

SPIRENT COMMUNICATIONS PLC
Results for the six months ended 30 June 2023

Momentum returning, record orderbook, full-year expectations remain unchanged

\$ million	First half 2023	First half 2022	Change (%)
Orderbook ¹	303.4	283.6	+7
Book to bill ²	107	105	+2
Order intake ³	239.4	295.5	-19
Revenue	223.9	280.1	-20
Gross margin (%)	71.9	72.0	-
Adjusted operating profit ⁴	11.6	49.0	-76
Adjusted profit before tax ⁵	14.8	49.2	-70
Adjusted basic earnings per share ⁶ (cents)	2.10	6.97	-70
Reported operating profit	1.6	40.1	-96
Reported profit before tax	4.8	40.3	-88
Reported basic earnings per share (cents)	0.87	5.70	-85
Closing cash	148.2	188.8	-22
Cash spent on share buyback (\$ million)	35.3	-	-
Interim dividend per share ⁷ (cents)	2.76	2.63	+5

Commenting on today's announcement, Eric Updyke, Chief Executive Officer, said:

“Although the first half trading was materially impacted by the industry-wide slowdown in customer spending at the end of the last year and into the beginning of 2023, we have been encouraged by the strong uptick in orders in the second quarter, which will feed into second half revenue and beyond.

“We continue to closely monitor our leading indicators that signal returning customer spend momentum and, although uncertainty remains with regard to timing, we are seeing increasing customer engagement, more order opportunities and an improving pipeline. As we moved through the second quarter, we saw good engagement for our service assurance solution with North American Tier 1 operators, closed strategically important deals for our 5G O-RAN services, maintained our 800G high-speed Ethernet testing leadership and continued aligning the capabilities of our sales organisation with our customers by focusing on ROI. Taken together, these factors leave us well positioned to achieve our business objectives as we advance through the year.

“Innovation is central to what we do at Spirent. As part of this approach, we are diversifying our customer base into new verticals and are currently finalising the detailed work scope for a significant lab and test assurance and services solution, worth over \$15 million, with a major retail bank. This will establish a brand new customer segment that presents a significant opportunity for our solutions in a sizeable market. A substantial proportion of the revenue related to this contract will be delivered in the second half of 2023.

“The Board's expectations remain unchanged for the full year, albeit, as previously stated, the trading performance will be significantly more weighted to the second half of the year than usual. In both the near and long term, we remain confident in our strategy, our high-quality operating model and the diversified strengths of our portfolio that leave us well positioned to deliver growth and value.”

First half financial performance

- First half revenue of \$224 million (first half 2022: \$280 million) was impacted by the industry-wide slowdown in customer spending.
- Operating profit was materially impacted by negative operating leverage which we expect to meaningfully reverse in the second half of 2023.
- Strong balance sheet facilitating enhanced shareholder returns; interim dividend of 2.76 cents per Ordinary Share (first half 2022: 2.63 cent per Ordinary Share) and £56 million Share Buyback Programme commenced in April with 15.6 million shares cancelled in the period.

Momentum returning through second quarter

- Some recovery in customer spending and in the second quarter following a slow start to the year. Order intake in the second quarter broadly similar to the same period last year.
- Orderbook increased 5 per cent since December 2022 to \$303 million. Book to bill for the period was 107.
- 5G again proved to be an enduring driver, with over 260 new contracts from more than 100 customers in the first half.
- A significant lab and test automation opportunity worth over \$15 million with a strategic customer segment new to Spirent, Financial Services.
- Secured several important wins for 5G Open Radio Access Networks (O-RAN) from leading and pioneering customers.
- Our Positioning business delivered good order growth in the first half, benefiting from the diversified end markets and growth drivers for this business, including government, automotive and space.
- High-speed 800G Ethernet sales were impacted by the recent COVID-19 lockdown in China and are now expected to recover in the second half.

Responding proactively to H1 market challenges

- Our new Lab-as-a-Service and Test-as-a-Service offerings aligned well with our customers' caution around capital investment and their focus on automation and efficiency.
- Supply chain lead times are improving and cost inflation being well managed. Gross margin held at 72 per cent.
- Disciplined approach to cost management with no increase in operating costs compared to the same period last year, despite the inflationary environment.

Current trading and outlook - positive momentum going into the second half

- Order intake momentum has not yet fed into revenue. The orderbook has, however, grown since the record year-end position of \$288 million to \$303 million, demonstrating the continual progress made by the Group as it seeks to improve market awareness and drive long-term, sustainable growth.
- Increasing signs of improvement in customer confidence, order growth, conversion rate and longer-term pipeline.
- We remain well placed to support our customers as they execute on their 5G roll out plans.
- The Board's expectations remain unchanged for the full year, albeit, the trading performance will be materially more weighted to the second half of the year than usual.

Notes

1. Orderbook is an alternative performance measure as defined in the appendix on page 34.
2. Book to bill is the ratio of orders to revenue recognised in the period.
3. Order intake represents commitments from customers in the period to purchase goods and/or services that will ultimately result in recognised revenue.
4. Adjusted operating profit is before acquired intangible asset amortisation, share-based payment and other adjusting items totalling \$10.0 million (first half 2022: \$8.9 million).
5. Before items set out in note 4.
6. Adjusted basic earnings per share is based on adjusted earnings as set out in note 6 of Notes to the half year condensed consolidated financial statements.
7. Dividends are determined in US Dollars and paid in Sterling at the exchange rate prevailing when the dividend is proposed. The interim dividend proposed for 2023 of 2.76 cents per Ordinary Share is equivalent to 2.14 pence per Ordinary Share (first half 2022: 2.16 pence).

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The Company will host an in-person results presentation for sell-side analysts today at 9.15am for 09.30am UK time at UBS Limited, 5 Broadgate, London EC2M 2QS. A simultaneous webcast of the presentation will be available on the Investors section of the Spirent Communications plc website <https://corporate.spirent.com/>.

About Spirent Communications plc

Spirent Communications plc (LSE: SPT) is the leading global provider of automated test and assurance solutions for networks, cybersecurity and positioning. The Company provides innovative products, services and managed solutions that address the test, assurance and automation challenges of a new generation of technologies, including 5G, SD-WAN, Cloud, autonomous vehicles and beyond. From the lab to the real world, Spirent helps companies deliver on their promise to their customers of a new generation of connected devices and technologies. Further information about Spirent Communications plc can be found at <https://corporate.spirent.com/>.

Spirent Communications plc Ordinary Shares are traded on the London Stock Exchange (ticker: SPT; LEI: 213800HKCUNWP1916L38). The Company operates a Level 1 American Depositary Receipt (ADR) programme with each ADR representing four Spirent Communications plc Ordinary Shares. The ADRs trade in the US over-the-counter (OTC) market under the symbol SPMYY and the CUSIP number is 84856M209. Spirent ADRs are quoted on the Pink OTC Markets electronic quotation service which can be found at <https://www.otcm Markets.com/marketplaces/otc-pink>.

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Cautionary statement regarding forward-looking statements

This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.

Chief Executive Officer review

Despite the concerns about the global economy impacting all participants across our industry in recent months and after customer-spending delays in the fourth quarter 2022 and first quarter 2023, we have shown progress across a number of areas of our business and have carefully balanced cost control and ongoing investment.

We saw some trading recovery in the second quarter 2023. It is our expectation that this will continue into the second half. We are seeing increased customer engagement and opportunity pipeline growth with our orderbook higher than it has ever been giving us confidence in the full year and remain confident in the medium-longer term.

Long-term momentum

Our market drivers present exciting opportunities to deliver long-term growth and value for our shareholders. Our market drivers include 5G, work from anywhere, automation, O-RAN, and location awareness. We continue to diversify and broaden our customer base and position the business to address problems for a larger set of customers, including in verticals new to Spirent.

We are confident that our strategy will deliver long-term growth and we are improving momentum in the business.

Overall, we have seen growing momentum across the business. Our Lifecycle Service Assurance (LSA) business is recovering from a challenging period which commenced in the latter part of 2022 and continued into the beginning of this financial year driven by macroeconomic pressures on our customers who have been reassessing the timing of their investment plans. Despite that, during the period, we had some great wins in both our lab and live portfolios. Our leading O-RAN testing solution is presenting exciting opportunities for growth in both our products and services offerings across the globe.

