

# 2020 HALF YEAR RESULTS

AUGUST 2020



## SAFE HARBOUR STATEMENT

A short, solid green horizontal line.

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.

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## 2020 H1 HIGHLIGHTS



### Strong execution

- Continued revenue growth, up 7%
- Significant earnings increase



### Managing and innovating through COVID-19



### Strong growth in drivers:

- 5G orders
- 400G Ethernet
- Service Assurance Lab & Live solutions



### Focus on solutions and services



### Delivering on strategy

# FINANCIAL RESULTS

**PAULA BELL**

CHIEF FINANCIAL & OPERATIONS OFFICER

## KEY METRICS

**\$232.1m**

Order intake

↗ 6%

**\$233.7m**

Revenue

↗ 7%

**\$39.5m**

Adjusted operating profit<sup>1</sup>

↗ 91%

**5.70c**

Adjusted basic EPS<sup>1, 2</sup>

↗ 88%

**\$65.5m**

Free cash flow<sup>3</sup>

↗ \$20.9m

**2.17c**

Dividend

↗ 12%

1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment.

2. Before tax on items in note 1 and prior year tax.

3. Operating cash flow, after tax, net interest, payment of lease liabilities/sublease income and net capital expenditure.

## FINANCIAL SUMMARY

\$m	H1 2020	H1 2019
Order intake	232.1	219.5
Revenue	233.7	217.4
Gross profit	171.5	156.5
Gross margin	73.4%	72.0%
Operating costs <sup>1</sup>	(132.0)	(135.8)
Operating profit <sup>1</sup>	39.5	20.7
Operating margin <sup>1</sup>	16.9%	9.5%
Profit before tax	36.0	18.7
Effective tax rate <sup>2</sup>	13.0%	13.1%
EPS <sup>1,3</sup> (cents)	5.70	3.03
Cash	221.4	141.8
Dividend per share (cents)	2.17	1.94

- Continued growth momentum
- Software content and product mix driving improved gross margin
- Effective cost management
- Operating profit up \$18.8m
- ETR remains at 13%
- Earnings per share up 88%
- Dividend up by 12%
- Strong platform for H2 progress

1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment.

2. Adjusted tax charge as a percentage of adjusted profit before tax.

3. Before tax on items in note 1 and prior year tax.

## PORTFOLIO PERFORMANCE

- Strength in high-speed Ethernet
- Positioning volatility due to US government spending timing
- Lifecycle Service Assurance orders momentum from 2019 has continued
- Some 5G device launch delays
- Agility key to enable busier 2H

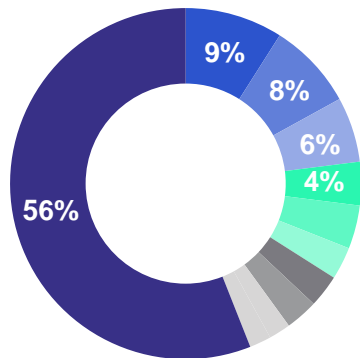
	Revenue		Operating profit <sup>1</sup>	
\$m	H1 2020	H1 2019	H1 2020	H1 2019
Networks & Security	142.0	131.0	25.5	16.0
Lifecycle Service Assurance	58.5	51.0	12.8	4.0
Connected Devices	33.2	35.4	4.5	5.2
Corporate			(3.3)	(4.5)
Group total	233.7	217.4	39.5	20.7

1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment.

## STRONG DIVERSIFICATION

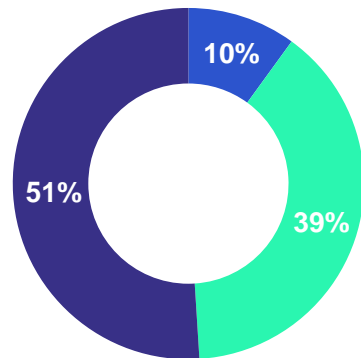
- Customer diversity maintained
- Top 10 customers = 44%.
- Strong growth in APAC
- Resilient portfolio mix

