Spirent Communications plc Full Year Results 2019 Webcast

Eric Updyke:
All right, welcome. Good morning, everyone.

Multiple Speakers:
Good morning.

Eric Updyke:
Please take note of our Safe Harbor statement. So, we had a really great year in 2019, with all our key financial metrics moving in the right direction, as you'll see shortly, in Paula's presentation. We have three strategic pillars, and we executed well against each of them. For customer centricity, we won over 250 5G deals in 2019. That's a major growth driver for our business. We've also invested in building a services and solutions team, and we are continuing to diversify our customer base in new market segments and geographies.

In terms of innovation for growth, it was a very busy year, and we launched several critical products that I will detail shortly. And for operational excellence, our book to bill ratio was -- has typically, roughly, been one to one. In 2019, our bookings grew faster than revenue, which is a key indicator we are successfully executing our strategy to secure longer-term contracts and recurring revenues.

In our mid-year earnings, I mentioned a desire to drive more visibility for future results. I'm delighted we are executing on this important priority. We added new talent and experience to strengthen our leadership team, and as I approach my one-year anniversary at Spirent, we've been reviewing and refreshing our strategy. While I give some highlights today, we look forward to getting into more detail when we're back again at our Capital Markets Day, on April 30th. At this point, I'll hand it off to Paula, to go through our financial performance.

Paula Bell:
Right, good morning, everybody. Thanks, Eric. Okay. So, you know, we're clearly delighted to report another period of strong trading performance, as you can see here. 2019 order intake growth was strong, at 13 percent. All segments grew robustly, but the interesting feature is the growth in our multi-year contracts, which creates a stronger underpin to future revenue streams and improves visibility. In our year-end closing order book, 24 percent is for delivery more than 12 months' time, compared to 17 percent a year ago.

Revenue was up 5.6 percent, and together with an effective approach to managing our cost base, profits increased 20 percent. This directly led to EPS growth of 23 percent. Cash was very, very good. We constantly strive to ensure our commercial terms optimize cash flow and customers pay on time, and we delivered superior cash conversion. With continued confidence in our progress, we are declaring a 20 percent increase to the folio dividend, which is 25 percent increase in sterling.

There's a recap for our dividend policy; it's progressive. Earnings cover ratio was two to two and a half times. So, looking forward, we would expect dividend growth that allows us to retain this level of cover, and bearing in mind the performance of the business in the period.

So, let's take a look at the figures in a bit more detail. And for note, we implemented IFRS 16, accounting for leases, from the 1st of January 2019. And there is a slide, in the appendix

of your deck, setting out further information. But in a nutshell, we've brought on the balance sheet around 30 million of property assets and corresponding lease liabilities, and the impact to PBT was negligible.

So, as I mentioned, we delivered double-digit orders growth, helping underpin future years' revenue streams. We were able to sustain revenue growth momentum. Our gross margin has benefited from the revenue portfolio mix in the main, and our software content has also slightly increased. Operating costs increased by 3 percent, in line with inflation, and the operating leverage of our -- growing our business over our cost base led to good operating margin improvement, now at 18 percent.

PBT was up 46 percent. Tax of 13 percent was slightly better than last year, due to a combination of factors including a new tax treaty, and an increase in non-taxed income. As I said, cash closed 183 million, which clearly maintains a very strong balance sheet, and we will be considering our capital allocation choices during 2020. Clearly, this gives us options to support our strategic growth agenda, with regard to acquisitions.

So, let's have a look at the portfolio, and we're pleased to report progress across each segment. And if we look at the performance of each, networks and security revenue grew by 12 percent, and operating profit improvement followed. As we expected, we saw a good pickup in 400 gig high-speed ethernet in the last quarter, and despite a strong comparator year for our positioning business, we delivered growth, due to strong customer demand for our GNSS solutions, particularly from U.S. government defense contractors. So, superior margin was delivered due to this very strong portfolio mix.

