

A vibrant night-time photograph of the Shanghai skyline, featuring the Oriental Pearl Tower, the Shanghai Tower, and the Jin Mao Tower, all illuminated with colorful lights and reflected in the water.

Spirent Communications plc 2016 Full Year Results

March 2017

Safe Harbour Statement



This presentation and the subsequent question and answer session may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. There are risk factors that could cause our actual results to differ materially from those expressed in or implied by such statements.

Spirent disclaims any intention or obligation to revise or update any forward-looking statements that may be made during this presentation or the subsequent question and answer session regardless of whether those statements are affected as a result of new information, future events or otherwise.

Networks

- Market share gain in Ethernet test market; 400G wins
- Virtual and Cloud stress test solutions
- Positioning test system for vulnerability detection & assessment
- New security product (CyberFlood) and service (SecurityLabs)

Service Assurance

- Won deals for active test solutions in the network (Landslide)
- Completed analytics system deployment in Latin American operator
- Large sale to Tier 1 carrier for 100GbE probes

Wireless

- Wireless test platform (Elevate) for video and audio quality testing
- IoT device testing at Tier 1 carrier
- New highly-scalable channel emulator (Vertex)

- Undertaken to accelerate progress on strategy
- Focus on areas most likely to deliver long-term earnings growth
- Sharp focus on target market opportunities that matter most to customers
- Achieve synergies in technical and customer offerings, sales reorganisation and streamlined management structure
- Three market focused segments
 - Networks & Security
 - Lifecycle Service Assurance
 - Connected Devices

A wide-angle photograph of the Shanghai skyline at night, viewed from across the Huangpu River. The Oriental Pearl Tower is illuminated in bright pink and purple, while the Shanghai Tower and Jin Mao Tower are lit with yellow and green lights. The city lights reflect on the water, and a few boats are visible in the river.

Paula Bell **Chief Financial Officer**

2016 Financial Results

Financial Summary

(\$ million)	2016	2015
Revenue	457.9	477.1
Gross profit	324.3	331.8
Operating profit¹	46.5	42.1
Exceptional costs	(4.8)	(12.5)
Impairment	(69.1)	(3.8)
Other items	(13.7)	(15.7)
Reported operating (loss)/profit	(41.1)	10.1
Net cash	96.1	102.0
Adjusted EPS^{1,2} (cents)	5.29	5.00
Dividend (cents)	3.89	3.89
Dividend (pence)	3.07	2.67

- Book to bill ratio of 103
- Gross margin improves to 70.8%
- Operating margin improves to 10.2%
- Tax rate 27%
- EPS up 6%
- Strong balance sheet maintained

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

(2) Before impairment of investment in associate, prior year tax and tax on items in note (1)

(\$ million)	2016	2015 ¹
Revenue	259.4	244.0
Gross profit	178.3	170.0
Gross margin	68.7%	69.7%
Product development	(61.4)	(61.5)
Other expenses ²	(91.7)	(89.6)
Operating profit²	25.2	18.9
Operating margin²	9.7%	7.7%

- 6% revenue growth, continued strong demand for Ethernet in Cloud IP
- Cost focus driving improved operating margin
- Operating profit up 33%

(1) Restated for changes to the Group's operating segments effective 1 January 2016

(2) Before exceptional items

(\$ million)	2016	2015 ¹
Revenue	118.5	137.2
Gross profit	85.6	97.1
<i>Gross margin</i>	<i>72.2%</i>	<i>70.8%</i>
Product development	(28.1)	(34.3)
Other expenses ²	(40.4)	(47.9)
Operating profit²	17.1	14.9
<i>Operating margin²</i>	<i>14.4%</i>	<i>10.9%</i>

- Strong growth in Positioning from increased government wins helped offset predicted slowing in demand for Wireless device testing
- Targeted cost actions taken to drive improved margin
- Operating profit up 15%

(1) Restated for changes to the Group's operating segments effective 1 January 2016

