2013 Preliminary Results

27 February 2014

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Agenda

- 2013 review
- 2013 financial results
- Market update & 2014 outlook

Eric Hutchinson, Chief Executive Officer

2013 - a challenging year, but a turning point

- There were challenges
  - Revenue decreased due to marked shift in structure of industry and past under investment
  - Intense competition in data center and polarization in the wireless device market
  - Regionally in Europe, as well as in Asia in H1
- A turning point…
  - Sequential improvement in our markets - built order book in H2
  - Growth in wireless infrastructure, positioning technology test and in services
  - Increase in product development spend for future growth
  - Reorganisation in Q4 to drive our responsiveness and agility has released talent and innovation

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- **2013 financial results**
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Rachel Whiting, Chief Financial Officer

2013 KPIs[1]

105	**$413.5m**	**$50.1m**
Book to Bill	**Revenue**	**Operating Profit[2]**
(2012:97)	**(2012: $472.4m)**	**(2012: $118.3m)**
12.1%	**$43.9m**	**5.71c**
Return on Sales[2]	**Free Cash Flow**	**Adjusted EPS[2][3]**
(2012: 25.0%)	**(2012: $84.0m)**	**(2012: 13.02c)**

Notes: (1) Continuing operations (2) Before exceptional items, share-based payment, acquired intangible asset amortization and acquisition expense
(3) Before prior year tax and tax on items in note (2)

Comparative results 2013

($ millions)	2013	2012[1]
Revenue	**413.5**	**472.4**
Gross Profit[(2)]	286.8	338.1
Gross Margin[(2)]	***69.4%***	***71.6%***
Product development	100.5	86.1
Selling & distribution	96.6	91.7
Administration	39.6	42.0
Operating Profit[(2)(3)]	**50.1**	**118.3**
Return on Sales[(2)(3)]	***12.1%***	***25.0%***
Exceptional and other items[(4)]	11.0	10.2
Reported Operating Profit	**39.1**	**108.1**
Net finance income	-	0.3
Profit before Tax	**39.1**	**108.4**
Tax	6.4	29.0
Net Income	**32.7**	**79.4**
Basic EPS (cents)	**5.10**	**12.11**
Adjusted EPS[(2)(3)(5)] (cents)	**5.71**	**13.02**

- Disruption & shift in the structure of our markets and under-investment
- Book to bill 105 with improving trend in H2
- Operating profit reflects lower high gross margin revenue
- Additional investment in product development of $14.4m
- Exceptional reorganisation costs of $3.4m charged
- Tax rate 26%

Notes: (1) Continuing operations (2) Before exceptional items (3) Before other items (4) Other items are share-based payment, acquired intangible asset amortisation and acquisition expense (5) Before prior year tax and tax in respect of items in note (2) and (3)

Spirent's three reporting segments

Networks & Applications - 52%

- Ethernet
- Data center/cloud computing
- Applications and security
- Test optimization
- Wireless infrastructure

Wireless & Service Experience - 40%

- Wireless devices
- Wireless channel emulation
- Satellite navigation and global positioning
- Wireless service experience

Service Assurance - 8%

- Ethernet business services
- Wireless backhaul
- Field test solutions

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Networks & Applications

($ millions)	2013	2012
Revenue	**213.4**	**259.5**
Gross Profit	145.2	186.7
Gross Margin	***68.0%***	***71.9%***
Product development	55.1	49.8
Other expenses[1]	76.9	77.2
Operating Profit[1]	**13.2**	**59.7**
Return on Sales[1]	***6.2***	***23.0***

- Decline in data center partially offset by growth in wireless infrastructure
- Regional challenges in Asia and Europe
- Gross margin reduced due to lower volumes and intense competition
- Improving order intake in H2 - book to bill ratio 105 (2012: 94)

(1) Before exceptional items

Wireless & Service Experience

($ millions)	2013	2012
Revenue	**167.7**	**174.5**
Gross Profit	116.4	125.6
Gross Margin	***69.4%***	***72.0%***
Product development	37.6	29.3
Other expenses	45.0	39.6
Operating Profit	**33.8**	**56.7**
Return on Sales	***20.2%***	***32.5%***

- Device vendor profitability challenges and shift in technology
- Success in Positioning due to BeiDou, recovery in US government and high-end solutions
- Gross margin lower due to mix increase in Service Experience
- Book to bill ratio 101 (2012: 97)

