services to help the world
communicate and collaborate faster, better and securely.*



CONNECT

PERFORM

SECURE

Develop

Accelerate time to market

Spirent reduces time and costs to develop and launch new products and networks.

Automated Testing

Operate

Reduce operating costs

Spirent improves network performance and customer experience while radically reducing operating costs.

Autonomous Service Assurance

Transform. Outperform.

Test Automation

2016

\$16B

2022

\$55B

+23%

CAGR 2016-2022

Network Functions Virtualisation Service Assurance

2016

\$52M

2021

\$410M

+51%

CAGR 2016-2021

Autonomous Networks

2019

\$2B

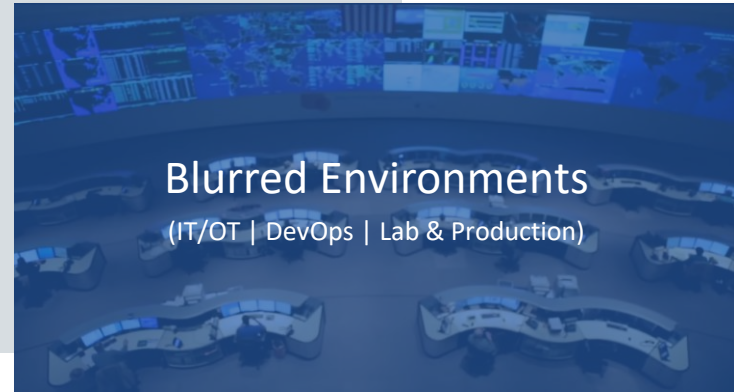
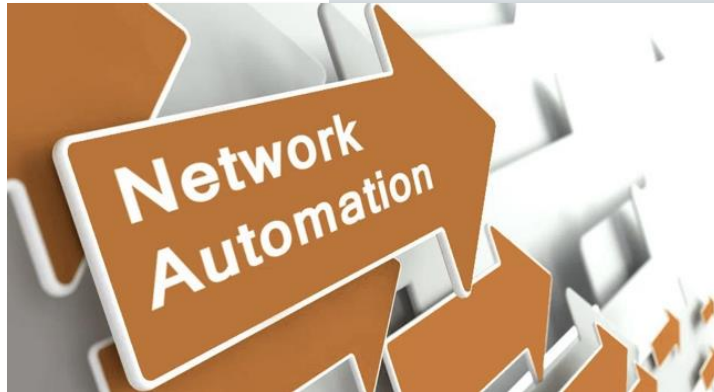
2025

\$17B

+43%

CAGR 2019-2025

Network Trends Affecting Test & Service Assurance





Spirent

2017

Market	\$1790M
Market Growth CAGR 2017-2020	4-6%
Revenue	\$454.8M
Market Share	25%
Operating Profit ¹	\$58.9M
Operating Margin ¹	13.0%

Strategic Growth Priorities



Extend our leadership in high-speed Ethernet and Positioning

Grow our Lifecycle Service Assurance business

Win business in cyber security to establish a strong position

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

Organised for Sharp Focus on Target Business Opportunities

Develop

Operate

Networks & Security



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

57% of Group revenue

Connected Devices



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

19% of Group revenue

Lifecycle Service Assurance



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

24% of Group revenue



Networks & Security

2017

Market	\$810M
Market Growth CAGR 2017-2020	4-6%
Revenue	\$261.0M
Market Share	32%
Operating Profit ¹	\$43.9M
Operating Margin ¹	16.8%

(1) Before exceptional items

Highlights 2017



Leader in high-speed Ethernet performance test
 Transition to 400G, growth momentum from H2 2018
 High-profile first-to-market demonstrations
 Collaboration with Chinese customers for 100G & 400G Ethernet

Leader in global positioning test systems, vulnerability detection & assessment
 Secured key wins with US government