Although revenue for life cycle serves assurance and operate the margin was broadly level, we did deliver slight profit improvement, due to higher software content. But the good news is that we won some key orders at the end of the year, building a strong order book as we enter 2020. In the connected devices, revenue dropped slightly. This is simply due to decline in 4G device testing, but a decent profit delivered, of 13 percent margin.

Our 5G device test product is ready; it's launched, and with some early wins, and a growing pipeline of interest. So, we're now focusing on driving this segment to deliver some small growth in the coming year. So, overall, the group operating margin, as you can see here, grew from 16 to 18 percent.

So, diversification is critical, and it serves as well, as we face many global matters, including geopolitical trade challenges, which won't be solved in the short-term. So, it's important we remain alert and agile. The strength of our business model is apparent here, and one considers no one customer has more than 8 percent of our revenue. And our business model is built on strong, respected customer relationships, which is critical.

Despite the U.S./China trade challenges, we increased our sales in China by 22 million. Our top 10 customers make up 42 percent of our revenue, up 21 million from last year. So, we've enjoyed good growth from these large accounts, and following our sales restructure and the extension of our key account management program.

So, turning to costs. As I said, overall cost base increased 3 percent. And as you can see here, product development remained level, at $97 million. We target R&D investment at around 19 to 20 percent of our group revenue. There are some segmental details in the

appendix in your decks which show we invested 6 percent more into more R&D for networks and security, and whilst removing investment in those products in technical decline, such as 4G device testing connected devices. An investment in our life cycle service assurance segment runs around 25 percent of revenue, i.e. more than the group average, as we look to develop solutions to match a growing global customer base.

Selling and marketing increased here, including salary inflation -- some increased heads -- an investment into extending our key account management team and further developing our routes to market. The administration cost increase includes a number of factors: inflation, CEO transition, and some investment into our back office, as the company grows. So, we will continue to invest in our business appropriately to sustain revenue growth, which we expect to allow us to maintain high-18 operating margin.

A quick note on exceptionals, here. As we previously communicated, after Eric joined us, we embarked upon a strategic review, looking at our options to drive recurring revenue, our leadership team, and a particular focus with our marketing effectiveness, which is -- to date, is an area we have not looked at in great detail. We have taken some external benchmarking for marketing, to identify a new organization design to best serve our growth plans. And in 2019, we spent $1.8 million. The total program costs, 4.5, including implementation, concluding in 2020. The good news is we received a 2.3 million VAT refund on our previous French duty customs provision, made in 2018. So, overall, a small net credit in the year.

Right. So, we managed to double the cash flow in the year. Not the statistic to model going forward, might I quickly add. And as you may know by now, it's an area we continue to focus on, as part of our financial management agenda. And our cash conversion was very strong. Due to a very busy close in December, inventory reduced some 7 million. We reduced our DSO from 72 to 61 days, and the high activity level in December led to a higher trade accreditor close. So, from this lower working-capital base, I would expect working capital to increase in 2020, as a consequence of both growth and some timing. Cap ex was 11.9 million, slightly up one last year, due to 5G investment. And the outlook is, for 2020, around 12 to three -- 12 to 13 million. So, the strong cash close -- this clearly gives us decisions, as I mentioned, during 2020.

So, strong momentum. We've continued to deliver revenue growth. We are building a bigger and longer to -- order book, increasing our visibility. Our operating model is working. We focus on driving sustained growth, and with a clear focus on investment priorities and resource additions, this should allow us to continue to deliver our midterm goals, i.e. mid-single-digit organic revenue growth with operating margins in the range of 17 to 19 percent.

So, in 2019, we improved every single financial metric, and retain our strong balance sheet, which gives us options to support our growth agenda. So, let me pass you back to Eric.

Eric Updyke:
All right. Thank you, Paula. So, how did we grow? We had continued strength of our high-speed ethernet business, our market leading GNSS positioning business had another great year. We won a large, strategic, Test-as-a-Service deal, which I'll discuss in more detail later. We enjoyed continued strength in APAC, despite geopolitical challenges, and our key accounts program continued to drive success in our target accounts.