Service Assurance

($ millions)	2013	2012
Revenue	**32.4**	**38.4**
Gross Profit[1]	25.2	25.8
Gross Margin[1]	***77.8%***	***67.2%***
Product development	7.8	7.0
Other expenses[1]	8.4	10.4
Operating Profit[1]	**9.0**	**8.4**
Return on Sales[1]	***27.8%***	***21.9%***

- Continued caution by service providers delayed software purchases
- Strong growth in Ethernet
- Large field test order; $12m revenue delayed until 2014
- Gross margin high due to mix, normal level 75%
- Book to bill ratio 127 (2012: 117)

Notes: (1) Before exceptional items

Free cash flow

($ millions)	2013	2012
Operating Profit	**39.1**	**108.1**
Depreciation and loss on disposal	16.5	14.7
Intangible amortisation and share-based payment	8.7	7.7
Working capital, provisions and pensions	9.2	(10.2)
Cash Flow From Operations	**73.5**	**120.3**
Tax	(6.1)	(23.1)
Net Cash Flow From Operating Activities	**67.4**	**97.2**
Net interest income	0.8	0.6
Net capital expenditure	(24.3)	(13.8)
Free Cash Flow - Continuing Operations	**43.9**	**84.0**
Free cash flow - discontinued operations	-	7.4
Acquisitions and disposals	-	(32.1)
Dividends and share buyback	(76.9)	(51.9)
Other	0.5	2.5
Exchange	0.1	2.2
Closing Cash And Cash Equivalents	**216.2**	**248.6**

- High cash conversion ratio, 1.3 times earnings
- Cash used for share buybacks and dividends

Tax and adjusted EPS

Tax

- Effective tax rate for 2013 was 25.8%
- Cash taxes paid $6.1m equivalent to 16% of profit in 2013
- Expected tax rate for 2014, 28.0%

EPS

- Adjusted EPS is calculated before exceptional items of $3.8m, share-based payment, acquired intangible amortisation, acquisition expense and related tax effects, and prior year tax
- Resulting in an EPS of 5.71 cents per share

Shareholder distributions

Ordinary dividend

- Progressive dividend policy
- Final dividend up 10%, giving total of 3.54c per Ordinary Share
- Payable in sterling at 1.20p per share at $1.67:£1, total dividend 5% up in sterling terms
- A cash distribution of $12.3m
- Dividend cover 1.6 times adjusted earnings

Share buyback

- Share buybacks continued the return of the balance of the proceeds from the 2012 divestment and extended beyond this; $55.5m returned in 2013, a further $16m in Q1 2014
- No further buybacks planned

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Agenda

- Overview
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Markets Spirent serves today

NETWORKS & APPLICATIONS

Addressable Market[1]	$750M
2013 Market Share	28%
ESTIMATED MARKET 3-YR CAGR	7%

- Ethernet
- Data center/cloud computing
- Applications and security
- Test optimization
- Wireless infrastructure

WIRELESS & SERVICE EXPERIENCE

Addressable Market[1]	$970M
2013 Market Share	17%
ESTIMATED MARKET 3-YR CAGR	9%

- Wireless devices
- Wireless channel emulation
- Satellite navigation and global positioning
- Wireless service experience