(2) Before exceptional items

(\$ million)	2016	2015 ¹
Revenue	80.0	95.9
Gross profit	60.4	64.7
Gross margin	75.5%	67.5%
Product development	(22.2)	(22.5)
Other expenses ²	(26.5)	(28.1)
Operating profit²	11.7	14.1
Operating margin²	14.6%	14.7%

- Previous flagged decline in hand-held device sales, 17% revenue reduction
- Product mix drives increased gross margin
- Cost focus continues
- Operating margin held

(1) Restated for changes to the Group's operating segments effective 1 January 2016

(2) Before exceptional items

Cost Base



(\$ million)	2016	2015
Product development	111.7	118.3
Selling and distribution	125.4	127.2
Administration	40.7	44.2
Total overhead costs¹	277.8	289.7

- External benchmarking deployed
- Sales reorganisation underway, complete during 2017
- 8 month pay back on restructure plan

(1) Before other items

Cash

(\$ million)	2016	2015
Operating profit¹	46.5	42.1
Exceptional items charge	(4.8)	(12.6)
Depreciation, other amortisation and loss on disposal	20.2	26.9
Working capital movement	(3.9)	2.1
Provisions movement	(4.5)	2.6
Pension	(6.1)	(3.3)
Taxation	(4.7)	2.6
Net interest received	0.3	0.4
Net capital expenditure	(17.1)	(25.5)
Free cash flow	25.9	35.3
Dividends	(24.2)	(23.5)
Acquisitions and investment in associate	(2.7)	(6.7)
Exchange and other	(4.9)	(2.9)
Closing cash	96.1	102.0

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

Build a Smarter Future



Eric Hutchinson
Chief Executive Officer

CEO Review

Strategic Objective: *Build a Smarter Future*

We help our customers ...

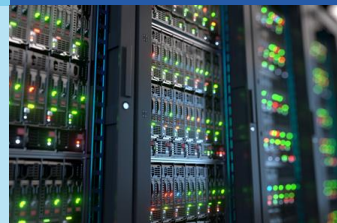
Transform. Outperform.

By assuring they can ...

CONNECT



PERFORM



SECURE



*To accelerate time to market and improve product quality,
security and visibility into network performance and customer experience*

We provide ...

Products & Systems

Professional Services

*To test, measure, validate and assure devices and networks
at high-volume, high-speed, high density with complex traffic mix*

By being best at ...

Test Methodologies

Active Test

Analytics

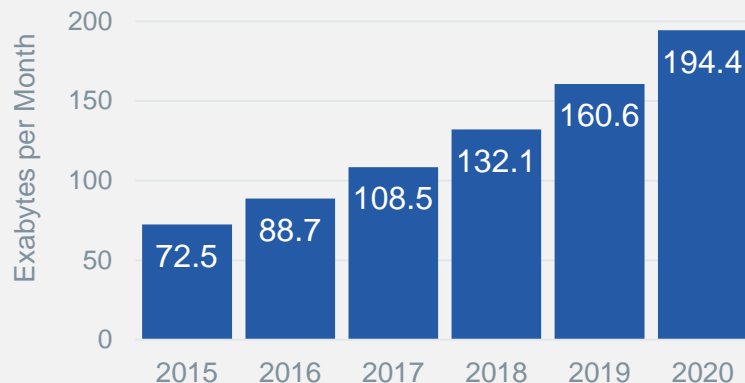
Automation

Relentless Growth in Global IP Traffic

Global IP Traffic

3x increase 2015 - 2020

CAGR 22%



Service Adoption Drivers

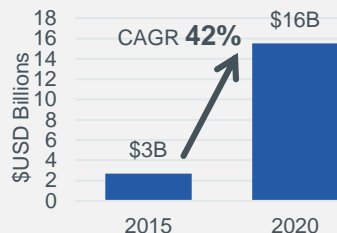
	2015	2020
More internet users	3.0 billion	4.1 billion
More devices and connections	16.3 billion	26.3 billion
Faster broadband speeds	24.7 Mbps	47.4 Mbps
More video viewing	70% of traffic	82% of traffic