As mentioned at the outset, we drove bookings ahead of revenue, which is an indication of

our strategy to gain more visibility and predictability is working. And as Paula discussed, we had another great year of improving margins. We continued our healthy investment in R&D while gaining an additional operating leverage in driving operational excellence across the business.

Regarding our business segment performance, under networks and securities reporting unit, we enjoyed leading market positions and technologies driving growth. We experienced a surge in Q4 400G high-speed ethernet orders, and a continued high win rate with U.S. defense spending on positioning. We released our new data breach assessment security product in the second half, and overall, this segment has a strong opening order book for 2020.

In our lifecycle assurance segment, we appointed a new leader in October 2019. We had strong order growth secured late in the year, and we maintained strong demand for 5G lab tests, which is our landslide product. And as discussed, we secured a large, strategic Test-as-a-Service contract. In our connected devices segment, we maintained a solid operating margin, despite seeing some 4G legacy testing decline, and we secured a strategic partnership to help us pivot to 5G, and secured orders for our new 5G device testing products.

As I reflect on the external factors that shape our market, it's clear that the drivers we indicated previously are all continuing, and many, at an accelerating pace -- namely, 5G. The insatiable demand for higher bandwidth services, pervasive cybersecurity threats, the prevalence of mission-critical connected devices, and the continued migration of infrastructure and applications to the cloud.

Fortunately, our targeted investments across our portfolio positioned us to seize these opportunities. By leveraging our market-leading products and our strong reputation, we are creating winning, cross-portfolio solutions. This allows us to provide unique differentiation and not just compete product by product, or on a feature by feature basis. It also enables us to solve bigger customer problems, and therefore, be more strategically relevant.

We're going deeper and broader with our customer base, utilizing our successful key account management program to gain greater share wallet. We will be extending this model to more accounts in 2020. We will selectively expand geographically, while also focusing our channel partner program to grow further into government and enterprise customer segments, and we will move beyond just lab legacy testing, and get deeper into the live network, delivering value across the customer life cycle.

We'll do all this with our engaged, talented team that's committed to winning. We are selectively adding talent, infusing new energy, to drive aggressiveness and collaboration across the company. And we'll continue to invest both organically and inorganically, through targeted M&A, to maintain our leadership in key areas.

Spirent's leading the way on testing and assuring new 5G technology. From our vantage point at the front lines of 5G, we have a unique opportunity to gain insight into the market and our customers' needs. Our 5G winning formula comes from combining our industry-leading 5G tests and assurance solutions with our ability to act as a subject matter expert and trusted advisor to our customers. This winning combination helped us close over 250 5G deals in 2019.

These deals included many key wins. We were number one in 5G Core and high-speed ethernet test and validation. We supported the industry's first Active Assurance U.S. nationwide 5G deployment with our VisionWorks solution. Our 5G Digital Twin solution is helping academia and enterprises accelerate their innovation. And for as much traction as we're seeing, this is just the tip of the iceberg. We're actively engaged in more than 150 global 5G initiatives, across a diverse set of customers. 5G gives us a host of opportunities, and our focus is on staying several steps ahead.

5G is driving business across the Spirent portfolio. In 2019, we saw the beginning of 5G market launches, and about 350 market launches are planned for 2020. During these launches, our customers utilized our Umetrix and VisionWorks solutions to help them perform field testing, automation, and service assurance. With 47 5G devices commercially ready today and almost 200 more in development, our 5G device testing and security labs products support our customer while they test device security and performance.

Spirent's Vertex and Digital Twin solutions are helping our customers model and test new 5G radio frequency ranges and antenna technology in a fast and secure way. And our market-leading Spirent test center helps our customers test and prepare their high-speed ethernet for the data tsunami of 5G. Customers require advanced solutions, like Spirent's Landslide, CloudSure, and Test-as-a-Service offerings to perform complex, multi-vendor validation, as 5G Core and Edge networks evolve to the cloud and become more virtualized.

As I've told you previously, I want to drive services into our business. We are confident that services present a great opportunity for us, and we're making investments in a dedicated services organization. It's still early in this journey, but in 2019, we closed a large, strategic deal to prove this is a winning concept. This deal, which I've referred to already, is a Test-as-a-Service contract with a leading North American service provider. In this situation, the customer needed to deploy 5G quickly and cope with the complexity of cloud-native architecture.