SERVICE ASSURANCE

Addressable Market[1]	$275M
2013 Market Share	12%
ESTIMATED MARKET 3-YR CAGR	5%

- Ethernet business services
- Wireless backhaul
- Field test solutions

Note: (1) Spirent estimates

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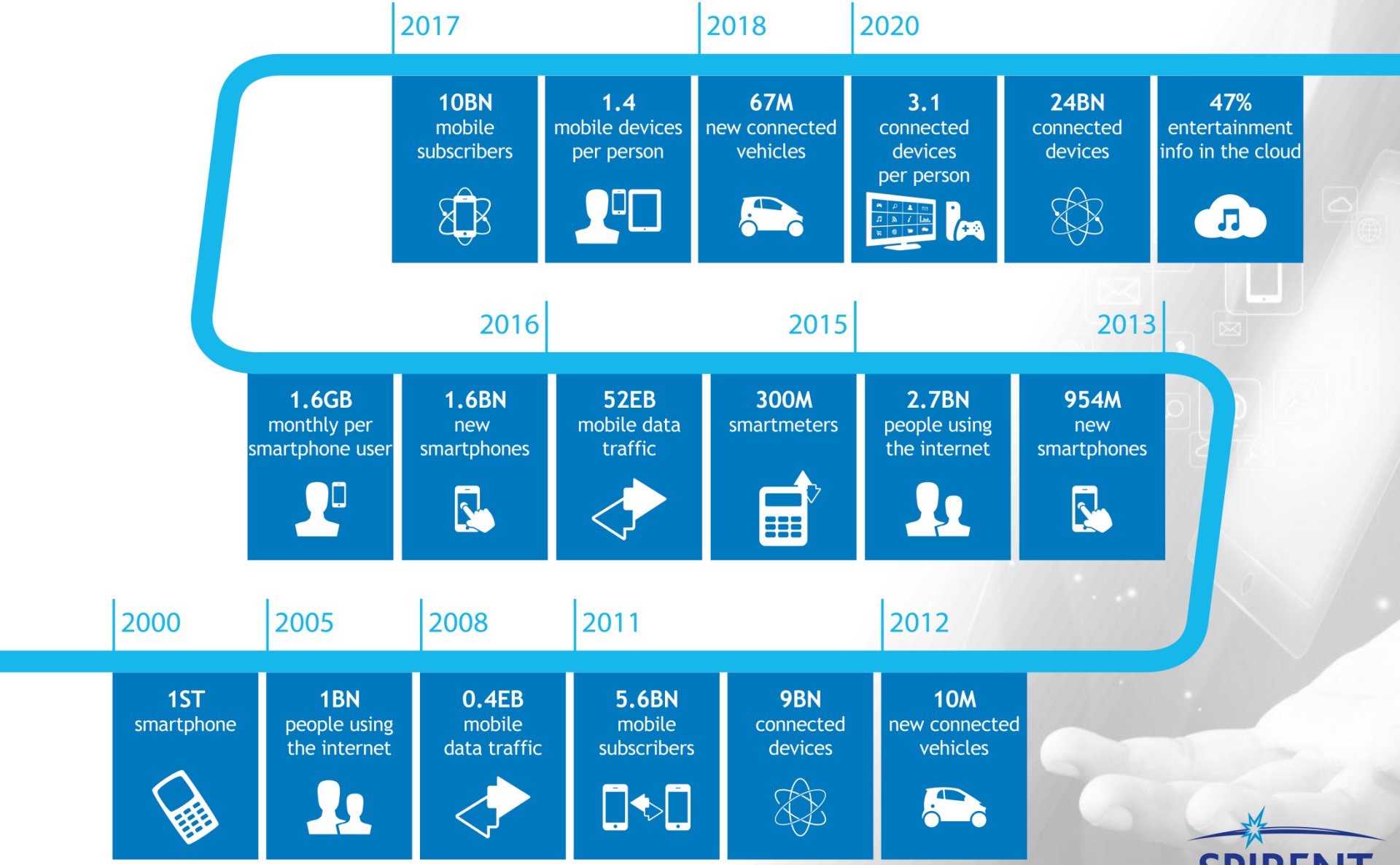
A turning point for our industry…

Global connectedness - the Internet of Things – is just getting started…



Source: CISCO VNI, ITU, GSMA, Gartner, US Census Bureau, Berg Insight and others

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A turning point for our industry…

- Focus shifting from network and transport to applications and services… and it's all about the user experience
- Ethernet is now *the* common building block for service provider, enterprise and critical infrastructure networks
- Moving beyond just getting connected… it's the age of hyper-connectivity: the internet of things
- Disruptive impact on infrastructure: SDN, NFV
- Security is an all-pervasive need
- Cloud - from a convenience to a critical part of our lives
- Result: a massive increase in the complexity of our customers' testing needs

Vision

To be the leading experts in test and measurement technology in the data communication market worldwide