Our high-speed Ethernet testing business experienced a slower start in China due to COVID-19 lockdowns, only released in 2023. Our Positioning business is in good shape with some new growth prospects as well. The end markets for Positioning extend beyond the telco environment and is pushing the business forward in a healthy way. Our Services business is benefiting from current macroeconomic conditions as certain customers are delaying capital purchases and focusing on efficiency and automation. Our Test-as-a-Service and Lab-as-a-Service offerings enable differentiated ways for customers to test and secure their networks.

Our strategy to drive sustainable, profitable growth

Our strategy is focused around three core pillars:

1. Customer Centricity

Our focus on customer centricity means we put the customer first, and our deep understanding of, and relationships with, our customers have proven to be very valuable. To deepen our customer relationships further, we continue to invest in and upskill our world-class sales team. Our focus on ROI-based sales propositions is resulting in larger deal sizes and more strategic partnership with our customers across the lifecycle.

2. Innovation for Growth

Innovation is vital to our market leadership. We continue to invest in R&D across the business, developing new, easy-to-use solutions to the business problems of today and tomorrow. Our automation and O-RAN solutions are solving big, strategic issues for our customers. We have maintained our leadership in 800G high-speed Ethernet test and launched our new high-density 400G Ethernet test. As our customers prepare for the next generation of Wi-Fi, we are working closely with them and investing in Wi-Fi-7 testing solutions to strengthen our market leadership. We are working with the 5G Open Innovation Lab to showcase new testing solutions for private mobile networks.

A major significant lab and test automation proposition in the Financial Services segment is a proof point for the opportunity this segment presents, where inefficient, fragmented and expensive testing strategies can result in regulatory compliance and network outage challenges. Utilising Spirent's automated lab management and continuous testing solution, we anticipate this project will result in very significant efficiency gains, cost savings and improved outcomes for the customer, and will serve as a strategic beachhead for significant additional Spirent opportunities in this vertical.

3. Operational Excellence

Spirent's operational excellence has been vital to our resilience. We continue to diligently navigate global external challenges. Our superior supply chain management has enabled us to continue to deliver for our customers while managing component shortages and extended lead times. We continued strong cost discipline into the first half of the year which resulted in cost inflation being carefully managed and operating costs remaining broadly level mainly resulting from actions we took in 2022 to successfully transfer some R&D activities to lower cost regions such as India and Romania together with some headcount reductions across the organisation at the beginning of the financial year. We are also undertaking a review of current office space across the business to ensure that it is effectively utilised following increased remote working practices.

FuturePositive

Sustainability is a key priority for Spirent and is fundamental to our operational excellence and the overall success of our business. FuturePositive, our sustainability programme, made great progress over the first half of the year. Our solutions help our customers to deliver a sustainable future for us all and we are committed to operating with integrity. For us, this means acting on energy efficiency and climate change, promoting diversity, investing in people, and prioritising sustainability in our product design, operations and supply chain.

Business review

While we remain confident that our strategy is on track to yield sustainable, profitable growth in the medium to long term, we were not immune to the impacts of the global macroeconomic environment in the first half of 2023. As previously communicated, in the first half our revenues were adversely impacted as many of our customers and markets displayed caution in their investment decisions, including slower than expected deployments of 5G Standalone (with a 5G core network), and a slow start to the year in China as it recently emerged from COVID-19 lockdowns.

- Our live network portfolio continued to see good engagements for its VisionWorks service assurance solution with North American Tier 1 operators.
- We benefited from increasing momentum and innovation around O-RAN, closing important product and services deals with leading players in an increasingly diverse ecosystem.
- Our customers' focus on efficiency and automation provided new, diverse opportunities for our Lab-as-a-Service and Test-as-a-Service offerings.
- Our services and managed solutions business continued to enable us to win multiple 5G-related deals and extended our footprint into new geographies and verticals.
- We saw a robust performance from our Positioning business on the back of success with government, hyperscaler, chipset, automotive and space customers.
- We maintained our 800G high-speed Ethernet testing leadership, while drivers for 100G and 400G speeds strengthened due to relentless data traffic and cloud growth.
- We collaborated with the 5G Open Innovation Lab and other ecosystem partners to showcase a leading-edge enterprise Private Mobile Network solution.
- We continued to align the capabilities of our sales organisation with our strategic growth objectives and customer priorities, including a stronger focus on ROI-based sales propositions. We also further enhanced our strategic partnership capacity with global system integrators.

Lifecycle Service Assurance – A soft start but with diversifying opportunities in O-RAN and services

\$ million	First half 2023	First half 2022
Revenue	95.6	125.6
Adjusted operating (loss)/profit ¹	(1.8)	21.3

Note

1. Before other adjusting items of \$1.6 million charged in the first half of 2023 (first half 2022: \$0.1 million).

Performance

Lifecycle Service Assurance revenue reduced by \$30.0 million or 23.9 per cent over the first half of 2022 due to order delays by our service provider and NEM customers in the current macroeconomic environment, slower than expected deployment of 5G Standalone. Despite robust and effective cost management, adjusted operating profit declined as a result of negative operational leverage.

We benefited from increasing momentum and innovation around 5G O-RAN, closing strategically important product and services deals with leading players such as NTT DoCoMo. We are growing our pipeline of O-RAN opportunities, partnering with Anritsu and National Instruments to further strengthen our test and validation capabilities in this area. We saw continuing good engagement for our VisionWorks live network assurance offering at top-tier network operators in North America and added an additional top-tier operator to our network benchmarking customer base. In addition to the

Financial Services lab and test automation opportunity referenced above, our Test-as-a-Service and Lab-as-a-Service offerings aligned well with our customers' focus on automation and efficiency.

Moving forward we see opportunities for more services-led deals in the EMEA region, as well as in new buying centres and verticals, such as Financial Services. We have strong engagement with our Wi-Fi customers around new Wi-Fi 7 technology, while the widespread deployment of fixed-wireless access represents an emerging 5G opportunity. We are also increasing our focus on strategic partnerships with select global system integrators that play a leadership role in 5G and digital transformation projects for telecoms and enterprise.

Networks & Security – Robust Positioning business and high-speed Ethernet test leadership

\$ million	First half 2023	First half 2022
Revenue	128.3	154.5
Adjusted operating profit ¹	17.2	32.0

Note

1. Before other adjusting items of \$3.1 million charged in the first half of 2023 (first half 2022: \$0.6 million).

Performance

Networks & Security revenue declined \$26.2 million or 17.0 per cent over the first half of 2022, mainly due to delays to spending by network operator and network equipment manufacturer customers of our high-speed Ethernet and security test portfolio in the current macroeconomic environment, as well as initial softness in China as it emerged from COVID-19 lockdowns. Despite effective cost management and the robust performance of our Positioning business, adjusted operating profit decreased by \$14.8 million as a result of the lower revenue, with the adjusted operating margin down 7.3 percentage points to 13.4 per cent.

Notwithstanding the overall market caution, we maintained our 800G high-speed Ethernet test leadership with strategic wins at leading chipset vendors and hyperscalers, along with multiple public interoperability demonstrations and awards. We also saw good engagement, trials and significant initial deals at top-tier service providers and network equipment manufacturers for the new security testing platform we introduced in 2022, along with new security and cloud validation services engagements for 5G networks and services.

Our Positioning business saw good growth in orders in its government and hyperscaler markets, as well as with leading chipset and automotive players. The business also broadened its footprint in commercial space applications, benefiting from investments in low earth orbit (LEO) satellite constellations that will enable next-generation Positioning, Navigation and Timing (PNT) systems to provide enhanced availability, accuracy and robustness.

Financial review

Group financial performance

We are focused on delivery of sustainable profitable growth as we move from lab to live network assurance alongside our managed solutions and services contracts. We are diversifying our customer base into new verticals to deliver good growth through new customer segments and continue to embed ourselves within our customers' live networks in order to create opportunities for larger, longer-term, multi-year contracts.

Following a slow start in the first quarter, we saw recovery in customer spending and order intake in the second quarter. Overall, the financial performance in the first half of 2023 was down with a fall of order intake of 19 per cent per cent and a reduction of revenue of 20 per cent, both against a strong 2022 comparator. However, book to bill of 107 reflects a strong growth in our now record orderbook, positioning us well as we enter the second half of the year.