Revenue by customer



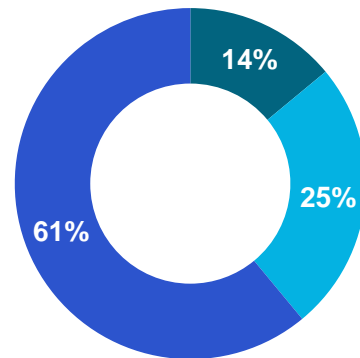
● Other 56%

Revenue by geography



● Americas 51%  
● APAC 39%  
● EMEA 10%

Revenue by segment



● Networks & Security Assurance 61%  
● Lifecycle Service Assurance 25%  
● Connected Devices 14%



## EFFECTIVE COST MANAGEMENT

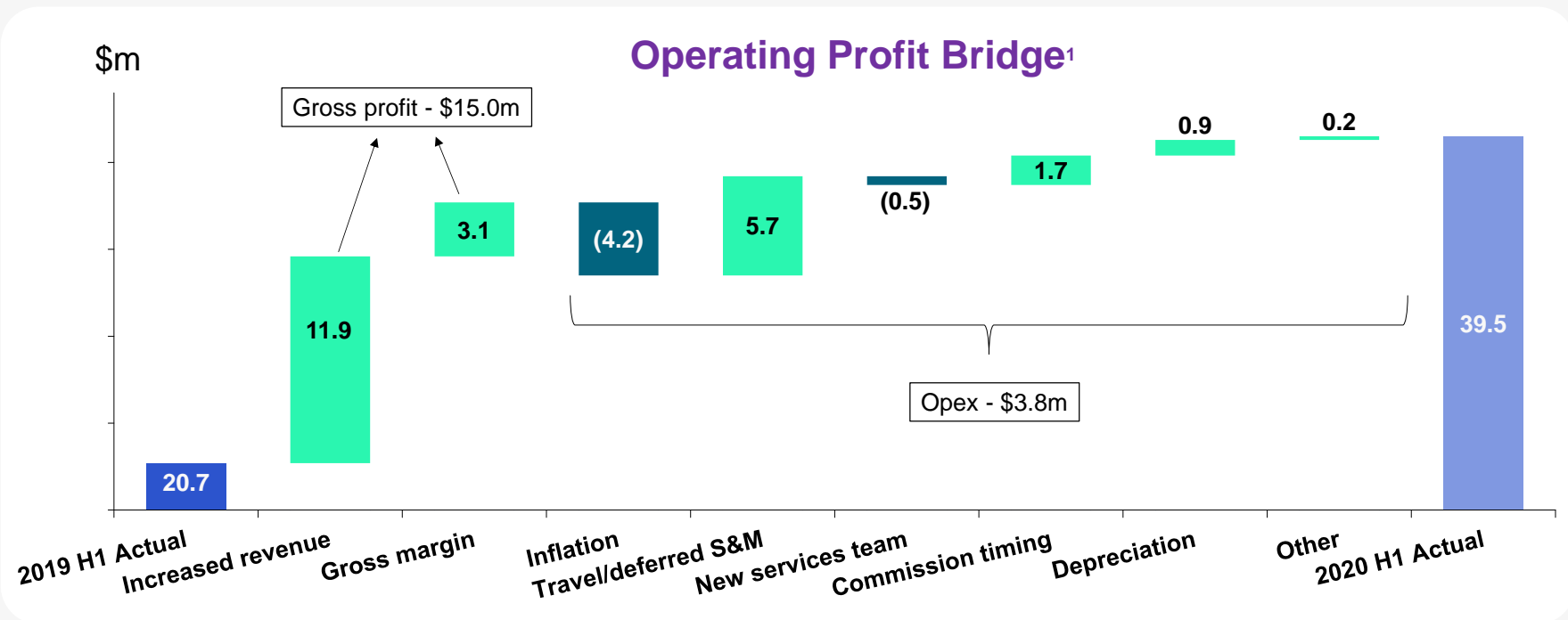
\$m	H1 2020	H1 2019
Product development	50.7	48.5
Selling and marketing	56.7	63.1
Administration	24.5	23.8
<b>Sub total<sup>1</sup></b>	<b>131.9</b>	<b>135.4</b>
FX loss	0.1	0.4
<b>Total operating costs<sup>1</sup></b>	<b>132.0</b>	<b>135.8</b>

\$m	H1 2020	H1 2019
Product development:		
Networks & Security	29.5	28.0
Lifecycle Service Assurance	14.3	13.9
Connected Devices	6.9	6.6

- Continued investment into R&D across all segments
- Sales and marketing savings from reduced travel and delayed discretionary expenditure
- Formation of new central services organisation
- Further development of leadership team

1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment.