Spirent's innovative solution was Test-as-a-Service, a cross-portfolio solution to automate and execute 5G and cloud testing on behalf of the customer. Instead of selling the traditional way, which would have been a smaller, hardware-based deal, we approached the opportunity in a materially different way. We created a market-leading, holistic solution, to provide value across the customer's life cycle. The solution will enable the customer to automate their testing needs and continually launch new 5G services, resulting in lower costs and faster time to market.

The impact to Spirent is a higher number of customer touch points and far greater integration with our customer. This service will deliver higher value across their life cycle, and in turn, will deliver higher revenues for us. And this is just one example.

At the moment, we're not prepared to give specific growth projections on services. It's still early days and there's more work to do, but we are optimistic about the growth prospects for services, and we'll discuss this further at our Capital Markets Day in April.

Moving forward to seize the opportunities I discussed, we've reorganized our strategy around three key pillars: customer centricity, innovation for growth, and operational excellence. Related to customer centricity, you know, we exist only if we're adding value to our customers and helping them assure the -- their promises to their customers. It's why we exist,

and it's how we'll win. It's why everything starts and ends with the customer. We've instilled a customer-driven, solutions-based selling mindset across our teams. Our key account management program has been very successful, enabling stronger customer relationships and a better understanding of our unique customers. With a continued sense of urgency, we will sell across the customer life cycle, pushing beyond our lab legacy to include selling into the live network.

As I mentioned earlier, we are diversifying our customer base, targeting new geographies and market segments. We enjoyed good year-over-year growth in our government customer spending, and we'll be focusing on expanding this customer base further in 2020. And we also significantly grew the number of new customers last year.

The innovation for growth pillar. In order to maintain our market leadership, we will continue to invest in our R&D. In 2019 we invested approximately 20 percent of revenue into R&D, and we'll continue this practice in 2020. We'll continue to innovate for growth by offering new services and solutions, and we'll drive higher software content. In addition, we'll continue to innovate new business models, such as Test-as-a-Service, Lab-as-a-Service, Turn up-as-a-Service, to drive incremental growth.

Where valuable, we'll utilize strategic partnerships to enter new market segments and offer collaborative solutions. We will prudently put our balance sheet to work, investing in inorganic growth and targeting new customer segments and geographies. We'll be smart and thoughtful and successfully executing and integrating any M&A targets, and we've hired a new head of corporate development and will be taking a proactive approach to M&A.

Operational excellence. We remain focused on maintaining financial strength and flexibility. We've added leadership and experience to our team, and we've instilled a sense of urgency across the company. We're focused on the idea of never getting complacent in the relentless pursuit of improvement. We've improved our sales and marketing programs to set ourselves up for more success. We've focused on increasing visibility and predictability with the orderbook growth and recurring revenue, and we've grown our cash balance. And amid the turbulence of 2019, we've successfully navigated geopolitical issues.

I'd like to give you an overview on the coronavirus situation is it pertains to Spirent. We have 199 employees in China, including five in the Hubei Province. We're keeping close tabs on their health and well-being. Everyone's currently healthy and we're monitoring the situation closely around the world. We're taking pragmatic actions to keep everyone safe, including restricting travel to avoid unnecessary risk. Within China, we enacted our business continuity plan, enabling people to work remotely and if necessary, this plan will be enacted in other areas of the world. We're currently not seeing any major impacts to our business, but as this is a changing, dynamic situation, it's hard to predict the future impact this may have. Our supply chain team's done an amazing job and we currently don't see any major risk to fulfilling customer demand. We're keeping a very close eye on the situation and we're prepared to invoke other actions as necessary.

Moving beyond the coronavirus matter and discussing our path forward, we're really pleased with our 2019 results and the momentum that it provides us as we move into 2020. We have a good opening order backlog and we're well-positioned to enjoy a strong year as we execute on a refresh strategy, and we see steady profitable growth. We'll be hosting the Capital Markets Day April 30th and I hope to see you there.