Effective supply chain management and robust customer pricing meant gross margin was maintained at 72 per cent.

A disciplined approach to cost management continued and costs in the first half of 2023 of \$149.4 million compared favourably to the same period a year ago of \$152.6 million. Negative operating leverage therefore impacted adjusted operating profit which fell to \$11.6 million in first half of 2023 (first half 2022: \$49.0 million).

Reported operating profit was \$1.6 million in the first half of 2023 (first half 2022: \$40.1 million), after charging adjusting items of \$10.0 million as detailed on page 16 (first half 2022: \$8.9 million).

The effective tax rate increased slightly from 14.0 per cent to 14.7 per cent mainly driven by the mix of profit generation by region.

Adjusted basic earnings per share decreased by 69.9 per cent to 2.10 cents. Reported basic earnings per share was down by 84.7 per cent from 5.70 cents to 0.87 cents.

Cash closed at \$148.2 million on 30 June 2023 (first half 2022: \$188.8 million), following payment of the ordinary dividend of \$31.1 million and repurchase of shares through a Share Buyback Programme of \$35.3 million.

On 3 April 2023, the Company commenced a Share Buyback Programme of up to £56 million. The first tranche of £28 million was completed on 22 June 2023 with UBS AG. 15.6 million Ordinary Shares were purchased at a weighted average price per share of 180 pence. These 15.6 million shares, representing circa 2.5 per cent of the Company's issued share capital, have been cancelled. In respect of the second tranche, the Company entered into a non-discretionary agreement with Jefferies, to conduct the purchases of Ordinary Shares for an aggregate consideration of £28 million. This second tranche of the Programme began on 3 July 2023 and is to end no later than 3 November 2023.

The following table shows the summary financial performance for the Group:

\$ million	First half 2023	First half 2022	Change (%)
Orderbook ¹	303.4	283.6	+7
Book to bill ²	107	105	+2
Order intake ³	239.4	295.5	-19
Revenue	223.9	280.1	-20
Gross profit	161.0	201.6	-20
Gross margin (%)	71.9	72.0	-
Adjusted operating costs ⁴	149.4	152.6	+2
Adjusted operating profit ⁴	11.6	49.0	-76
Reported operating profit	1.6	40.1	-96
Reported profit before tax	4.8	40.3	-88
Effective tax rate ⁵ (%)	14.7	14.0	+1pp
Adjusted basic earnings per share ⁶ (cents)	2.10	6.97	-70
Reported basic earnings per share (cents)	0.87	5.70	-85
Closing cash	148.2	188.8	-22
Interim dividend per share ⁷ (cents)	2.76	2.63	+5

Notes

- Orderbook is an alternative performance measure as defined in the appendix on page 34.
- Book to bill is the ratio of orders to revenue recognised in the period.
- Order intake represents commitments from customers in the period to purchase goods and/or services that will ultimately result in recognised revenue.
- Before acquired intangible asset amortisation, share-based payment and other adjusting items totalling \$10.0 million (first half 2022: \$8.9 million).
- Effective tax rate is the adjusted tax charge, before tax on adjusting items, expressed as a percentage of adjusted profit before tax.
- Adjusted basic earnings per share is based on adjusted earnings as set out in note 6 of Notes to the half year condensed consolidated financial statements.
- Dividends are determined in US Dollars and paid in Sterling at the exchange rate prevailing when the dividend is proposed. The interim dividend proposed for 2023 of 2.76 cents per Ordinary Share is equivalent to 2.14 pence per Ordinary Share (first half 2022: 2.16 pence).

Note on Alternative Performance Measures (APM)

The performance of the Group is assessed using a variety of performance measures, including APMs which are presented to provide users with additional financial information that is regularly reviewed by management. These APMs are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

The APMs adopted by the Group are defined in the appendix. The APMs which relate to adjusted income statement lines are presented and reconciled to GAAP measures using a columnar approach on the face of the income statement and can be identified by the prefix 'adjusted' in the commentary. All APMs are clearly identified as such, with explanatory footnotes to the tables of financial information provided, and reconciled to reported GAAP measures in the Financial Review or Notes to the consolidated financial statements. The reported GAAP measures give the complete measure of financial performance.

Revenue

\$ million	First half 2023	%	First half 2022	%
Revenue by segment				
Lifecycle Service Assurance	95.6	42.7	125.6	44.8
Networks & Security	128.3	57.3	154.5	55.2
	223.9	100.0	280.1	100.0
Revenue by geography				
Americas	126.4	56.5	151.0	53.9
Asia Pacific	74.2	33.1	99.7	35.6
Europe, Middle East and Africa	23.3	10.4	29.4	10.5
	223.9	100.0	280.1	100.0

Overall Group revenue reduced by 20 per cent, with Lifecycle Service Assurance and Networks & Security down 24 per cent and 17 per cent, respectively, compared to the same period last year.

Lifecycle Service Assurance revenue was adversely impacted in the first half of 2023 due to customer spending delays which commenced in the last quarter of 2022 and continued into the beginning of this financial year. However we began to see increased engagement from our customers around 5G lab and live network test and assurance as the second quarter progressed. There were several contract wins within the developing technology of O-RAN leading to a growing opportunity pipeline. Whilst Networks & Security was impacted by a slowing of demand in high-speed Ethernet, partly due to delayed orders from China following recent COVID-19 lockdowns, there were strategic 800G wins with leading chipset vendors and hyperscalers. There was also a positive order intake during the period for our Positioning products with both governmental and commercial customers.

Revenue was down across all regions but as a percentage of total revenue the regional split was similar to the same period last year. We continue to secure many large contract wins in all regions and multi-year support contracts driven by continued investment in 5G.

Gross margin

\$ million	First half 2023	%	First half 2022	%
Lifecycle Service Assurance	69.5	72.7	92.9	74.0
Networks & Security	91.5	71.3	108.7	70.4
	161.0	71.9	201.6	72.0

Gross profit reduced to \$161.0 million although with continued effective management of supply chain cost increases, the gross margin was maintained at 72 per cent.

Operating costs

\$ million	First half Adjusted ¹ 2023	First half reported 2023	First half Adjusted ¹ 2022	First half reported 2022
Product development	53.2	53.2	57.2	57.2
Selling and marketing	67.7	67.7	67.1	67.1
Administration	28.5	38.5	28.3	37.2
Operating costs	149.4	159.4	152.6	161.5
Lifecycle Service Assurance	71.3	72.9	71.6	71.7
Networks & Security	74.3	77.4	76.7	77.3
Corporate	3.8	9.1	4.3	12.5
Operating costs	149.4	159.4	152.6	161.5

Note

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items totalling \$10.0 million (first half 2022: \$8.9 million).

We continued to exercise strong financial management of our cost base with a disciplined approach to our investment spend and ensuring we maintain our leading-edge technical solutions. Adjusted operating costs in the first half of 2023 decreased by \$3.2 million compared to the same period last year. R&D costs benefited from the transfer of some activities to lower cost regions which was successfully implemented part way through 2022. At the beginning of 2023 we also reduced headcount across all areas of the business.

We have enhanced our family friendly benefits and worked to support the welfare of our employees, resulting in a higher than industry average employee retention rate.

Operating profit

\$ million	First half 2023	Adjusted operating Margin ^{1,2} (%)	First half 2022	Adjusted operating Margin ^{1,2} (%)
Lifecycle Service Assurance	(1.8)	(1.9)	21.3	17.0
Networks & Security	17.2	13.4	32.0	20.7
Corporate	(3.8)		(4.3)	
Adjusted operating profit¹	11.6	5.2	49.0	17.5
Adjusting items:				
Acquired intangible asset amortisation	(2.4)		(2.4)	
Share-based payment	(3.0)		(4.1)	
Other adjusting items	(4.6)		(2.4)	
Reported operating profit	1.6		40.1	

Notes

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items totalling \$10.0 million (first half 2022: \$8.9 million).
2. Adjusted operating profit as a percentage of revenue in the period.

Adjusted operating profit was \$11.6 million (first half 2022: \$49.0 million) impacted by reduced revenue and negative operating leverage.