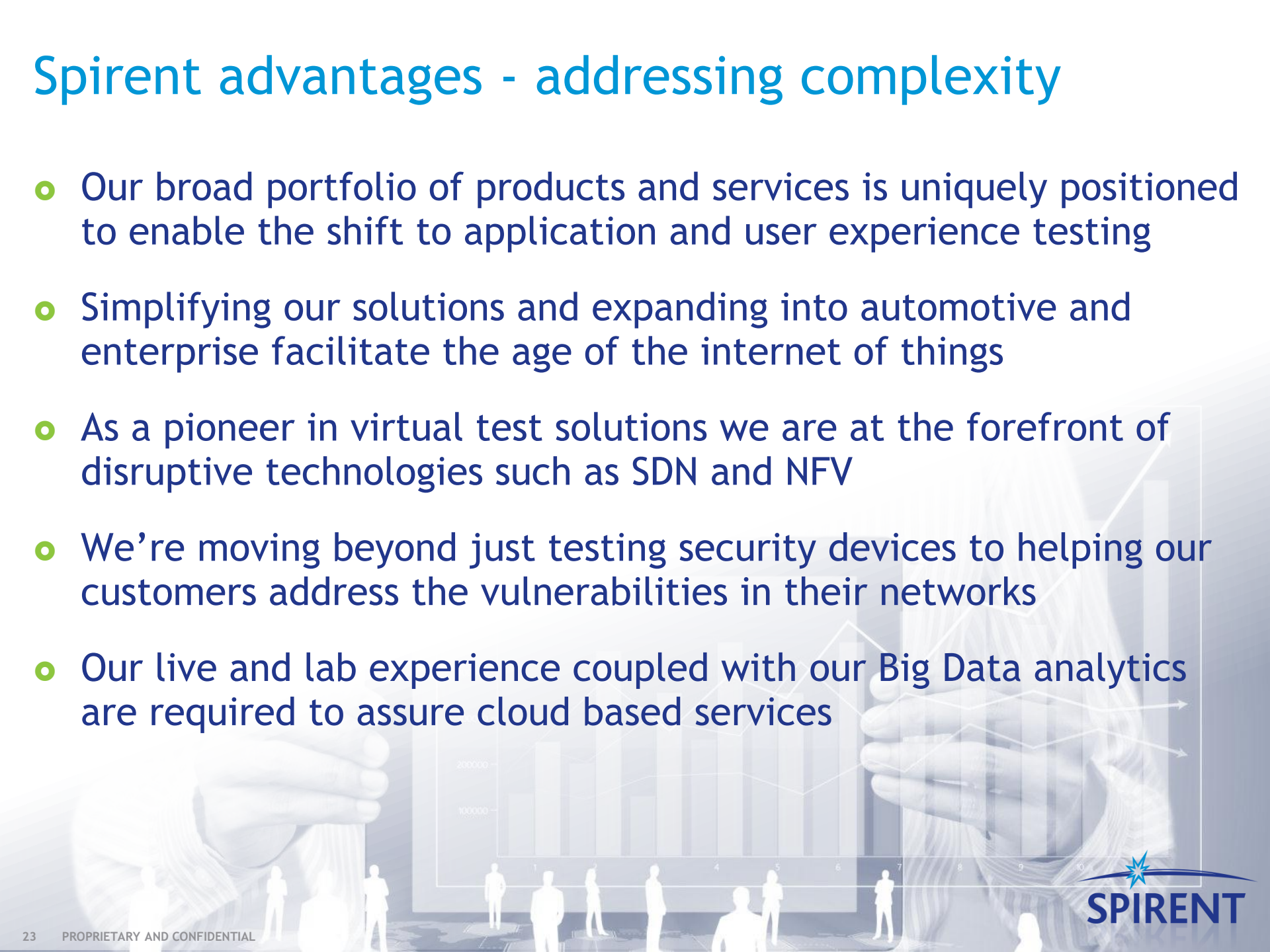
Strategy

Continuously innovate in test and measurement technologies to develop leading products and services for fixed and mobile voice, data and video applications and networks

To be recognised by customers for the ease of use and simplicity of our solutions for testing and measuring complex systems

Spirent advantages - addressing complexity

- Our broad portfolio of products and services is uniquely positioned to enable the shift to application and user experience testing
- Simplifying our solutions and expanding into automotive and enterprise facilitate the age of the internet of things
- As a pioneer in virtual test solutions we are at the forefront of disruptive technologies such as SDN and NFV
- We’re moving beyond just testing security devices to helping our customers address the vulnerabilities in their networks
- Our live and lab experience coupled with our Big Data analytics are required to assure cloud based services



Purpose of the 2013 reorganisation

Moving away from a matrix management structure that emphasised cost containment and constrained innovation and growth to

- Enable clear ownership and accountability
- Restore agility and improve decision making
- Inspire our people
- Put our experts closer to the customer
- Nurture our culture of innovation

Strategic priorities

- Be the recognised experts in T&M
  - More driving of industry standards
  - Enhance marketing collateral
  - Expand speaking/seminar events
  - More testing with leading independent labs
- Innovation – talent
  - Recruit new skill sets
  - Enhance training and development
- Design – software ease-of-use, simplicity
- Hardware – efficiency, small form factor, re-use
- Products designed for market needs, regional requirements

Investing in 2014 to drive growth

- Investing $33 million more in the business
  - Product development – up $15 million to $115 million
  - Sales and marketing – up $12 million to $109 million
  - Support services – up $6 million
- Of the total increase
  - $16 million to support our core businesses
  - $17 million to fund new initiatives