Source: Cisco VNI Global IP Traffic Forecast 2015-2020 (June 7, 2016)

Market Dynamics & Drivers

Virtualisation

Network Functions Virtualisation Market



Source: IHS (July 2016)

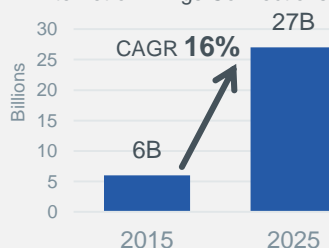
Moving from hardware to software

Deliver exponentially more data cost effectively

Adapt rapidly to changing network conditions

Internet of Things (IoT)

Internet of Things Connections



Source: Machina Research (August 2016)

IoT connections (2015):

Connected Business	29%
Connected Home	26%
Consumer Electronics	21%

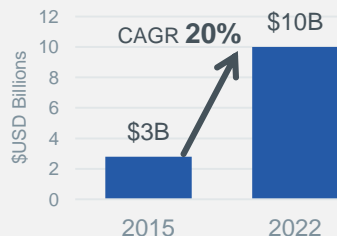
Cellular IoT connections:

334 million in 2015 to 2.2 billion in 2025;
Connected cars will be 45%

IoT Application Revenue (2025): \$1.3 Trillion

Cybersecurity

Cybersecurity Testing Market



Source: STRATISTICS MRC (January 2017)

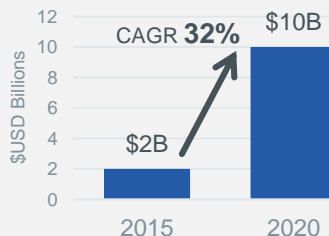
Computers vulnerable to attack: 99%

Cost of cyber-crime (global): \$100 billion per year

Increase in number of cyber-attacks to organizations (USA): +176%

5G

5G Equipment Market



Source: Technavio (October 2016)

Enable new applications requiring ultra-low latency or extreme bandwidth: virtual reality and augmented reality

Early adoption: Korean Olympics (2018)

Standards: 2018-2020

Organised for Sharp Focus on Target Market Opportunities

Networks & Security



Maximise opportunity driven by virtualisation and security.

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

Lifecycle Service Assurance



Maximise opportunity driven by virtualisation, mobile networks and the Internet of Things.

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

Connected Devices



Maximise opportunity driven by the Internet of Things and 5G.

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

Our key objective is to leverage our technologies and capabilities to increase the long-term value of the business.



Networks & Security

Market	\$1168M
Market Growth	10%
Revenue	\$262M
Market Share	22%
Operating Profit ¹	\$47.2M
Operating Margin ¹	18%

For 2016. Growth is CAGR 2016-2019

(1) Before exceptional items



Test Methodologies

Spirent Services



Professional Services



Security Labs



Custom Solutions

Spirent Products

Automation
Velocity & iTest

TestCenter ↔

CyberFlood ↔

GNSS Simulator
Record & Replay ↔

Device Under Test

Router/
Switch

Firewall/
Application

Satellite
Autonomous
Vehicle



Test Reports



Networks & Security



Ethernet/IP, Cloud & Virtualisation

Delivered double digit order and revenue growth



Developed first Quint-Speed High-Speed Ethernet product family covering 100G, 50G, 40G, 25G and 10G Ethernet

Developed industry's first 2.5G and 5G BASE-T Ethernet test solution

Won 400G deal at large equipment manufacturer

Launched TeMeVA: Software-as-a-Service (SaaS) solution for network and cloud testing



Drafted ETSI specifications for “Pre-Deployment Testing” and “Active Monitoring and Failure Detections”