Other items charged in arriving at operating profit of \$10.0 million (first half 2022: \$8.9 million) includes share-based payment expense of \$3.0 million (first half 2022: \$4.1 million), acquired intangible asset amortisation \$2.4 million (first half 2022: \$2.4 million), \$0.4 million R&D engineering plan (first half 2022: \$0.6 million), \$4.2 million (first half 2022: \$nil) for further rationalisation of the business as part of a Strategic Review. This will not only deliver efficiencies across the business but will also provide annualised savings driven by reduction of headcount. (first half 2022 also included \$1.8 million acquisition related costs).

Reported operating profit for the first half of 2023 was \$1.6 million (first half 2022: \$40.1 million) .

Currency impact

The Group's revenue and costs are primarily denominated in US Dollars or US Dollar-linked currencies. Currency exposures arise from trading transactions undertaken by the Group in foreign currencies and on the retranslation of the operating results and net assets of overseas subsidiaries.

In the first half, the Group's income statement included a foreign exchange loss of \$0.3 million arising from transactional exposure, reflected in administration costs, compared to a \$0.1 million loss over the same period in 2022.

Finance income and costs

Finance income in the first half of 2023 comprised bank interest received of \$3.2 million (first half 2022: \$0.3 million) and \$0.4 million (first half 2022: \$0.4 million) of interest income in relation to the UK defined benefit pension plans.

Finance costs in the first half were \$0.4 million (first half 2022: \$0.5 million), being interest on lease liabilities.

Tax

The reported tax credit for the Group for the first half of 2023 was \$0.4 million (first half 2022: tax charge \$5.7 million). The adjusted tax charge, excluding the tax credit on the adjusting items of \$2.6 million, was \$2.2 million (first half 2022: \$6.9 million), resulting in an effective tax rate of 14.7 per cent of adjusted pre-tax profit. This compared with an effective tax rate of 14.0 per cent for the first half of 2022. As expected, for the full year 2023 the effective tax rate will be in the region of 14-15 per cent.

Earnings per share

Adjusted basic earnings per share fell 69.9 per cent to 2.10 cents, reflecting the trading performance in the first half of 2023. There were 598.7 million weighted average shares in issue (first half 2022: 607.0 million). Reported basic earnings per share was 0.87 cents compared with 5.70 cents for the first half of 2022. See note 6 of Notes to the half year condensed consolidated financial statements on page 27 for the calculation of earnings per share.

Financing and cash flow

Cash flow from operations decreased by \$51.2 million to \$16.2 million in the first half of 2023 compared to the first half of 2022, driven by the lower profit during the period. Cash flow from operations is detailed in note 9 (page 30). An explanation on free cash flow as an alternative performance measure can be found on page 35.

Free cash flow is set out below:

\$ million	First half 2023	First half 2022
Cash flow from operations	16.2	67.4
Tax paid	(8.3)	(14.1)
Net cash inflow from operating activities	7.9	53.3
Interest received	3.6	0.2
Net capital expenditure	(3.3)	(4.1)
Payment of lease liabilities, principal and interest	(4.4)	(4.8)
Lease payments received from finance leases	0.3	0.3
Acquisition related other adjusting items (<i>note 4</i>):		
– Direct acquisition transaction costs	-	0.6
– Acquisition related performance payments	-	1.1
– Acquisition integration costs	-	0.1
Free cash flow	4.1	46.7

Net capital expenditure of \$3.3 million was lower than over the same period last year and was predominantly incurred on demonstration and test equipment.

In the first half of 2023, the final dividend for 2022 of \$31.1 million (final dividend 2021: \$25.0 million) was paid along with a repurchase of shares under the Share Buyback Programme of \$35.3 million. No shares were purchased or placed into the Employee Share Ownership Trust (ESOT) (first half 2022: 0.6 million shares at a cost of \$1.6 million).

On 3 April 2023, the Company commenced a Share Buyback Programme of up to £56 million. The first tranche of \$35.3 million was completed on 22 June 2023. The second tranche began the repurchase of shares on 3 July 2023 and is to end no later than 3 November 2023. A liability of \$35.6 million in respect of tranche 2 has been recorded in other financial liabilities (page 18).

Following these payments, cash and cash equivalents closed at \$148.2 million at 30 June 2023, compared with \$209.6 million at 31 December 2022. There continues to be no bank debt.

Defined benefit pension plans

The Group operates two funded defined benefit pension plans in the United Kingdom which are closed to new entrants.

In order to protect the balance sheet from further risk of market movements affecting the valuation of pension liabilities, in October 2022, the Trustees with the Company's support, purchased a bulk annuity insurance policy from specialist UK insurer Pension Insurance Corporation (PIC), in respect of the largest plan, the Staff Plan. The premium was met from the plan's assets and sufficient assets remain to meet the plan's ongoing costs. This pension buy-in secures an insurance asset from PIC that matches the remaining pension liabilities of the Staff Plan, such that the Company no longer bears any investment, inflation, longevity or other demographic risks.

Following the purchase of the bulk annuity insurance policy, the Group does not expect to make any further cash contributions to this plan.

The accounting valuation of the funded defined benefit pension plans at 30 June 2023 was a net surplus of \$9.2 million (31 December 2022: net surplus of \$8.0 million). Note 8 page 28.

There is also a liability for an unfunded plan in the UK of \$0.5 million (31 December 2022: \$0.5 million).

The Group operates an unfunded deferred compensation plan for employees in the United States. At 30 June 2023, the deficit on this deferred compensation plan amounted to \$7.8 million (31 December 2022: \$6.9 million).

Balance sheet and dividend

The consolidated balance sheet is set out on page 18.

Net assets decreased by \$93.7 million to \$371.5 million at 30 June 2023, from \$465.2 million at 31 December 2022, largely as a result of the operating performance in the period, payment of the final dividend and the repurchase of shares through the Share Buyback Programme.

Inventories increased by \$2.0 million in the first half of 2023 (first half 2022: increased by \$13.6 million) to \$41.8 million (30 June 2022: \$39.6 million) driven by the business need to hold higher levels of materials in order to navigate supply chain challenges and fulfil customer demand. Current trade and other receivables at 30 June 2023 have decreased by \$45.9 million to \$114.9 million from \$160.8 million at 31 December 2022 as customer invoices from the year end have been collected during the period.

Current trade and other payables have decreased by \$44.5 million at 30 June 2023 to \$50.3 million (31 December 2022: \$94.8 million).

Other financial liabilities of \$35.6 million represents tranche 2 of the Share Buyback programme and includes an amount of £28 million for the acquisition of Ordinary Shares plus stamp duty at 0.5 per cent and legal fees. The respective asset sits within Equity.

The Board currently intends to maintain a cash positive balance sheet over the medium to long-term. This should allow the Company to maintain a strong capital position in the face of business risks, trading fluctuations and working capital demands. In addition, the Board wishes to maintain flexibility to invest in the business organically and inorganically. Where appropriate, the Company may take on gearing to fund inorganic investments.

The Board continues to regularly review the Company's balance sheet in light of current and expected trading performance and cash generation, working capital requirements and expected investments, and principal risks and uncertainties. To the extent the Company has excess cash, it will consider returning such cash to shareholders. The Board will consider from time to time the appropriate mechanism for returning surplus cash to shareholders.

The Board has declared an interim dividend of 2.76 cents per Ordinary Share, a 5 per cent increase over the dividend declared for the first half 2022 of 2.63 cents, reflecting the Board's confidence in the medium term. This is equivalent to 2.14 pence per Ordinary Share at an exchange rate of \$1.29:£1 (first half 2022: 2.16 pence). The payment will be approximately \$16.5 million. The dividend will be paid to Ordinary shareholders on 15 September 2023 and to ADR holders on 22 September 2023. The dividend is payable to all shareholders on the Register of Members at the close of business on 11 August 2023.

The Board is continuing to pursue a progressive dividend policy targeting cover of 2 to 2.5 times adjusted earnings.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group for the remainder of the year are unchanged from those reported in the 2022 Annual Report. The uncertainties arising from the macroeconomic backdrop and inflationary pressures are covered by existing risks and these continue to be closely monitored.