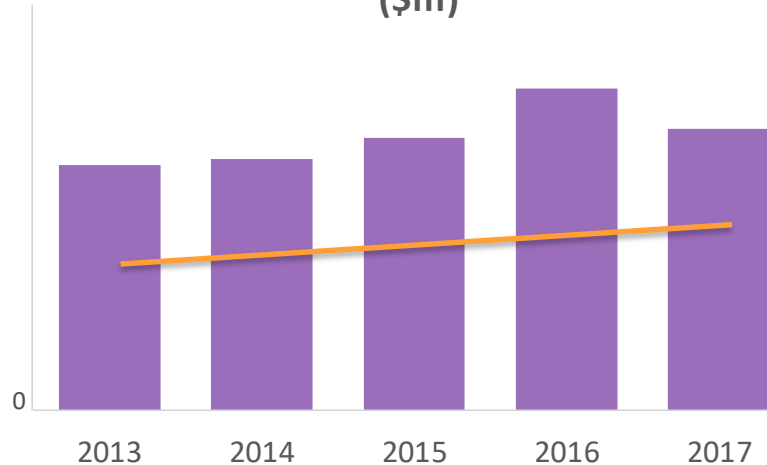
Grew security business > 20%
 Founded NetSecOPEN for new open security test standards
 Achieved CREST certification

NetSec  **OPEN**

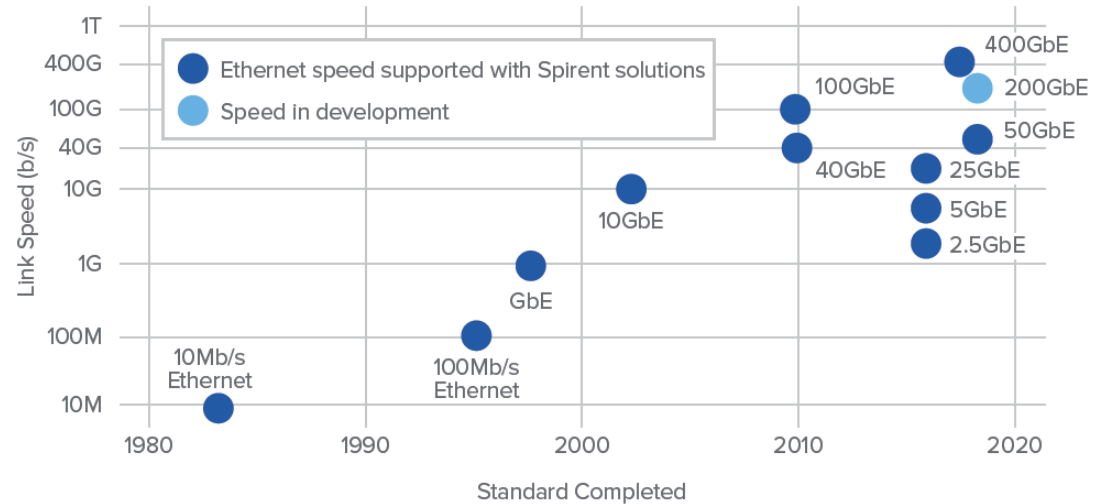


Assurance in Information Security

High-Speed Ethernet Order Trend (\$m)



Evolution of Ethernet



- 2016 saw surge of activity for 100G testing
- Well positioned for 400G; 2018 momentum
- Continue to lead market for high-speed Ethernet/IP testing

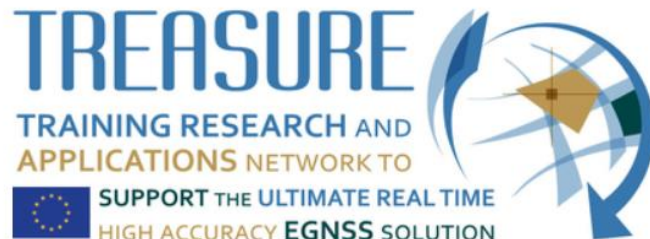
Highlights 2017



Industry's highest density 100G test ever conducted



Collaborate to verify 400GbE



Selected for EU TREASURE PROJECT



Assuring Wi-Fi on the London Eye



Networks & Security

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Grew security business > 20%
Founded NetSecOPEN for new open security test standards
Achieved CREST certification

NetSec  **OPEN**



Assurance in Information Security



Lifecycle Service Assurance

2017

Market	\$360M
Market Growth CAGR 2017-2020	6-8%
Revenue	\$109.2M
Market Share	30%
Operating Profit ¹	\$17.9M
Operating Margin ¹	16.4%

