



## 2014 First Half-Year Results

*31 July 2014*

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# 2014 - first half-year, on the way

## ◉ Positive progress

- Revenue growth of 16%: organic growth of 14% and 2% from acquisitions
- Networks & Applications revenue up 13%
- Wireless & Service Experience revenue up 7%
- Service Assurance revenue up 74%, enhanced by revenue recognition delays from 2013 and by acquisition of CEM
- Positive underlying order intake: book to bill 104

## ◉ Investment for growth

- Investment plans on track
- More to do in cyber security - upside opportunity
- Focus on customer service and support
- Tangible change in positive engagement across the entire Group

# Key performance indicators H1 2014

**104**

**Book to Bill<sup>(1)</sup>**

(H1 2013: 110)

**\$221.0m**

**Revenue**

(H1 2013: \$190.4m)

**\$20.6m**

**Operating Profit<sup>(2)</sup>**

(H1 2013: \$18.2m)

**9.3%**

**Return on Sales<sup>(2)</sup>**

(H1 2013: 9.6%)

**\$19.1m**

**Free Cash Flow**

(H1 2013: \$26.7m)

**2.50c**

**Adjusted EPS<sup>(2)(3)</sup>**

(H1 2013: 2.03c)

Notes: (1) Underlying book to bill ratio adjusted for delayed field test order in Service Assurance

(2) Before exceptional items, share-based payment, acquired intangible asset amortisation and acquisition expense

(3) Before prior year tax and tax in respect of items in note 2



2014 First Half-Year Results

Rachel Whiting, Chief Financial Officer



# Comparative results H1 2014

(\$ millions)	H1 2014	H1 2013	% change
<b>Revenue</b>	<b>221.0</b>	<b>190.4</b>	<b>16</b>
Gross Profit	151.0	132.6	
<b>Gross Margin</b>	<b>68.3%</b>	<b>69.6%</b>	
Product development	55.3	48.0	
Selling & distribution	53.0	47.5	
Administration	22.1	18.9	
<b>Operating Profit<sup>(1)(2)</sup></b>	<b>20.6</b>	<b>18.2</b>	<b>13</b>
<b>Return on Sales<sup>(1)(2)</sup></b>	<b>9.3%</b>	<b>9.6%</b>	
Exceptional and other items <sup>(3)</sup>	6.7	3.7	
<b>Reported Operating Profit</b>	<b>13.9</b>	<b>14.5</b>	<b>(4)</b>
Net finance income	-	-	
<b>Profit before Tax</b>	<b>13.9</b>	<b>14.5</b>	<b>(4)</b>
Tax	3.4	1.1	
<b>Net Income</b>	<b>10.5</b>	<b>13.4</b>	
<b>Basic EPS (cents)</b>	<b>1.72</b>	<b>2.07</b>	<b>(17)</b>
<b>Adjusted EPS<sup>(1)(2)(4)</sup> (cents)</b>	<b>2.50</b>	<b>2.03</b>	<b>23</b>

- Organically revenue up 14%, all divisions grew
- Strong growth in APAC, recovery in Europe
- Underlying book to bill ratio of 104
- Operating profit reflects additional investments of \$10.5m
- Tax rate 27.3%

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

# Networks & Applications review

(\$ millions)	H1 2014	H1 2013	% change
<b>Revenue</b>	<b>104.0</b>	<b>92.2</b>	<b>13</b>
Gross Profit	70.0	62.4	
<b>Gross Margin</b>	<b>67.3%</b>	<b>67.7%</b>	
Product development	28.8	27.4	
Other expenses	40.9	36.8	
<b>Operating Profit/(Loss)</b>	<b>0.3</b>	<b>(1.8)</b>	<b>-</b>
<b>Return on Sales</b>	<b>0.3%</b>	<b>(2.0)%</b>	

- Revenue up 13% reflecting strong demand from data center and service provider infrastructure markets
- Gross margin maintained despite pricing pressure in Asia
- EMEA returned to growth as macro-economic factors stabilized
- Additional investments of \$4.5 million
- Book to bill ratio 108 (H1 2013: 115)

# Wireless & Service Experience review

(\$ millions)	H1 2014	H1 2013	% change
Revenue	85.7	80.2	7
Gross Profit	57.6	56.1	
<i>Gross Margin</i>	<i>67.2%</i>	<i>70.0%</i>	
Product development	21.1	17.4	
Other expenses	26.3	22.1	
Operating Profit	10.2	16.6	(39)
<i>Return on Sales</i>	<i>11.9%</i>	<i>20.7%</i>	

- Revenue up 7% with demand being driven by release of 4G licences in China and VoLTE
- Positioning tempered by delays to US Government spending
- Gross margin lower due to product mix
- Additional investments of \$5.4 million
- Book to bill ratio 107 (H1 2013: 108)