Networks & Security



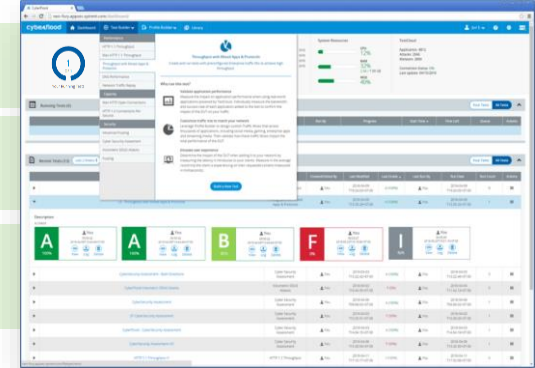
Cyber Security

Released security test tool

Launched security services business

Won key deals: Tier 1 network operator, leading security products companies & financial institution

cyberflood
securitylabs



Positioning, Navigation & Timing

Strong orders from US Government and in Asia

Launched new mid-range modular simulators (GSS7000), new Record and Replay solution (GSS6450) and Interference Detector (GSS100D)



Awarded Royal Institute of Navigation Duke of Edinburgh's Award for Technical Achievement



Lifecycle Service Assurance

Market	\$804M
Market Growth	7%
Revenue	\$99M
Market Share	12%
Operating Profit ¹	\$11.2M
Operating Margin ¹	11%

For 2016. Growth is CAGR 2016-2019

(1) Before exceptional items



Test and Assurance Methodologies



Analytics
InTouch



Service Assurance
Lumos



Subscribers



Enterprises



Active Test
Landslide



Active Test
Landslide



Test Orchestration



Lifecycle Service Assurance



Launched Lumos, service assurance system for automating service assurance workflows in hybrid networks. Example: 10X improvement in small cell site turn-up in large US carrier

Large sale to Tier 1 carrier for 100GbE probes

Completed InTouch CNA, customer & network analytics system
Installed in large regional carrier in Mexico



Expanded mobile infrastructure test tools portfolio with high capacity server (LandSlide Core) & small-scale form-factor for active testing (LandSlide Edge)
Largest public mobile core test

Launched VisionWorks, combining active test and analytics, for proactive service assurance in mobile networks
Closed large deals with two Tier 1 carriers

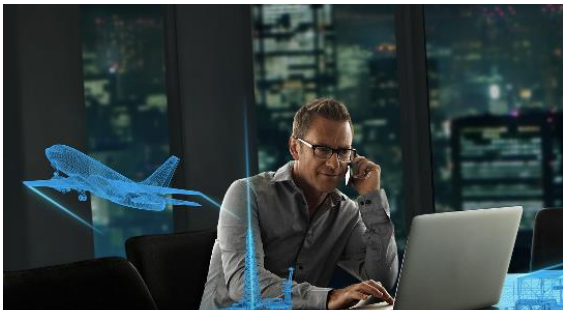
Extraordinary Network Demands at Special Events