# PROFIT BRIDGE



1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment.

# CASH

- Strong cash conversion
- H1 capex included 5G investment, full year outlook unchanged at c.\$11-12m

\$m	H1 2020	H1 2019
<b>Operating profit<sup>1</sup></b>	<b>39.5</b>	<b>20.7</b>
Exceptional items charged	(2.0)	-
Depreciation, other amortisation and loss on disposal	10.9	12.0
Working capital reduction	29.2	27.5
Pension and deferred compensation	(3.0)	(3.0)
Tax/interest and other	0.1	(1.5)
Lease repayments and interest	(4.8)	(4.9)
Net capital expenditure	(4.4)	(6.2)
<b>Free cash flow</b>	<b>65.5</b>	<b>44.6</b>
Ordinary dividend	(20.5)	(16.7)
Acquisition	-	(1.9)
Employee Share Ownership Trust	(4.7)	(6.1)
Foreign exchange	(2.1)	0.3
<b>Closing cash</b>	<b>221.4</b>	<b>141.8</b>

1. Before exceptional items (H1 2020), acquisition related costs (H1 2019), acquired intangible asset amortisation and share-based payment

## RESILIENT OPERATING MODEL

- Continued revenue growth – solid platform for H2
- 5G and 400G upcycle
- Maintaining technical leadership with focused R&D investment
- Continue to evolve Sales & Marketing – driving effectiveness
- Strong balance sheet

# STRATEGY ON TRACK



**ERIC UPDYKE**

CHIEF EXECUTIVE OFFICER

# COVID-19 UPDATE

## Managing through crisis

- Strong supply chain
- Financial discipline and resilient business model
- 95% working from home
- Avoided furloughs/layoffs due to pandemic

## Change creates opportunity

- Engaging closely with customers in a “new normal”
- Increased demand for bandwidth and coverage
- 5G market robust in China and US
- Uncertain customer spending pattern outlook



## STRATEGIC PILLARS

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A circular diagram with a thick blue border and two blue arrows forming a clockwise loop. The text "Customer Centricity" is centered within the circle.

Customer  
Centricity

A circular diagram with a thick blue border and two blue arrows forming a clockwise loop. The text "Innovation for Growth" is centered within the circle.

Innovation  
for Growth

A circular diagram with a thick blue border and two blue arrows forming a clockwise loop. The text "Operational Excellence" is centered within the circle.

Operational  
Excellence

## SOLUTIONS MINDSET

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### Increasing share with existing customers

- Key Account Programme success
- Strengthening relationships

### Focused on solutions and services

- Solving bigger problems
- New services team formed
- Driving an increased pipeline





# KEY WINS

Continued strength in delivering market-leading solutions to our customers



## 5G – Enduring Growth Driver

- N. America and China drive wins at key NEMs and SPs
- Operational network assurance demand grows



## APAC – Benefiting from 5G Acceleration

- Chosen by Japan's Rakuten for core testing of the world's first fully-virtualized, cloud-native mobile network
- Collaboration with SPs on new technologies and strong H1 wins



## 400G – Leading Technology Position

- Telco and cloud provider deployment gains momentum
- Surge in demand from major NEMs in the US and APAC



## Strategic Partnerships

- Won Amazon approval as an Authorised Test Lab to certify “Alexa Built-in” devices

## INVESTING IN GROWTH DRIVERS

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### Continuously investing for growth

- Innovative 5G solutions
- On track for developing 800G
- Driving Positioning technology into new markets
- New product releases, including Cloud and WiFi6