With that, I can turn it over to some questions.

Female Speaker:
Mike's coming.

Male Speaker:
Coming, coming, coming.

Male Speaker:
Thanks, [unintelligible]. The first question was on the service assurance side, where I understand Landslide's doing well for the 5G core network stuff, but VisionWorks seems to be relatively slow and I think that tallies with what some of your competitors are seeing like X4 or NetScout, so I'm just curious, do you think this is a, sort of, pause ahead of the 5G rollout in the core network or is there something deeper, most structural, going on in that part of the market? And I have a follow up, thank you.

Eric Updyke:
Yeah. I think there is a timing issue around 5G, you know, these networks are coming online, there's not yet customers and real traffic to assure on these networks. Having said that, we began to get some really nice momentum in the fourth quarter and sold some actually very innovative deals, not just the Test-as-a-Service that you can see I'm quite proud of, but others as well, that'll translate into revenue going to 2020. So we're actually pretty confident that we're going to have VisionWorks on a growth factor this year.

Male Speaker:
And then the second one was on margins. I think you did close to 19 percent, so the high end of the range last year, and I think the expectation is, sort of, 5 percent top line growth this year. You know, why should margins not expand from last year's level? What would be the, sort of --

Paula Bell:
Are you talking about the group?

Male Speaker:
-- headwinds potentially. Yeah, at a group level, yeah.

Paula Bell:
Okay. So we got to 18 percent this year, and faster than we thought -- originally planned, which was great news. It's important that we keep our investment into our business as we grow, you know, we need to be ahead of the curve in that regard. There are many growth factors that we're following at the moment, and I think the investment into the business as we grow is the key point there. So look in -- further down the line, if we get more, you know, further growth profiling, that might lead to more operational leverage, but at this time I think it's fair to say we want to keep investing in our business. We're on a good projectile and that seems to be the sensible position of the moment, yeah.

Male Speaker:
Okay. Thank you.

John Curry.
Thank you. I'm John Curry [spelled phonetically] from Numis. I have a few questions, if I may. Forgive me for that the rather, sort of, basic question but I'm sitting here trying to figure out what the revenue growth outlook is for LSA and connected devices, and I'm worried that I'm going to miss a, sort of, uptick going forward given what you've delivered to date. So can you help me, please, think about the outlook on a one and a three-year basis?

Paula Bell:
Sure. So on a life cycle service assurance, you know, we clearly got a strategic plan to grow a more global customer base. As Eric said, we closed again with a stronger orderbook, so it gives us some positiveness in terms of our outlook during 2020 and beyond. We've always said this business has the potential to grow [unintelligible] and the potential as we step forward was by evolving to be able to assess more regularly. But for now, we're in a good position for our growth projectile.

In terms of connected devices, as you know, the revenue has been in decline in recent years [unintelligible] 4G device test decline. We, as I said, we've got our 5G device test product launch, we are number four-ish in that particular sector, we play with strong market leaders, so the growth profile into 2020 we would estimate more single digit. It would be really great to get that second of just revenue growth, from then we can be a bit more -- a bit more [unintelligible] about the three-year outlook in that particular sector.

So I think overall, that would be my short and more mid-term outlook there, John.

John Curry:
Thank you so -- okay, so, the mid-single digits and low single-digits, these are specifically for 2020, is that right? Did I --

Paula Bell:
For connected devices, yeah?

John Curry:
For -- yeah.

Paula Bell:
Yes.

John Curry:
And for LSA mid-single digit over time.

Paula Bell:
Yeah, over time, and as we get more evaluation of the potential market, the types of customers, the things that we can bring, and we'll probably look at that more, in more detail on our Capital Markets Day because, as Eric mentioned, we're also bringing to the table more things like Test-as-Service, and that's particularly around our LSA division as well.

So we're in a good position with some good momentum, and I think that's -- everything I talk about is organically, so if we can then deploy our balance sheet in a way that gives us more momentum with M&A, then obviously we have the option for further growth, building on those acquisitions.