(1) Before exceptional items

Highlights 2017



Grew revenue by 10%
Improved operating margin to 16.4%

Expanded *VisionWorks* footprint in our three largest customers
Won four new *VisionWorks* deployments in Tier 1 mobile operators

Participated in high-profile demonstrations at TM Forum Live and Mobile World Congress

Remained world leader in mobile test systems for development and system testing

Develop

Spirent TestCenter

L2-7 testing of
NFVi, VNF
Service Chains &
High-Speed
Ethernet



Landslide

Core network
emulation &
testing
(vEPC/IMS)



Avalanche

L4-7 NFV
Security
Assessment



Velocity & iTest

Test Automation & Authoring



Operate

VisionWorks



Customer
Experience
Assurance



Mobility
Service
Assurance



Transport
Service
Assurance



Physical



Embedded

Production Networks: Virtual, Physical & Hybrid

Realised economic benefits

\$30M+

Annual savings due to
faster MTTR

\$20M+

Annual savings due to
reduced SLA violations

50%+

Increase in Trouble
Ticket Resolutions

15%+

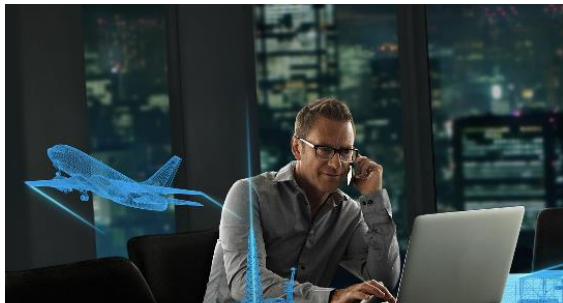
Increase in first
call resolutions

10x

Faster releases,
upgrades & turn-up

80%+

Increase in testing
workflow efficiency



Connected Devices

2017

Market	\$620M
Market Growth CAGR 2017-2020	2-4%
Revenue	\$84.6M
Market Share	14%
Operating Profit ¹	\$5.2M
Operating Margin ¹	6.1%

(1) Before exceptional items

Highlights 2017



Strong performance, \$9.6m profit turnaround
Portfolio focus, exited non-performing business lines
Focus on emerging opportunities in 5G and IoT

Released our Spirent Elevate IoT Device Test Solution
Won key Channel Emulator deals

China Telecom selected *Umetrix* for handset voice call quality testing
Umetrix voted VoLTE Innovation of the Year at Telecom Asia Readers' Choice & Innovation Awards
Demonstrated Enhanced Voice Services (EVS) with China Mobile at Mobile World Congress in Shanghai

Spirent helping our customers accelerate 5G innovation



Industries broadest set of **5G Test & Assurance** solutions

- Nine solutions available
- Customers & partners include industry 5G leaders: Nokia, China Mobile