### SD-WAN

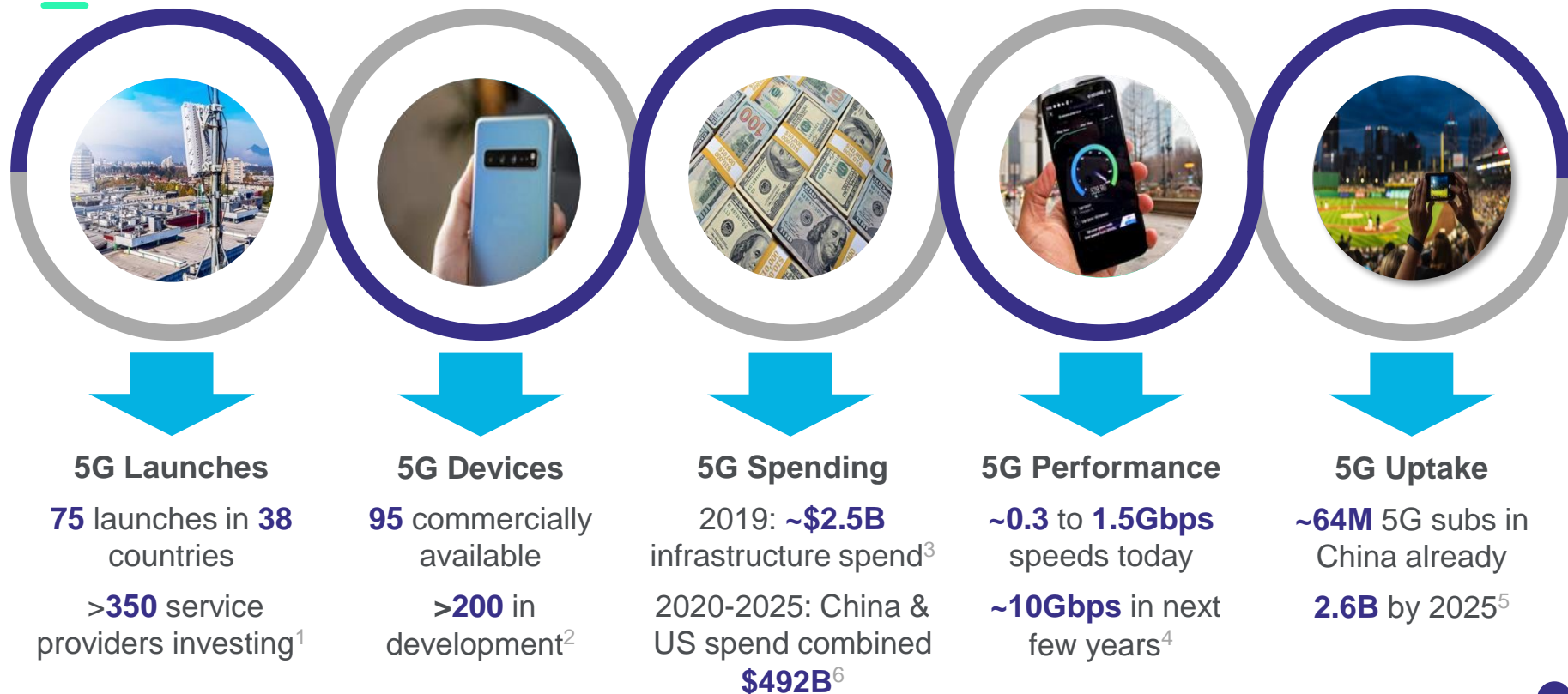
- Market boost from work from home trend
- Well-positioned and gaining new opportunities

### New business models to grow recurring revenues

- Focus on software and services



# THE 5G MARKET IS ACCELERATING



# MAINTAINED STRENGTH THROUGH CRISIS

## Connected and engaged workforce

- Increased employee communication
- Further strengthened leadership

## Improving processes to support growth

- Refreshed go-to-market strategies
- Structured approach for corporate development

## Organised for success

- Marketing re-organisation
- Formalised services team
- Sales restructure and evolution of CPE model

## Operational resilience

- Supply chain excellence



## ESG – FUTUREPOSITIVE PROGRAMME

### Areas of focus:

- Sustainability governance
- Energy and climate change
- Circular economy
- Customer sustainability solutions
- Great place to work
- Community investment