The Group's principal risks and uncertainties at 31 December 2022 were detailed on pages 55 to 60 of the Annual Report 2022 and related to the following areas: macroeconomic change; technology change; business continuity; customer dependence/customer investment plans; competition, acquisitions; and employee skill base. A copy of the Annual Report 2022 is available on the Company's website at <https://corporate.spirent.com/>

Condensed consolidated income statement

\$ million	Notes	First half 2023			First half 2022		
		Adjusted	Adjusting items ¹	Reported	Adjusted	Adjusting items ¹	Reported
Revenue	3	223.9	-	223.9	280.1	-	280.1
Cost of sales		(62.9)	-	(62.9)	(78.5)	-	(78.5)
Gross profit		161.0	-	161.0	201.6	-	201.6
Product development	3	(53.2)	-	(53.2)	(57.2)	-	(57.2)
Selling and marketing		(67.7)	-	(67.7)	(67.1)	-	(67.1)
Administration		(28.5)	(10.0)	(38.5)	(28.3)	(8.9)	(37.2)
Operating profit		11.6	(10.0)	1.6	49.0	(8.9)	40.1
Adjusting items:							
Acquired intangible asset amortisation		-	(2.4)	(2.4)	-	(2.4)	(2.4)
Share-based payment		-	(3.0)	(3.0)	-	(4.1)	(4.1)
Other adjusting items	4	-	(4.6)	(4.6)	-	(2.4)	(2.4)
Adjusting items		-	(10.0)	(10.0)	-	(8.9)	(8.9)
Finance income		3.6	-	3.6	0.7	-	0.7
Finance costs		(0.4)	-	(0.4)	(0.5)	-	(0.5)
Profit before tax		14.8	(10.0)	4.8	49.2	(8.9)	40.3
Tax	5	(2.2)	2.6	0.4	(6.9)	1.2	(5.7)
Profit for the period attributable to owners of the parent Company		12.6	(7.4)	5.2	42.3	(7.7)	34.6
Earnings per share (cents)	6						
Basic		2.10		0.87	6.97		5.70
Diluted		2.10		0.87	6.90		5.65

Note

1. Adjusting items comprise amortisation of acquired intangible assets, share-based payment, other adjusting items and tax on adjusting items.

The performance of the Group is assessed using a variety of non-GAAP alternative performance measures which are presented to provide additional financial information that is regularly reviewed by management. Adjusting items are identified and excluded by virtue of their size, nature or incidence as they do not reflect management's evaluation of the underlying trading performance of the Group. The alternative performance measures are presented in the appendix. The reported GAAP measures give the complete measure of financial performance.

Condensed consolidated statement of comprehensive income

\$ million	Note	First half 2023	First half 2022
Profit for the period attributable to owners of the parent Company		5.2	34.6
Other comprehensive income/(loss)			
Items that may subsequently be reclassified to profit or loss:			
– Exchange differences on retranslation of foreign operations		2.5	(8.1)
– Re-measurement of the net defined benefit pension asset	8	(0.3)	-
		2.2	(8.1)
Items that will not subsequently be reclassified to profit or loss:			
– Re-measurement of the net defined benefit pension asset	8	(0.4)	4.7
– Income tax effect of re-measurement of the net defined benefit pension asset		-	(1.3)
		(0.4)	3.4
Other comprehensive income/(loss)		1.8	(4.7)
Total comprehensive income for the period attributable to owners of the parent Company		7.0	29.9

Condensed consolidated balance sheet

\$ million	Note	30 June 2023	30 June 2022	Audited 31 December 2022
Assets				
Non-current assets				
Intangible assets		199.9	205.2	202.0
Property, plant and equipment		18.6	21.8	20.6
Right-of-use assets		19.4	22.2	19.5
Trade and other receivables		6.5	6.4	6.7
Assets recognised from costs to obtain a contract		0.3	0.5	0.5
Defined benefit pension plan surplus	8	10.0	39.7	9.7
Deferred tax asset		37.0	24.4	32.8
		291.7	320.2	291.8
Current assets				
Inventories		41.8	39.6	39.8
Trade and other receivables		114.9	127.5	160.8
Assets recognised from costs to obtain a contract		0.9	0.7	0.9
Current tax asset		2.5	4.0	2.4
Cash and cash equivalents		148.2	188.8	209.6
		308.3	360.6	413.5
Total assets		600.0	680.8	705.3
Liabilities				
Current liabilities				
Trade and other payables		(50.3)	(73.8)	(94.8)
Contract liabilities		(84.7)	(76.2)	(75.5)
Lease liabilities		(6.7)	(8.2)	(7.1)
Other financial liabilities		(35.6)	-	(0.1)
Current tax liability		(3.7)	(2.3)	(7.2)
Provisions		(5.9)	(4.2)	(5.7)
		(186.9)	(164.7)	(190.4)
Non-current liabilities				
Trade and other payables		(0.2)	(0.5)	(0.2)
Contract liabilities		(14.6)	(24.3)	(22.7)
Lease liabilities		(15.0)	(17.3)	(15.0)
Deferred tax liability		-	(9.0)	-
Defined benefit pension plan deficit	8	(9.1)	(7.1)	(9.1)
Provisions		(2.7)	(3.3)	(2.7)
		(41.6)	(61.5)	(49.7)
Total liabilities		(228.5)	(226.2)	(240.1)
Net assets		371.5	454.6	465.2
Capital and reserves				
Share capital		25.1	24.7	24.7
Share premium account		25.6	24.5	24.4
Capital redemption reserve		17.3	16.0	16.0
Other reserves		18.0	20.8	20.9
Translation reserve		5.1	2.7	2.6
Retained earnings		280.4	365.9	376.6
Total equity attributable to owners of the parent Company		371.5	454.6	465.2

Condensed consolidated statement of changes in equity

\$ million	Notes	Attributable to the equity holders of the parent Company						Total equity
		Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	
At 1 January 2022 (audited)		27.5	27.2	17.8	13.5	10.8	350.7	447.5
Profit for the period		-	-	-	-	-	34.6	34.6
Other comprehensive income		-	-	-	-	(8.1)	3.4	(4.7)
Total comprehensive income		-	-	-	-	(8.1)	38.0	29.9
Share-based payment ¹		-	-	-	-	-	4.2	4.2
Tax credit on share incentives		-	-	-	-	-	(0.4)	(0.4)
Equity dividends	7	-	-	-	-	-	(25.0)	(25.0)
Employee Share Ownership Trust	11	-	-	-	-	-	(1.6)	(1.6)
Exchange adjustment		(2.8)	(2.7)	(1.8)	7.3	-	-	-
At 30 June 2022		24.7	24.5	16.0	20.8	2.7	365.9	454.6
At 1 January 2023 (audited)		24.7	24.4	16.0	20.9	2.6	376.6	465.2
Profit for the period		-	-	-	-	-	5.2	5.2
Other comprehensive income		-	-	-	-	2.5	(0.7)	1.6
Total comprehensive income		-	-	-	-	2.5	4.5	7.0
Share-based payment ¹		-	-	-	-	-	2.3	2.3
Tax charge on share incentives		-	-	-	-	-	(1.0)	(1.0)
Equity dividends	7	-	-	-	-	-	(31.1)	(31.1)
Share repurchase ²		(0.7)	-	0.7	-	-	(70.9)	(70.9)
Exchange adjustment		1.1	1.2	0.6	(2.9)	-	-	-
At 30 June 2023		25.1	25.6	17.3	18.0	5.1	280.4	371.5

Notes

1. There were no costs in administration expenses in the income statement in respect of deferred shares for Executive Directors' Annual Incentive (first half 2022: \$0.2 million).
2. Share Buyback Programme reflects transactional costs of Tranche 1 (\$35.3 million) plus liability for Tranche 2 of \$35.6 million inclusive of 0.5 per cent stamp duty and legal fees.