John Curry:
Okay. Thank you. And last two bitty number questions; cash tax seems to have been half of the P&L tax. If it's possible, sort of, to understand why and whether that will go back to being a bigger percentage. And then also, there was a huge leap on the, sort of, cost of purchased shares this year, which is great, but looking forward, what sort of number should we be expecting, please?

Paula Bell:
Okay. The cash tax, we're benefiting from a number of incentives from the world. We took advantage around R&D tax credits, and the IP patent box and suchlike, so we're being -- managing our cash tax affairs extremely well.

As I mention on the P&L side, 13 to 14 percent is the effective tax rate and we'll continue to manage our affairs in that regard. In terms of shares, well, you know, if you could go back in time, there was never much demand for increasing our treasury balance of shares because the business never paid many L-tips out to management and in the last three years, you can see that we're actually delivering progress, so there was a need to go out and buy more shares, which is great news for our management employees. And I suppose the projectile would be that we'll continue to increase that, the more that we're successful.

John Curry:
Thank you.

Will Henness:
Thanks. Will Henness [spelled phonetically] from Jefferies [spelled phonetically]. I've got a few, I'll do them one at a time if that's okay.

Firstly, just in terms -- you had a of a surge in 400g livestock, so it should be picking up quite nicely this year based on the backlog. I guess I'm just trying to guess what a few of the other questions are talking about, which is why growth wouldn't be faster in '20 versus '19 for the group as a whole?

Eric Updyke:
 on the back of the 400?

Will Henness:
: Yeah. So if 400g ran nicely for the second off the year and then the order book for LSA -- I mean, LSA had a more difficult '19, but that's where the order book's strength seems to have been.

Eric Updyke:
No, I -- we're trying to take a balanced view of the entire thing. A lot of the -- is my mic on here?
Do we need this? Do I need this?

Male Speaker:
Yes.

Eric Updyke:

Yeah. Okay. Much of what came from Cloud and IP in the 400g orders actually translated to revenue in 2019. So it didn't build up this backlog of orders going into 2020. That was the case on LSA, right? Where it will come in in revenue this year. And you know one of the big dependencies that we expect but needs to just happen on 400g is the continued momentum over the course of the year. So -- and we tried to take a, you know, sort of a prudent growth projection, all things considered.

Will Henness:
Thanks so much. And second, just on key account management. I know you're going to talk about it more on 30th of April, but just wondered how -- what portion of customers are key accounts, how much of the revenue they account for, growth services, all that kind of stuff.

Eric Updyke:
Yeah. So -- you know, when -- during the course of last year, I believe we had six customers in our key account program. We added T-Mobile over the course of the year, and now that they've gotten approval for the Sprint acquisition, that's, you know, looking like a good move. And, you know, we -- they're, of course, going to be an even more important customer going forward. The large cable operators in North America are others that we've put into that program recently. So we see a lot of potential there.

And really, you know, we're taking a look around the world at other either, you know, large galaxies or big OpCos in other parts of the world. And, you know, we're applying some tests in terms how much potential we see in those accounts. There's an investment, of course, you've got to put this sort of structure in place. But anywhere that we've done it where we have enough, you know, runway and feedback, it's clearly been a worthwhile investment. And it -- and the dynamic is one where we hire senior people. They're well-connected to the customer. We start having, you know, more strategic dialog, and we uncover different opportunities, and we organize ourselves in a way that is much more aligned with the customer's buying centers than with the Spirent products. And it's helping us surface a lot of new opportunities that we just weren't seeing because we weren't covering as many of those key constituents in the customers.

So it's -- because it's an investment, and as with everything else we do, we'll take an ROI-based approach to it. But it's something that I would expect us to, you know, to continue to extend and help us get more share of wallet from those customers ultimately.

Will Henness:
And then the last one was just on deals. Just wonder what the pipeline is and then whether you would --what you're looking for? Are you looking for -- to buy market share or are you looking to buy IP?

Eric Updyke:
The buy market share versus buy IP, is that related to M&A?

Will Henness:
Yeah.