FTSE4Good



## CAPITAL MARKETS DAY – 8 OCTOBER 2020

### *Agenda*

Strategic Objectives Overview

5G Overview

Evolution of Cloud – More than High-Speed Ethernet

Lifecycle Service Assurance

Evolving our Sales Strategy and Operational Delivery

Growing Services

Finance Overview



## SUMMARY & FY OUTLOOK

- Resilience – H1 performance in COVID environment
- Technology drivers strengthening
- Lab & Live assurance demand gathers momentum
- H1 progress provides confidence despite ongoing COVID uncertainty
- Continued progress in H2 – FY outlook unchanged
- Strong team in place to deliver sustainable, profitable growth



# THANK YOU





# FINANCIAL APPENDIX



# INCOME STATEMENT

\$m	H1 2020	H1 2019
Revenue	233.7	217.4
Gross profit	171.5	156.5
Operating costs	(132.0)	(135.8)
<b>Adjusted operating profit</b>	<b>39.5</b>	<b>20.7</b>
Adjusting items:		
Exceptional items	(2.0)	-
Acquisition related costs	-	(0.1)
Acquired intangible asset amortisation	(0.2)	(0.8)
Share-based payment	(1.7)	(1.7)
<b>Operating profit</b>	<b>35.6</b>	<b>18.1</b>
Net finance income	0.4	0.6
<b>Profit before tax</b>	<b>36.0</b>	<b>18.7</b>
Tax	(3.8)	(2.1)
<b>Profit after tax</b>	<b>32.2</b>	<b>16.6</b>
Adjusted basic earnings per share (cents)	5.70	3.03

## NETWORKS & SECURITY

\$m	H1 2020	H1 2019
Revenue	142.0	131.0
Gross profit	103.9	93.8
Gross margin	73.2%	71.6%
Product development	(29.5)	(28.0)
Other expenses	(48.9)	(49.8)
<b>Operating profit</b>	<b>25.5</b>	<b>16.0</b>

Strong 400G/100G Ethernet test performance

SD-WAN growing - we are exclusive partner of industry consortium for certification test

Security Solutions business focus on 5G, critical infrastructure and emergency services

Continued growth in our Positioning business

## LIFECYCLE SERVICE ASSURANCE

\$m	H1 2020	H1 2019
Revenue	58.5	51.0
Gross profit	45.5	38.9
Gross margin	77.8%	76.3%
Product development	(14.3)	(13.9)
Other expenses	(18.4)	(21.0)
<b>Operating profit</b>	<b>12.8</b>	<b>4.0</b>

Multiple Landslide wins at SPs and NEMs for validating 5G core networks in the lab

VisionWorks operational network assurance growth, especially in North America

Landslide chosen by Japan's Rakuten Mobile

Developed multiple new opportunities as we transition to an outcome-driven service delivery model



















## CONNECTED DEVICES

\$m	H1 2020	H1 2019
Revenue	33.2	35.4
Gross profit	22.1	23.8
Gross margin	66.6%	67.2%
Product development	(6.9)	(6.6)
Other expenses	(10.7)	(12.0)
<b>Operating profit</b>	<b>4.5</b>	<b>5.2</b>

Growth in services for field testing programmes and test methodology consultation

Demand building for our device test capabilities on live networks as more 5G devices arrive, some H1 customer launch delays

## STRONG ALIGNMENT WITH KEY MARKET DRIVERS

	Networks & Security	Lifecycle Service Assurance	Connected Devices
 5G Momentum			
 High-speed Ethernet			
 Cloud & Network Virtualization			
 Cybersecurity Threats			
 Connected Devices Proliferation			

## FOREIGN CURRENCY

- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD:GBP exchange rate for H1 2020 of 1.26 compared to 1.29 in H1 2019, the closing rate at 30 June 2020 was 1.23 vs 1.27 at 30 June 2019
- FX loss of \$0.1m charged to the income statement in H1 2020 (H1 2019: \$0.4m) in relation to:
  - Transaction exposure in UK operations from US dollar sales; and
  - Retranslation of cash balances held in non-domicile currency

## EXCEPTIONAL ITEMS

- H2 2019 CEO Strategic Review programme continued in 2020, concludes in H2

\$m	H1 2020	FY 2019
CEO Strategic Review	(2.0)	(1.8)
French import duty VAT refund	-	2.3
<b>Total</b>	<b>(2.0)</b>	<b>0.5</b>





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