Condensed consolidated cash flow statement

\$ million	Notes	First half 2023	First half 2022
Cash flows from operating activities			
Cash flow from operations	9	16.2	67.4
Tax paid		(8.3)	(14.1)
Net cash inflow from operating activities		7.9	53.3
Cash flows from investing activities			
Interest received		3.6	0.2
Purchase of property, plant and equipment		(3.6)	(4.3)
Proceeds from sale of property, plant and equipment		0.3	0.2
Lease payments received from finance leases		0.3	0.3
Net cash generated / (used) in investing activities		0.6	(3.6)
Cash flows from financing activities			
Lease liability principal repayments		(4.0)	(4.3)
Lease liability interest paid		(0.4)	(0.5)
Dividend paid	7	(31.1)	(25.0)
Share purchase into Employee Share Ownership Trust	11	-	(1.6)
Share repurchase		(35.3)	-
Net cash used in financing activities		(70.8)	(31.4)
Net (decrease)/increase in cash and cash equivalents		(62.3)	18.3
Cash and cash equivalents at the beginning of the period		209.6	174.8
Effect of foreign exchange rate changes		0.9	(4.3)
Cash and cash equivalents at the end of the period		148.2	188.8

Notes to the half year condensed consolidated financial statements

1 General information

The half year condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. The statutory accounts for the year ended 31 December 2022 were approved by the Board of Directors on 7 March 2023 and have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The half year condensed consolidated financial statements have been reviewed, not audited, by the Group's auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information. A copy of their review report is included at the end of this report.

The half year condensed consolidated financial statements for the period ended 30 June 2023 were approved by the Directors on 2 August 2023.

2 Accounting policies

The accounting policies adopted and methods of computation used are consistent with those applied in the consolidated financial statements for the year ended 31 December 2022. The annual financial statements of the Group are prepared in accordance with United Kingdom adopted International Financial Reporting Standards (IFRS).

Basis of preparation

The half year condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board and endorsed by and adopted for use in the United Kingdom. This condensed set of half year financial statements has also been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

Share Buyback Programme

On 3 April 2023, the Company commenced a Share Buyback Programme of up to £56 million. The first tranche of £28 million was completed on 22 June 2023 with 15.6 million Ordinary Shares being purchased and then subsequently cancelled through the Capital Redemption Reserve. The total value of Tranche 1 including stamp duty and legal fees was \$35.3m. This second tranche of the Programme began on 3 July 2023 and is to end no later than 3 November 2023. The total value of Tranche 2 including stamp duty and legal fees has been calculated as \$35.6 million. The total value of the Share Buyback Programme (Tranche 1 and 2), has been recorded in equity. A liability has been recorded on the balance sheet under 'Other Financial Liabilities' for \$35.6m representing the expected cost of Tranche 2. Commission of \$0.1 million was received in relation to Tranche 1 and was recorded in Administration Expenses in the income statement.

Critical accounting estimates and judgements

The preparation of the half year condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half year condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

The Group is required to perform an impairment review on goodwill annually and where there are indicators of impairment. The Group has an annual impairment testing date of 30 November. At 30 June 2023, management have reviewed goodwill for indicators of impairment and have considered the trading performance, the Group's principal risks and uncertainties and the other assumptions used in the value in use calculations. Management have also considered sensitivities in respect of potential downside scenarios. There are no indicators of impairment at any of the cash generating units.

2 Accounting policies continued

Going concern

In adopting the going concern basis for preparing the condensed consolidated financial statements, the Directors have considered the Group's principal risks and uncertainties as set out on page 15.

The Directors have also considered sensitivities in respect of potential downside scenarios, including stress testing the latest cash flow projections that cover a period of 12 months from the date of approval of these condensed consolidated financial statements. In these scenarios, the Group has more than sufficient headroom in its available resources.

At 30 June 2023, the Group had cash balances of \$148.2 million and external debt only in relation to its lease liabilities. The Group has \$35.6 million committed liabilities in respect of Tranche 2 of the Share Buyback Programme.

The Directors have reviewed the detailed financial projections for the period ending 31 December 2023, as well as the business plan and cash flows for the six months ending 30 June 2024. The Directors have also considered the period to the end of 2026 which forms part of the Group's longer term viability assessment. In addition, they have considered the principal risks faced by the Group, the sensitivity analysis and the Group's significant financial headroom and are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of approval of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the condensed consolidated financial statements.

New standards and interpretations

There have been no new standards or amendments to existing standards effective from 1 January 2023 that are applicable to the Group or that has had any material impact on the financial statements and related notes as at 30 June 2023.

The Directors do not anticipate that the adoption of any of the new standards and interpretations issued by the IASB and IFRIC with an effective date for the Group after the date of these interim financial statements will have a material impact on the Group's interim financial statements in the period of initial application.

3 Operating segments

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure.

The Group's reportable operating segments are Lifecycle Service Assurance and Networks & Security. The Group evaluates adjusted operating profit before acquired intangible asset amortisation, share-based payment and other adjusting items. Finance income and finance costs are not allocated to the reportable segments. Corporate is not an operating segment and costs are separately reported and not allocated to the reportable segments. Information on segment assets and segment liabilities is not regularly provided to the Group's Chief Executive Officer and is therefore not disclosed below. There is no aggregation of operating segments.

The Group disaggregates revenue from contracts with customers by nature of products and services and primary geographical markets, as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors.

3 Operating segments continued

\$ million	Lifecycle Service Assurance	Networks & Security	Corporate	Total
First half 2023				
Revenue				
Nature of products and services				
Sale of hardware and software	38.6	94.4	-	133.0
Maintenance and support services	57.0	33.9	-	90.9
	95.6	128.3	-	223.9
Primary geographical markets				
Americas	63.0	63.4	-	126.4
Asia Pacific	24.8	49.4	-	74.2
Europe, Middle East and Africa	7.8	15.5	-	23.3
	95.6	128.3	-	223.9
Profit before tax				
Adjusted operating (loss)/profit	(1.8)	17.2	(3.8)	11.6
Other adjusting items <i>note 4</i>	(1.6)	(3.1)	0.1	(4.6)
Total reportable segment (loss)/profit	(3.4)	14.1	(3.7)	7.0
Unallocated amounts:				
– Acquired intangible asset amortisation				(2.4)
– Share-based payment				(3.0)
Operating profit				1.6
Finance income				3.6
Finance costs				(0.4)
Profit before tax				4.8
Other information				
Product development	27.2	26.0	-	53.2
Intangible asset amortisation – other	0.1	-	-	0.1
Depreciation of property, plant and equipment	2.3	3.1	-	5.4
Depreciation of right-of-use assets	1.7	1.8	0.1	3.6

3 Operating segments continued

\$ million	Lifecycle Service Assurance	Networks & Security	Corporate	Total
First half 2022				
Revenue				
Nature of products and services				
Sale of hardware and software	68.0	122.1	-	190.1
Maintenance and support services	57.6	32.4	-	90.0
	125.6	154.5	-	280.1
Primary geographical markets				
Americas	83.2	67.8	-	151.0
Asia Pacific	29.5	70.2	-	99.7
Europe, Middle East and Africa	12.9	16.5	-	29.4
	125.6	154.5	-	280.1
Profit before tax				
Adjusted operating profit/(loss)	21.3	32.0	(4.3)	49.0
Other adjusting items <i>note 4</i>	(0.1)	(0.6)	(1.7)	(2.4)
Total reportable segment profit/(loss)	21.2	31.4	(6.0)	46.6
Unallocated amounts:				
– Acquired intangible asset amortisation				(2.4)
– Share-based payment				(4.1)
Operating profit				40.1
Finance income				0.7
Finance costs				(0.5)
Profit before tax				40.3
Other information				
Product development	27.9	29.3	-	57.2
Intangible asset amortisation – other	0.3	-	-	0.3
Depreciation of property, plant and equipment	2.4	3.1	0.1	5.6
Depreciation of right-of-use assets	1.7	1.9	0.2	3.8

Inter-segment revenue is eliminated in the above periods. All of the Group's revenue arose from contracts with customers.

Generally, revenue from the sale of hardware and software is recognised at a point in time and revenue from maintenance and support services is recognised over time.

Europe, Middle East and Africa includes United Kingdom revenue of \$3.8 million (first half 2022: \$8.0 million).

Americas includes United States revenue of \$116.0 million (first half 2022: \$144.6 million).

Asia Pacific includes China revenue of \$36.7 million (first half 2022: \$56.7 million).

Revenues are attributed to regions and countries based on customer location.

No one customer accounted for 10 per cent or more of total Group revenue in either the first half of 2023 or 2022.

The Group's activities are seasonal and are typically weighted towards the second half of the year.