Eric Updyke:
M&A question? You know, I -- we're looking in a few different directions. I think generally, you know, when we look at executing our strategy, the thing that we probably would want to

accelerate through M&A is, you know, getting to new technology areas and picking up some key IP. Now, it may be along the way, we get some customers with it and some routes to market, which is also fantastic. But generally, I think it's, as we look at how we innovate and make build versus buy decisions, these are some areas that, you know, could be attractive to us.

Will Henness:
Thanks so much.

Eric Updyke:
Yes? Pass it back now.

Genard Mennen:
Hi, it's Genard Mennen [spelled phonetically] at Librum [spelled phonetically]. Just look at how you see the cyclicality of the business, especially given we had a down cycle in foreign -- in high speed Internet testing in 2017. So from two perspectives. One is, you know, has anything changed in high speed Internet where the last cycle lasted, give or take, two years? You know, would you -- what should we expect that to slow down by the end of this year, early next year? Is that kind of thinking that we should have? And secondly, on a more broader level, given that you have more structural growth areas like security, you're coming in with testing of the service, VisionWorks, and things like that, and some things which are beginning to accelerate like your connected devices. How do you think that the cyclicality has changed versus what we saw in the last down cycle in ethernet testing specifically? Yeah. I'd like to know your thoughts on that, and then I have a couple more.

Eric Updyke:
Yeah, so I think around 400g. The first big uptick we observed is really in fourth quarter of last year. Right? So I believe we've got a ways to go. I feel comfortable through 2020, certainly. Beyond that, we could probably have a debate about how long will it, you know, will it continue at a nice clip.

But more generally, within the business, yeah. I mean, we've talked about it. We've been too susceptible in the past to tech cycles. And so, I think we're taking a lot of proactive steps to get this added visibility into the business to get more recurring revenue into the mix, the multi-year contracts. And I think just with really several months of focus last year, we already have some nice results to show. And if we continue on that trajectory in an aggressive way, which we're going to, I think we can build those, you know, call them buffers [laughs] that just give us a lot more confidence that even if, you know, a given technology, you know -- there's a flattening as we wait for the next wave that we plan to lead on as well. Right? Whether data, energy, terabyte, whatever -- that we can keep the company moving forward. You know, so this, this mantra of sustainable, profitable growth, it's got a lot of legs underneath in terms of the way that we are operating the business and trying to make sure that we have, you know, the appropriate business models with recurring software revenue, services, longer term service contracts, et cetera.

Genard Mennen:
And just going back to the growth question, I was just looking at your order growth in '18, '19 and '18 versus '19. Your orders grew at 6 percent in '18 and they grew at 13.2 in '19, so clearly a big -- more than a doubling of your order growth. I presume some of that is from the cyclicality of the business, which is the 400 gig part of it. But why would you not think,

based on that trend and what you have coming, that you should be growing higher than the sort of mid-single digit number that you throwing out there on the medium --

Paula Bell
I'll take that one. Okay? [laughs].

Genard Mennen:
I thought you would.

Paula Bell:
You know, we were absolutely delighted when we got to the end of the year and got to 13 percent order growth and we haven't had that before, so we are absolutely ecstatic internally when we saw that number. And then we quickly analyzed it and said, "How come? And what does that mean?" And then we drilled down into understanding the multi-year effect, which I've mentioned already, and if you extract that from the number, then you get to a high single digit growth rate.

And we did benefit in '19 from a little bit of timing in January. You may recall a year ago we lost a couple of LSA support deals from December and it flipped into January. So it boosted the '19 early and early Q1 number as well. So we looked at it and drilled down. We thought, "Well, yeah, it's actually -- it's consistent with our understanding of our growth rate." You know -- but it set us up well with a strong order book at the end of '19 into '20. But if we keep repeating that success, and obviously it will eventually signal that, you know, my projection for mid-single digit might be somewhat conservative.

But -- so, you're right, and we were delighted. But at this early stage of 2020 there's lots to do and deliver in the remainder of this year yet. So it's a bit like, watch this space, but we're very excited about it.