Super Bowl LI



Super Bowl LI, Houston, Texas, USA. February 5, 2017





verizon

SAMSUNG

intel

NOKIA

SPIRENT

MEIZU

MEDIATEK

LeEco

HI-TARGET.IR

Connected Devices

Market **\$550M**

Market Growth **(3%)**

Revenue **\$97M**

Market Share **18%**

Operating Loss¹ **(\$4.4M)**

Operating Margin¹ **(5%)**

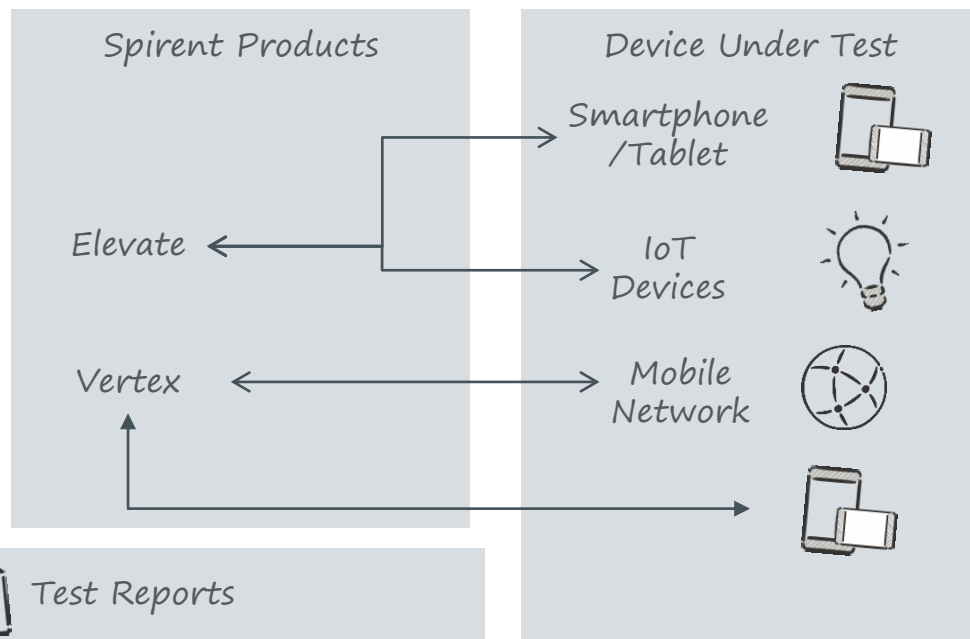
For 2016. Growth is CAGR 2016-2019

(1) Before exceptional items

Spirent Communications



Test Methodologies



Test Reports

PROPRIETARY AND CONFIDENTIAL

Mobile Market Dynamics and Opportunity



Network Equipment Manufacturers Thrive
Develop expertise and grow mobility businesses