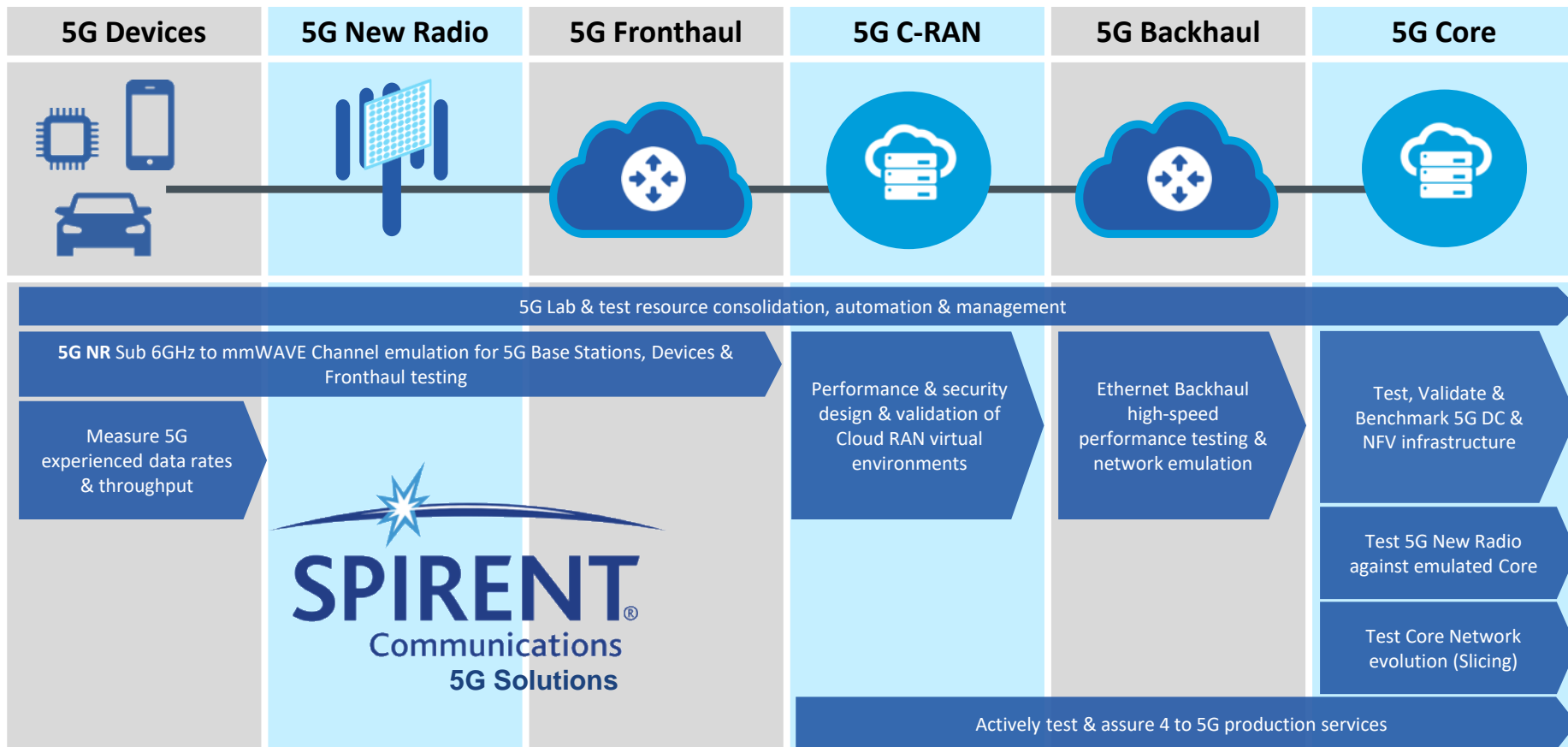
NOKIA



Solutions are demonstrating:

- Thought leadership in 5G lab & test automation, RF channel emulation, telco cloud validation, core network evolution & active service assurance
- Helping customers reduce development costs and accelerate 5G innovation & time to new revenues

Spirent Capabilities in 5G Test & Assurance





Highlights 2017

Driving competitive differentiation by sharp technology focus

- Productivity targets and benchmarking
- Talent management review
- \$28.1m operating cost savings

Focus 2018

- Streamline and standardise processes
- Focus engineering on key growth opportunities
- Develop in solution sales and key account management

Sharp focus on target markets

Innovate to maintain market leading position

Strong financial and operational platform

Build the future

- Accelerate automation solutions
- Expand in production networks
- Grow cyber security assurance businesses
- Sell into lab testing for 5G

- Strategic drive at key customer accounts
- Build on market share gains
- Solution selling on value
- Invest for next cycle – 5G, IoT, autonomous vehicles

- Drive more engineering capacity release
- Maintain continuous improvement agenda

Demonstrable traction in 2017



Key strategic wins in Lifecycle Service Assurance. Growth over 10%



Cyber security growth over 20%



Portfolio review and focus continues – Connected Devices turnaround



Strong earnings growth and cash generation being delivered, \$30m shareholder return