Genard Mennen:
[laughs] And this is the last question, the Test-as-a-Service, is VisionWorks the crux of it? I'm sure it's got different parts to it, but does it build around VisionWorks?

Eric Updyke:
Yeah, it's got a few parts, and that's what's great about it. I mean, we really did -- you know, it's why it was difficult for someone else to replicate as well. And I think this particular customer looked at, you know, a host of systems integrators to maybe lead such an effort versus technology companies like ourselves. And the proposition that we're able to put forth is to show that we brought some elements of our cloud portfolio, some elements of our life cycle assurance portfolio, including Landslide, VisionWorks, our automation platform. And the big exciting thing about this effort is, this particular customer, we're serving as a bridge between, you know, their lab and technology planning organization and their engineering and operations organizations. And they traditionally, you know -- tests that they've done in the lab, they didn't have a great connection to then what they did in the live network and they would redo work and they're finding that they just don't have the time, they don't have the ops ex to be able to operate that way in such a manual mode and not be well connected. So this idea of creating, you know -- using our technology, the fact that we've worked with every one of the core vendors, whoever they choose, we're working with all of them. And then we can put in place this framework that's going to allow them to more rapidly get, you know, new services to market and take a lot of manual effort out of the process by automating, you know

-- writing and then automating these test cases for them. It's really a, you know, I think a compelling offering. And it's one that, you know, we want, you know, so we did it in a very customized way, right, for this -- for this customer. But we want to generalize it and sell the same concept elsewhere, of course. So that's -- and you can tell we're kind of excited about it and we think there's a lot of potential to take it further.

Luke Holbrook:
Hi, it's Luke Holbrook [spelled phonetically] from Stifel [spelled phonetically]. I just want to ask you quickly on the positioning business. Clearly, you had a $10 million contract roll off last year. You then replaced it with several more $2-3 million contracts. So how is that pipeline building into 2020, and is there any kind of significant contracts we should be aware of that are rolling off this year?

Eric Updyke: Yeah, I think it's not -- there's no significant contracts rolling off. But the business performed really beautifully again last year, kind of exceeded [laughs] some expectations in that regard. We didn't have the big whales, if you want to call them that, the big $10 million contract to refer to, but it was pretty broad based and steady growth across a lot of the Tier 1 defense contractors in the U.S. I think we've been a beneficiary, not of just having the best product in the industry -- we do the leading product in the industry. The fact that defense budgets have been larger is a tailwind. It helps. We see that continuing into 2020. And the team is really busily working as well, you know, to extend our leadership in the commercial domain, you know, beyond the U.S. government business as well. And so, you know, it's pretty exciting in terms of what we're -- what we have going with the positioning team.

Luke Holbrook:
Perfect. And just a follow up just on the service assurance division. Clearly, you're seeing increased competition from competitors at the moment. Do you feel like any of the carriers are trying to do internal sourcing of the software at the same time as experiencing the likes of X-phone VRV [spelled phonetically] in the space? And where do you feel your market share is? I know a couple of years ago, you drew it out as, kind of, 12 percent. Has that changed since?

Eric Updyke:
Yeah, I think it -- I don't think it's -- the carriers, you know, coming with in-house tools or alternatives, really. I think their lives and their networks are just getting more and more complex. And, you know, as they become more cloud based, cloud native, they do need different tools to monitor and manage their networks. I think the competitive landscape around service assurance, it is pretty fragmented. There are a lot of players. And some of the drivers, you know, you know, is the what would drive a change or a new buy-in cycle, particularly for new customers, they haven't all kicked in around 5G in particular. You know?

And because often when customers get, you know, more concerned about their ability to deliver proper SLA's and so forth, that's when they get real customers and real traffic on those networks. And if you're at the early phase of doing a technical trial, a field trial or something, it's maybe not top of mind. But I think as we get, you know -- these launches become more real, there's more devices in 2020, real traffic goes out of the networks, it does serve as a strong impetus for more VisionWorks, you know, type sales, the 5G probes, et cetera.

Okay. I think we've exhausted the audience. Thank you all very much, appreciate it.

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[end of transcript]