Network Equipment Manufacturers Consolidate

Investment in Test Equipment

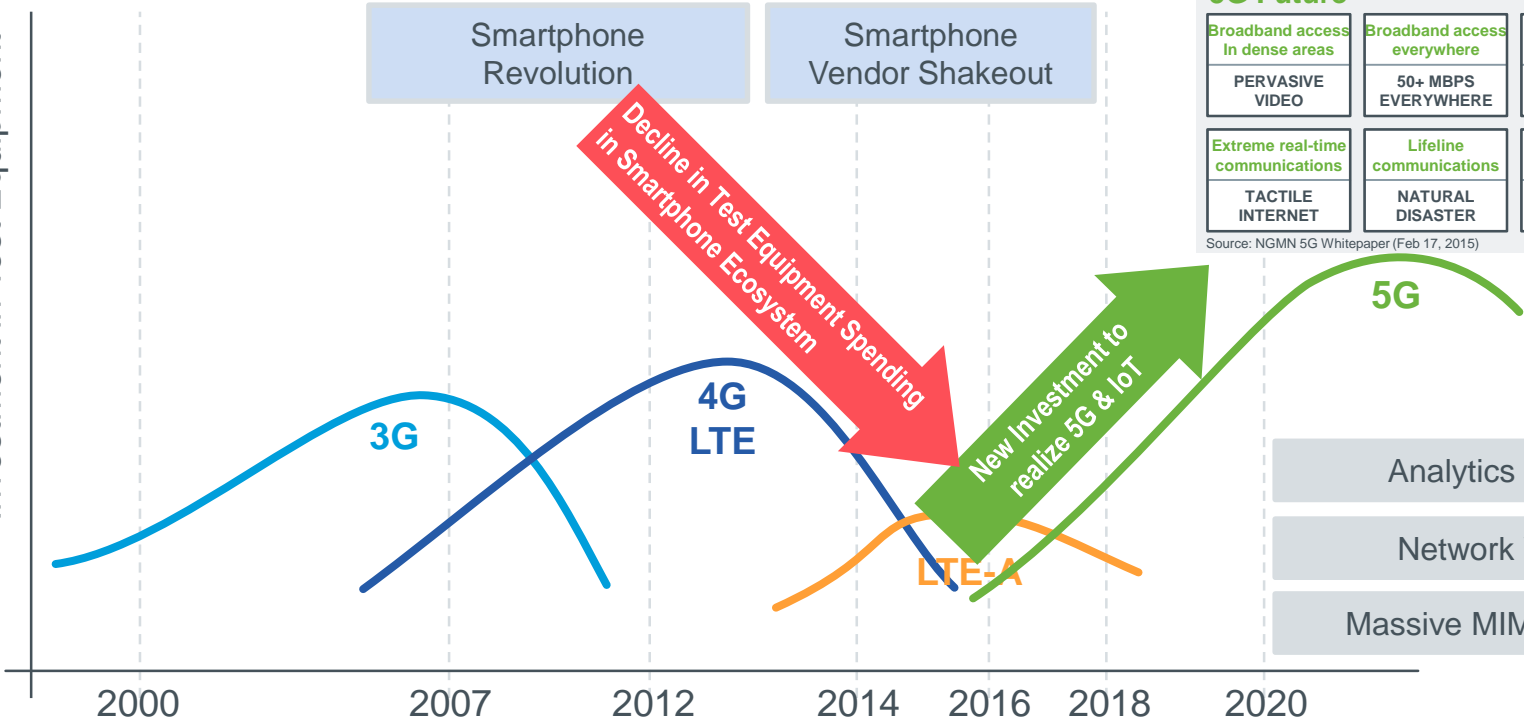
Smartphone Revolution

Smartphone Vendor Shakeout

Decline in Test Equipment Spending in Smartphone Ecosystem

5G Future			
Broadband access In dense areas	Broadband access everywhere	Higher user mobility	Massive Internet of Things
PERVASIVE VIDEO	50+ MBPS EVERYWHERE	HIGH SPEED TRAIN	SENSOR NETWORK
Extreme real-time communications	Lifeline communications	Ultra-reliable communications	Broadcast-like services
TACTILE INTERNET	NATURAL DISASTER	E-HEALTH SERVICES	BROADCAST SERVICES

Source: NGMN 5G Whitepaper (Feb 17, 2015)



- Analytics & Automation
- Network Virtualisation
- Massive MIMO & Small Cells



Connected Devices



Expanded footprint for wireless device test product (Elevate)

- Won multiple deals in chipset vendors and carriers for video and audio quality testing.
- First to market solutions for the industry's new Enhanced Voice Services (EVS) high-definition audio codec.

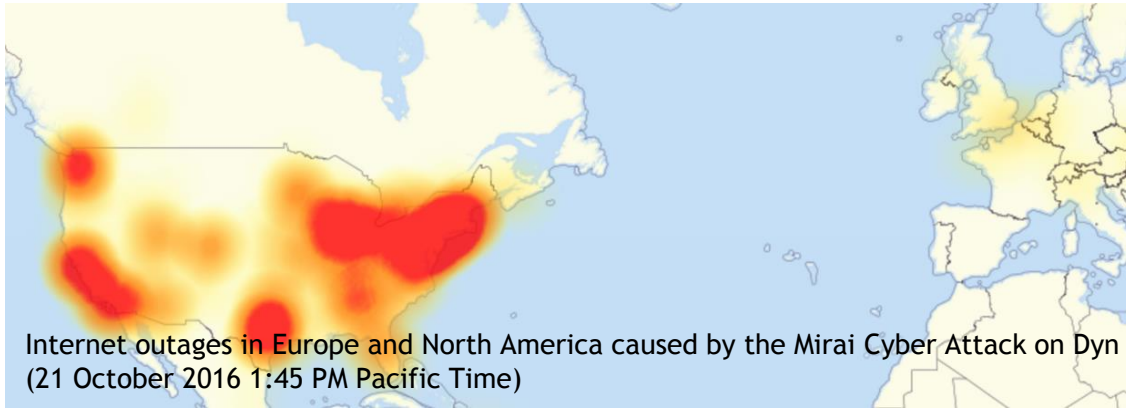
Won deal in large US carrier to reduce time & cost for IoT device testing (Elevate & Velocity)

Launched scalable and modular channel emulator (Vertex)

Channel Emulators validated for industry's initial round of MIMO antenna performance evaluation to the new CTIA test plan

Severe IoT Distributed Denial of Service Attacks

Mirai Virus: October 2016 Dyn & November 2016 Deutsche Telekom



Spirent's Strengths: Why we win

Customer Relationships

We have strong, blue chip client relationships.