Growth initiatives

Networks & Applications Businesses

- Cloud & Data Center
  - Accelerate SDN and Virtualization test solutions to serve cloud based vendors and providers
  - Gain market share in service provider infrastructure test
- Wireless Infrastructure
  - WiFi emulation and leverage portfolio for true end-to-end testing
- Applications & Security
  - Extend our cyber security & critical infrastructure test capabilities
- Enterprise
  - Build worldwide channel to serve IT organisations and individual developers

Growth initiatives

Wireless & Service Experience businesses and Service Assurance

- Infrastructure Test Optimization
  - Solutions sales to enter growth markets, invest in cloud based automation platform to provide SaaS and managed services
- Wireless
  - Refocus through new differentiated and disruptive solutions
- Service Experience
  - Analytics, cloud infrastructure, international expansion
- Positioning
  - GNSS vulnerability, new technology introduction
- Automotive
  - Test needs for Ethernet data, wireless, GPS; security is critical
- Service Assurance
  - Data Center live, expand Ethernet service assurance coverage

Investing to build leadership and expand markets

- Virtualization, SDN and NFV to expand our served markets by $200m
- New verticals: M2M, critical infrastructure, enterprise, automotive
- End-to-end testing – Spirent has all the pieces to deliver differentiated solutions
- Automation/ITO to deliver added value to customers as a service, further expanding our served markets
- Analytics that provide actionable answers, not more data

Acquisition of DAX Technologies business

- Founded in 1996, based in New Jersey, USA, with 30 employees, annual profits $6.8 million
- Business acquired on February 19th for $37 million cash consideration
- Software and services business delivering customer experience management solutions
- Big Data and Analytics solution – InTouch
- Aggregates and analyses data from a wide eco-system of sources
- Analyses billions of records daily to deliver near real time insights to carriers on actual subscriber experience
- Competition are proprietary systems linked to hardware deployments
- Addressable market segment for subscriber experience of $400 million, growing at CAGR 14%

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DAX - InTouch application

Marketing / Sales

Deliver personalized services

Customer Care

Improve subscriber experience

Network Operations

Customer-focused Proactive

Customer Experiential Data

InTOUCH

Big Data
& Analytics Engine

Network Data

- ✓ Improve Customer Retention
- ✓ Increase Revenue
- ✓ Optimise Operations Costs

17 - 40% of customer attrition is due to service quality issues

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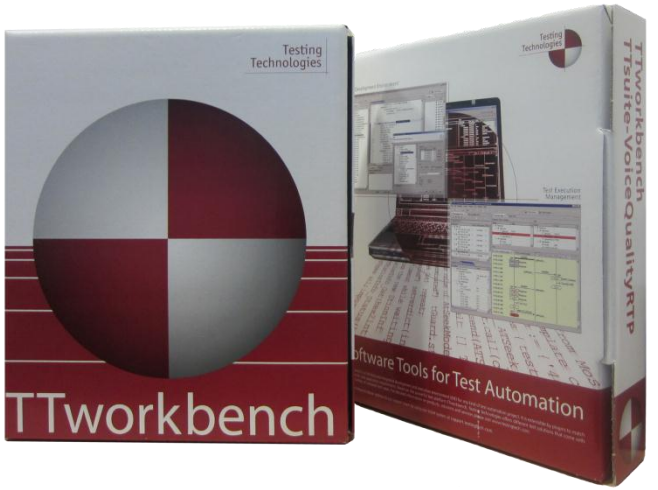
Acquisition of majority holding in Testing Technologies IST GmbH

- Spin off in 2000 from Fraunhofer Institute FOKUS in Berlin, with 25 employees
- 58% holding purchased on February 20th for Euro 2 million consideration
- Software and services business delivering automation test solutions for standards-based technologies
- Develops and utilizes Testing and Test Control Notation v3 (TTCN-3) tools and test cases
- Mandated wireless conformance test scripts set by standards bodies – IMS, VoIP, Video, Location Test
- Testing Tech's **TTworkbench** protocol test platform complements Spirent's **iTest** lab automation and test management capabilities
- Increases capabilities to grow and pursue new markets, such as connected vehicles



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Summary and outlook

- A turning point for both the industry and for Spirent
- Reorganisation in Q4 has created a more streamlined and agile business
- Our expertise and solutions position us well to address the internet of things, cloud and virtual rollouts
- $33M additional investment to enable return to growth
- Near term market uncertainties anticipated
- High single digit organic revenue growth in 2014

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