4 Other adjusting items

\$ million	First half 2023	First half 2022
R&D engineering plan	0.4	0.6
Direct acquisition transaction costs	-	0.6
Acquisition related performance payments	-	1.1
Acquisition integration costs	-	0.1
Strategic evaluation	4.2	-
Total charge in the income statement	4.6	2.4

The global R&D engineering plan was implemented to rationalise the number of sites and extend the Group's flexibility to serve its global customers, incurring \$0.4 million of employee related costs (first half 2022: \$0.6 million).

There were no acquisition related performance payments incurred in relation to post acquisition integration of octoScope Inc (acquired March 2021) during the first half of 2023 (first half 2022: \$1.1 million and \$0.1 million, respectively). The acquisition related performance payments to key employees of the former octoScope business were contingent on meeting revenue growth targets for 2022 and a continuing employment requirement. No direct transaction related costs were incurred comprising advisor fees (first half 2022: \$0.6 million).

In 2022 the Group commenced a strategic evaluation consisting of a number of initiatives designed to reshape the business and maximise market opportunities by focusing on larger bundled solutions sales and service-led engagements that address our customers' most pressing business challenges. The \$4.2 million of costs were one-off in nature with \$1.9 million relating to the closure of the Berlin office in the EMEA region. The remainder relates to a reduction of headcount across the other regions.

The tax effect of other adjusting items is a credit of \$2.6 million (first half 2022: \$1.2 million credit). The total cash outflow in respect of other adjusting items charged in the first half of 2023 is anticipated to be \$4.6 million, \$3.7 million of which was paid in the period (first half 2022: \$2.4 million total cash outflow with \$0.1 million paid in the period). The cash outflow in the first half of 2023 in respect of other adjusting items charged in 2022 was \$1.2 million (first half 2022: \$0.8 million).

The total cash outflow in respect of other adjusting items is reported within cash flows from operating activities in the condensed consolidated cash flow statement.

5 Tax

\$ million	First half 2023	First half 2022
Current income tax		
UK tax	2.5	1.7
Foreign tax	2.5	10.5
Total current income tax charge	5.0	12.2
Deferred tax		
Recognition of deferred tax assets	-	(1.0)
Reversal of temporary differences	(5.4)	(5.5)
Total deferred tax	(5.4)	(6.5)
Tax (credit)/charge in the income statement	(0.4)	5.7

The effective tax rate for the first half of 2023 is 14.7 per cent (first half 2022: 14.0 per cent), being the current period tax charge, excluding tax on adjusting items, as a percentage of adjusted profit before tax.

6 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent Company by the weighted average number of Ordinary Shares outstanding during the period.

Diluted

Diluted earnings per share is calculated by dividing the profit for the period attributable to owners of the parent Company by the weighted average number of Ordinary Shares outstanding during the period plus the weighted average number of Ordinary Shares that would be issued on the conversion of all dilutive potential Ordinary Shares into Ordinary Shares.

\$ million	First half 2023	First half 2022
Profit for the period attributable to owners of the parent Company	5.2	34.6
<hr/>		
Number million		
Weighted average number of Ordinary Shares in issue – basic	598.7	607.0
Dilutive potential of employee share incentives	1.5	5.7
Weighted average number of Ordinary Shares in issue – diluted	600.2	612.7
<hr/>		
Cents		
Earnings per share		
Basic	0.87	5.70
Diluted	0.87	5.65

6 Earnings per share continued

Adjusted

The Group is disclosing adjusted earnings per share for continuing operations attributable to owners of the parent Company in order to provide a measure to enable period-on-period comparisons to be made of its performance. The following items are excluded from adjusted earnings:

- acquired intangible asset amortisation;
- share-based payment;
- other adjusting items; and
- tax effect on the above items

A reconciliation is provided below:

	First half 2023		First half 2022	
	\$ million	EPS cents	\$ million	EPS cents
Profit for the period attributable to owners of the parent Company	5.2	0.87	34.6	5.70
Acquired intangible asset amortisation	2.4		2.4	
Share-based payment	3.0		4.1	
Other adjusting items <i>note 4</i>	4.6		2.4	
Tax effect on the above items	(2.6)		(1.2)	
Adjusted basic	12.6	2.10	42.3	6.97
Adjusted diluted		2.10		6.90

7 Dividends paid and proposed

	First half 2023		First half 2022	
	Cents per Ordinary Share	\$ million	Cents per Ordinary Share	\$ million
Amounts recognised as distributions to equity in the period				
Final dividend paid for previous year	4.94	31.1	4.37	25.0
Amounts approved by the Directors (not recognised as a liability at the balance sheet date)				
	2.76	16.5	2.63	15.9

An interim dividend of 2.76 cents per Ordinary Share (2022: 2.63 cents per Ordinary Share) was declared by the Board on 2 August 2023 and will be paid to Ordinary shareholders on 15 September 2023 and to ADR holders on 22 September 2023. This dividend has not been included as a liability in these financial statements. The dividend is payable to all shareholders on the Register of Members at the close of business on 11 August 2023.

Dividends are declared or proposed in US Dollars and will be paid in Pound Sterling at the exchange rate prevailing when the dividend is declared or proposed.

8 Defined benefit pension plans

The Group operates two funded defined benefit pension plans in the United Kingdom which are closed to new entrants.

In order to protect the balance sheet from further risk of market movements affecting the valuation of pension liabilities, in October 2022, the Trustees with the Company's support, purchased a bulk annuity insurance policy from specialist UK insurer Pension Insurance Corporation (PIC), in respect of the largest plan, the Staff Plan. The premium was met from the plan's assets and sufficient assets remain to meet the plan's ongoing costs. This pension buy-in secures an insurance asset from PIC that matches the remaining pension liabilities of the Staff Plan, such that the Company no longer bears any investment, inflation, longevity or other demographic risks.

Following the purchase of the bulk annuity insurance policy, the Group does not expect to make any further cash contributions to this plan.

There is also a liability for an unfunded plan in the United Kingdom and a deferred compensation plan in the United States.

8 Defined benefit pension plans continued

The assets and liabilities on the balance sheet are as follows:

\$ million	First half 2023	First half 2022	Year 2022
Schemes in net asset position			
UK defined benefit pension plan – Staff Plan	15.3	38.6	14.9
UK defined benefit pension plan – Cash Plan	-	1.1	-
	15.3	39.7	14.9
Withholding tax payable	(5.3)	-	(5.2)
	10.0	39.7	9.7
Schemes in net liability position			
UK defined benefit pension plan – Cash Plan	(0.8)	-	(1.7)
UK unfunded plan	(0.5)	(0.6)	(0.5)
US deferred compensation plan	(7.8)	(6.5)	(6.9)
	(9.1)	(7.1)	(9.1)
Net pension plan surplus on the balance sheet	0.9	32.6	0.6

The assets and liabilities in the funded defined benefit pension plans were as follows:

\$ million	First half 2023	First half 2022	Year 2022
Fair value of defined benefit pension plans' assets	190.0	238.3	190.0
Present value of defined benefit pension plans' obligations	(175.5)	(198.6)	(176.8)
Surplus in the plans	14.5	39.7	13.2
Withholding tax payable	(5.3)	-	(5.2)
Net UK funded defined benefit pension plan surplus on the balance sheet	9.2	39.7	8.0

The key financial assumptions in respect of the funded plans are as follows:

%	First half 2023	First half 2022	Year 2022
Inflation – RPI	3.4	3.4	3.3
Inflation – CPI (pre-2030)	RPI less 1.0% pa	RPI less 1.0% pa	RPI less 1.0% pa
Inflation – CPI (post-2030)	RPI less 0.1% pa	RPI less 0.1% pa	RPI less 0.1% pa
Rate of increase in pensionable salaries	CPI	CPI	CPI
Rate of increase for pensions in payment			
– Pre 2001 service	3.8	3.8	3.7
– 2001 to 5 April 2005 service	3.2	3.2	3.1
– Post 5 April 2005 service	2.1	2.1	2.1
Rate of increase in deferred pensions	CPI	CPI	CPI
Rate used to discount plan liabilities	5.3	3.8	4.8

There was no charge to operating costs (first half 2022: nil) and finance income of \$0.4 million (first half 2022: \$0.4 million) has been recognised. As at 30 June there are \$0.9 million of fees relating to the defined benefit pensions that are due to be re-imbursed to the Group in the second half of 2023. These fees are recorded in Other Comprehensive Income (page 17).