We work closely with customers to understand their business challenges and develop innovative solutions to meet their expectations.

We help some of the world's most innovative companies to develop products and manage their networks.

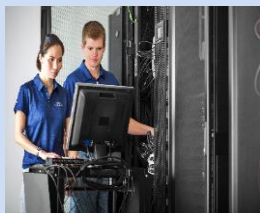
Our Technology & Core Competencies are Competitive Advantages

Expert position in the industry, differentiated in the market through our core competencies:

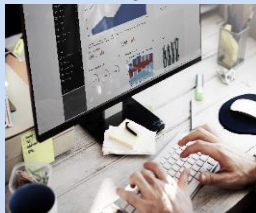
Test Methodologies



Active Test



Analytics



Automation



Our technologies and insights deliver first-to-market solutions for our customers.

Our product portfolio is among the strongest in the industry.

Summary



Sharp focus on target market opportunities that matter most to customers



Investment and product development roadmap aligned to key themes driving customers' plans and investments



Well-placed to develop its market leadership globally



Grow with development & deployment of high-speed Ethernet, virtualisation, security



Ready for active test and analytics in network, especially for virtualised network functions



Invest for next cycle driven by 5G and IoT

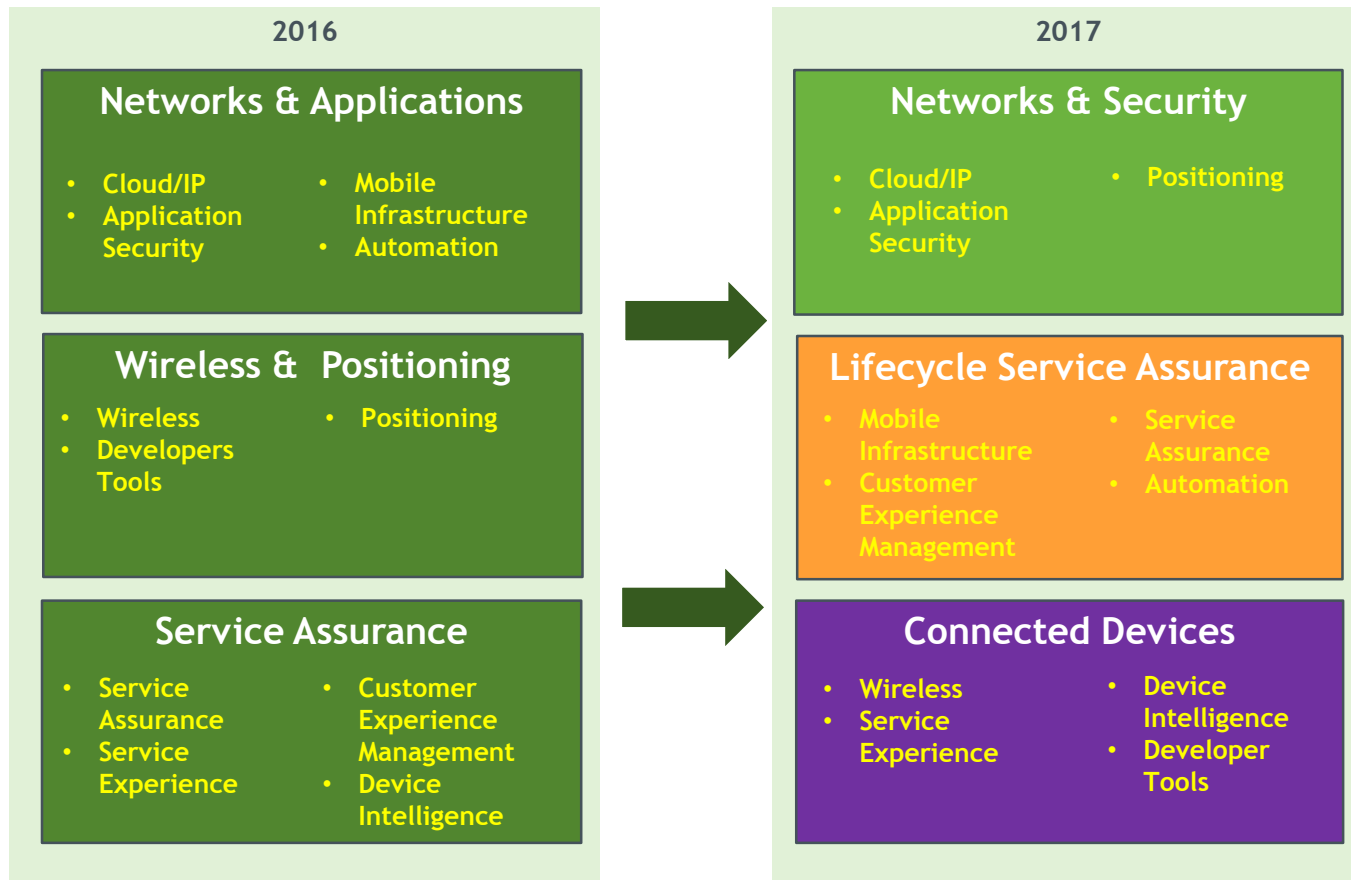


Confident to grow in 2017

Appendix

2016 Full Year Results

New Segmentation



2016 Segment Results

(\$ million)	Old		(\$ million)	New	
	Revenue	Operating profit ¹		Revenue	Operating profit ¹
Networks & Applications	259.4	25.2	Networks & Security	262.2	47.2
Wireless & Positioning	118.5	17.1	Lifecycle Service Assurance	99.2	11.2