Outlook



400G high-speed Ethernet testing H2 2018



Lifecycle Service Assurance growth in service providers' production network



Positive momentum as 5G developments accelerate



Strong operational and financial platform to drive earnings growth in 2018



Confident that the Group will show progress in 2018

Q&A

Financial Appendix

Income Statement

\$m	2017	2016
Revenue	454.8	457.9
Gross profit	325.0	324.3
Product development	(103.0)	(111.7)
Selling and marketing	(116.8)	(125.4)
Administration	(46.3)	(40.7)
Adjusted operating profit	58.9	46.5
Adjusting items:		
Exceptional items	(6.7)	(4.8)
Acquired intangible asset amortisation	(6.3)	(12.9)
Goodwill and acquired intangible asset impairment	-	(69.1)
Share-based payment	(2.2)	(0.8)
Operating profit/(loss)	43.7	(41.1)
Net finance income/(expense)	0.3	(0.4)
Gain on divestment/share of loss of associate	2.6	(4.5)
Profit/(loss) before tax	46.6	(46.0)
Tax	(17.6)	3.7
Profit/(loss) after tax	29.0	(42.3)
Adjusted basic earnings per share (cents)	7.55	5.29

\$m	2017	2016 ¹
Revenue	261.0	262.2
Gross profit	186.7	184.9
Gross margin	71.5%	70.5%
Product development	(53.6)	(52.9)
Other expenses ²	(87.9)	(87.5)
Foreign exchange (loss)/gain	(1.3)	2.7
Operating profit ²	43.9	47.2
Operating margin ²	16.8%	18.0%

- Softness in high-speed Ethernet testing (Cloud IP) as customers pause spend driven by current transition to new 400G technology platforms. Positive momentum gaining traction in 2018
- Strong growth performance from both Application Security and Positioning
- Product development investment maintained to underpin new technology platforms

(1) Restated for changes to the Group's operating segments effective 1 January 2017

(2) Before exceptional items and foreign exchange charged in the income statement

\$m	2017	2016 ¹
Revenue	109.2	99.2
Gross profit	84.7	77.7
Gross margin	77.6%	78.3%
Product development	(30.9)	(32.1)
Other expenses ²	(35.9)	(34.4)
Foreign exchange	-	-
Operating profit ²	17.9	11.2
Operating margin ²	16.4%	11.3%

- Key strategic wins secured for new assurance services
- Revenue growth 10%
- Strong operating margin improvement
- Operating profit up 60%

(1) Restated for changes to the Group's operating segments effective 1 January 2017

(2) Before exceptional items and foreign exchange charged in the income statement

\$m	Continuing business		Reported	
	2017	2016 ¹	2017	2016 ¹
Revenue	78.7	83.6	84.6	96.5
Gross profit	48.4	51.2	53.6	61.7
Gross margin	61.5%	61.2%	63.4%	63.9%
Product development	(17.3)	(21.6)	(18.5)	(26.7)
Other expenses ²	(27.0)	(32.2)	(29.5)	(39.7)
Foreign exchange (loss)/gain	(0.3)	0.3	(0.4)	0.3
Operating profit/(loss) ²	3.8	(2.3)	5.2	(4.4)
Operating margin ²	4.8%		6.1%	

- Significant turnaround
- Portfolio review – DI and DT exited June 2017
- Continuing business – revenue decline slowed from 25% in 2016 to 6% in 2017
- Planning continues to develop 5G offerings

(1) Restated for changes to the Group's operating segments effective 1 January 2017

(2) Before exceptional items and foreign exchange in the income statement

Balance Sheet

\$m	2017	2016
Intangible assets	163.6	169.8
Property, plant and equipment	42.3	47.3
Deferred tax	23.1	33.0
Working capital and other	4.9	15.0
Cash	128.4	96.1
Provisions	(6.8)	(6.8)
Defined benefit pension	(2.2)	(12.8)
Net assets	353.3	341.6

- Deferred tax assets lower due to US tax reform
- Working capital lower
- Strong cash generation in the year
- Defined benefit pension plan deficit down \$10.6m

\$m

Portfolio review and sales organisation restructuring
Strategic review of Connected Devices

2017	2016
5.4	4.8
1.3	-
6.7	4.8

- Cost savings of \$28.1m realised in 2017
- Programme concluded in 2017

- Our significant Foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD: GBP exchange rate for 2017 of 1.29 compared to 1.35 in 2016, the closing rate at 31 December 2017 was 1.35 vs 1.24 last year
- FX loss of \$1.6m charged to the income statement in 2017 vs \$3.4m gain in 2016 – i.e. \$5.0m year-on-year adverse impact
 - Transaction exposure in UK operations from US dollar sales
 - Retranslation of cash balance held in non-domicile currency

Thank you

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