The Group also operates a deferred compensation plan for employees in the United States. The plan has elements of a defined benefit pension retirement obligation and therefore is required to be valued in accordance with IAS 19 'Employee Benefits'. At 30 June 2023, the deferred compensation deficit amounted to \$7.8 million (31 December 2022: \$6.9 million). There was no re-measurement at 30 June 2023 (31 December 2022: nil).

9 Reconciliation of profit before tax to cash generated from operations

\$ million	First half 2023	First half 2022
Profit before tax	4.8	40.3
Adjustments for:		
Finance income	(3.6)	(0.7)
Finance expense	0.4	0.5
Intangible asset amortisation	2.5	2.7
Depreciation of property, plant and equipment	5.4	5.6
Depreciation of right-of-use assets	3.6	3.8
Share-based payment	3.0	4.3
Changes in working capital:		
Increase in inventories	(1.7)	(14.3)
Decrease in receivables	45.9	36.5
Decrease in payables	(44.8)	(12.4)
Increase in contract liabilities	0.6	2.6
Increase/(decrease) in provisions	0.2	(0.2)
Defined benefit pension plan employer contributions	0.2	(1.2)
Defined benefit pension plan fees	(0.9)	-
Deferred compensation plan	0.9	(0.1)
Non-cash movements	(0.3)	-
Cash flow from operations	16.2	67.4

10 Fair value

The Directors consider that the carrying amounts of the financial instruments included within trade and other receivables, trade and other payables and contractual provisions approximates their fair value.

11 Employee Share Ownership Trust

During the first half of 2023, no shares were purchased or placed into the Employee Share Ownership Trust (ESOT) (first half 2022: 0.6 million shares at a cost of \$1.6 million) and 1.4 million shares were transferred from the ESOT to satisfy options exercised under the Spirent employee share plans (first half 2022: 2.3 million transferred). At 30 June 2023, the ESOT held 6.4 million Ordinary Shares (31 December 2022: 8.9 million Ordinary Shares).

12 Events after the reporting date

As part of the Company's share buyback programme in the period from 3 July 2023 to 31 July 2023 (the last practicable date prior to the date of this report), the Company purchased a further 5.4 million ordinary shares to be cancelled for a total consideration of £9.2 million (including stamp duty and fees).

There were no other material post balance sheet events between the balance sheet date and 2 August 2023, the date of this report.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the IASB and endorsed and adopted by the United Kingdom.

The half year management report includes a fair review of the information required by:

- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2022 Annual Report.

The Directors of Spirent Communications plc are listed below and are unchanged from the Spirent Communications plc Annual Report at 31 December 2022.

Sir William Thomas
Eric Updyke
Paula Bell
Jonathan Silver
Gary Bullard
Margaret Buggie
Wendy Koh
Edgar Masri

By order of the Board of Spirent Communications plc.

E A Updyke
Chief Executive Officer
2 August 2023

Independent review report to Spirent Communications plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the income statement, the statement of other comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement, and related notes 1 to 12.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
2 August 2023

Appendix

Alternative Performance Measures

The performance of the Group is assessed using a variety of alternative performance measures (APMs) which are presented to provide users with additional financial information that is regularly reviewed by management. The APMs presented are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

In management's view, the APMs reflect the underlying performance of the Group and provide an alternative basis for evaluating how the Group is managed and measured on a day-to-day basis. Such APMs are non-GAAP measures and should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The APMs and key performance indicators are aligned to the Group's strategy and collectively are used to measure the performance of the Group and form the basis of the metrics for Director and management remuneration. The Group's key performance indicators are presented within the Strategic Report of its 2022 Annual Report.

Order intake

Order intake represents commitments from customers to purchase goods and/or services from Spirent during the period that will ultimately result in recognised revenue. Where there can reasonably be changes to the scope or duration of an order, the Group exercises judgement on the amount of the order that is booked.

Order intake is a measure of operating performance used by management to assess whether future activity levels are increasing or slowing and therefore how effective we have been in the execution of our strategy. Order intake is a key performance indicator used to measure Group, operating segment and regional performance for internal reporting purposes.

Orderbook

Orderbook comprises the value of all unsatisfied orders from customers and provides an indication of the amount of revenue that has been secured and will be recognised in future periods. Orderbook represents the transaction price allocated to wholly and partially unsatisfied performance obligations, including amounts held in contract liabilities at the period end. There is no comparable IFRS measure.

Book to bill

Book to bill is the ratio of orders booked to revenue recognised in the period and is a measure of the visibility of future revenues at current levels of activity. Book to bill is a key performance indicator used to measure Group and operating segment performance for internal reporting purposes.

Adjusted operating profit

Adjusted operating profit is reported operating profit excluding amortisation of acquired intangible assets, share-based payment and other adjusting items. Management uses adjusted operating profit, in conjunction with other GAAP and non-GAAP financial measures, to evaluate the overall operating performance of the Group as well as each of the operating segments and believes that this measure is relevant to understanding the Group's financial performance, as specific items (adjusting items) are identified and excluded by virtue of their size, nature or incidence, as they do not reflect the underlying trading performance of the Group and therefore can lead to period-on-period fluctuations that can make it difficult to assess financial performance.

Specifically, items are excluded from adjusted operating profit if they are acquisition related in nature, including acquired intangible asset amortisation which is dependent on being able to identify intangible assets and assessing their useful economic lives, or if their exclusion allows for more meaningful comparisons with peer companies such as share-based payment which can fluctuate from period to period. The exclusion of adjusting items from adjusted operating profit is consistent from period to period.

Adjusted operating profit is also used in setting Director and management remuneration targets and in discussions with the investment analyst community.

Adjusted operating margin

Adjusted operating margin is adjusted operating profit as a percentage of revenue. It is a measure of the Group's overall profitability and how successful we are in executing on our overall strategy, and demonstrates our ability to improve margin through efficient operations and cost management, whilst being mindful of the need to invest for the future.

Effective tax rate

Effective tax rate is the adjusted tax charge, before tax on adjusting items, expressed as a percentage of adjusted profit before tax. The adjusted tax charge is the reported tax charge excluding the tax effect on adjusting items and adjustments made to provisions in respect of prior year tax.

Adjusted basic earnings per share

Adjusted basic earnings per share (EPS) is adjusted earnings attributable to owners of the parent Company divided by the weighted average number of Ordinary Shares outstanding during the year. Adjusted earnings is reported profit before tax excluding amortisation of acquired intangible assets, share-based payment, other adjusting items, tax on adjusting items and over/under provisions in respect of prior year tax.

Adjusted basic EPS is a measure of how successful we are in executing on our strategy and ultimately delivering increased value for shareholders. Adjusted basic EPS is also used in setting Director and management remuneration targets and in discussions with the investment analyst community. The Group sets out the calculation of adjusted basic EPS in note 6 of Notes to the consolidated financial statements.

Product development spend as a percentage of revenue

Product development as a percentage of revenue in the period. It is a measure of how much the Group is investing to support further organic growth initiatives in line with the strategic objectives, whilst driving improved productivity and effectiveness.

Free cash flow

Free cash flow is cash flow generated from operations, less tax and net capital expenditure, lease liability principal repayments and lease liability interest paid, add interest received and lease payments received from finance leases, excluding acquisition related other adjusting items and one-off employer contributions to the UK pension scheme.

Free cash flow is a measure of the quality of the Group's earnings and reflects the ability to convert profits into cash and ultimately to generate funds for future investment. It gives us financial strength and flexibility and the ability to pay sustainable dividends to our shareholders. Free cash flow is an important indicator of overall operating performance as it reflects the cash generated from operations after capital expenditure, financing and tax which are significant ongoing cash flows associated with investing in the business and financing operations.

Free cash flow excludes corporate level cash flows that are independent of ongoing trading operations such as dividends, acquisitions and disposals and share repurchases and therefore is not a measure of the funds that are available for distribution to shareholders.

A reconciliation of cash generated from operations, the closest equivalent GAAP measure, to free cash flow is provided within the Financial review on page 13.

Free cash flow conversion

Free cash flow conversion is the ratio of free cash flow to adjusted earnings, presented as a percentage.

Free cash flow conversion is a measure used in conjunction with free cash flow to assess the Group's ability to convert profit into cash and ultimately to generate funds for future investment.