Service Assurance	80.0	11.7	Connected Devices	96.5	(4.4)
Corporate	-	(7.5)	Corporate	-	(7.5)
Total	457.9	46.5		457.9	46.5

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

2016 KPIs

103

Book to Bill
(2015:101)

\$457.9m

Revenue
(2015: \$477.1m)

\$46.5m

Operating Profit⁽¹⁾
(2015: \$42.1m)

10.2%

Operating Margin⁽¹⁾
(2015: 8.8%)

\$25.9m

Free Cash Flow⁽³⁾
(2015: \$35.3m)

5.29c

Adjusted EPS⁽¹⁾⁽²⁾
(2015: 5.00c)

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

(2) Before impairment of investment in associate, prior year tax and tax on items in note (1)

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

Consolidated Income Statement



	2016 \$ million	2015 \$ million
Revenue	457.9	477.1
Cost of sales	(133.6)	(145.3)
Gross profit	324.3	331.8
Product development	(111.7)	(118.3)
Selling and distribution	(125.4)	(127.2)
Administration	(40.7)	(44.2)
Other items (1)	(87.6)	(32.0)
Operating (loss)/profit	(41.1)	10.1
Net finance costs	(0.4)	(0.1)
Share of loss of associate	(4.5)	(0.4)
(Loss)/profit before tax	(46.0)	9.6
Tax	3.7	3.9
(Loss)/profit for the year	(42.3)	13.5

Adjusted basic earnings per share

Basic	5.29	5.00
Diluted	5.29	4.98

(1) Other items comprises exceptional items, acquisition related costs, amortisation and impairment of acquired intangible assets, goodwill impairment, share-based payment, impairment of associate, tax on other items and prior year tax

Thank You

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