# Service Assurance review

(\$ millions)	H1 2014	H1 2013	% change
Revenue	31.3	18.0	74
Gross Profit <sup>(1)</sup>	23.4	14.0	
<i>Gross Margin<sup>(1)</sup></i>	<i>74.8%</i>	<i>77.8%</i>	
Product development	5.4	3.2	
Other expenses <sup>(1)</sup>	4.2	4.2	
Operating Profit <sup>(1)</sup>	13.8	6.6	109
<i>Return on Sales<sup>(1)</sup></i>	<i>44.1%</i>	<i>36.7%</i>	

- Revenue up 74% as we shipped large field test order for \$12.0m
- Order intake lower due to a slowdown caused by pending mergers in the industry resulting in delays
- Acquisition of DAX contributed \$3.0m of revenue and \$0.9m of operating profit in the period

# Free cash flow

(\$ millions)	H1 2014	H1 2013
<b>Operating Profit</b>	<b>13.9</b>	<b>14.5</b>
Depreciation and loss on disposal	9.5	8.0
Intangible amortisation and share-based payment	6.5	4.0
Working capital, provisions and pensions	6.2	12.0
<b>Cash Flow From Operations</b>	<b>36.1</b>	<b>38.5</b>
Tax	(3.4)	(4.7)
<b>Net Cash Flow From Operating Activities</b>	<b>32.7</b>	<b>33.8</b>
Net interest income	0.2	0.5
Net capital expenditure	(13.8)	(7.6)
<b>Free Cash Flow</b>	<b>19.1</b>	<b>26.7</b>
Acquisitions	(38.9)	-
Dividends and share buyback	(28.7)	(26.4)
Other	-	0.2
Exchange	0.7	(2.2)
<b>Closing Cash And Cash Equivalents</b>	<b>168.4</b>	<b>246.9</b>

- High cash conversion ratio, 1.9 times earnings
- Capex reflects \$5.3 million spend on new US facility
- Cash used for acquisitions, share buybacks and dividends

# Shareholder distributions

## Ordinary Dividend

- Progressive dividend policy
- Interim dividend up 10% to 1.68c per Ordinary Share
- Payable in sterling at 0.99p per share at \$1.69:£1
- A cash distribution of \$10.3m
- Dividend cover 1.5 times adjusted earnings

## Share Buyback

- Returned \$15.6m in first quarter of 2014 - No further buybacks planned

2014 First Half-Year Results

**Eric Hutchinson, Chief Executive Officer**



# Markets Spirent serves today

## NETWORKS & APPLICATIONS



Addressable Market <sup>(1)</sup> **\$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 <sup>(1)</sup> **\$970M**

2013 Market Share **17%**

ESTIMATED MARKET 3-YR CAGR **8%**

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

## SERVICE ASSURANCE



Addressable Market <sup>(1)</sup> **\$450M**

2013 Market Share **10%**

ESTIMATED MARKET 3-YR CAGR **9%**

Ethernet business services  
Wireless backhaul  
Field test solutions  
Customer experience management

Note: (1) Spirent estimates

# Vision

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

**Earn market leadership through expertise  
and by solving customers' problems**



# 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”

**Invest in the business, utilise our capabilities in new areas - hire, train and work closely with our customers**

# Strategy plan - is it working?

- Key measure - are we winning new business?
  - Revenue expectations are for high single digit organic growth
  - We are reporting organic growth of 14% plus 2% from acquisitions
- Investing in the business
  - All of the underlying profit growth is being ploughed back into the business
  - We are hiring, funding development, participating in standards bodies, achieving closer ties to university research departments
  - Focusing on customer service and support
  - And acquiring technology businesses



# Networks & Applications



- Established leadership position in the test of high-speed Ethernet equipment
  - Spirent TestCenter 100GbE
  - First working public demonstration of 400GbE (with Huawei and Xilinx)
- Key customer win-backs at top-tier equipment manufacturers
- Success in SDN/NFV test capabilities
  - Full support of Openflow switch and controller testing and VxLAN
- Virtual solutions wins at leading service providers, technology application developers
- Best of InterOp award for Avalanche NEXT
- Enhanced support for WiFi Offload in Landslide

# Networks & Applications

## *Infrastructure Test Optimization*



- Strong adoption in test and lab automated solutions
- New solutions targeted at continuous integration and LTE interoperability
- Announced Velocity next-generation virtualized automation platform
  - Best of Interop award finalist at Interop 2014
- Won largest automated solution contract to date, enterprise wide deployment of iTest for continuous integration
- Launched iTest Play (test execution engine) solution and received our first order from a major wireless infrastructure developer

# Wireless & Service Experience



- ◉ LTE Carrier Acceptance solutions sold into China 4G operator eco-system
- ◉ Enabling VoLTE as commercial deployment begins
  - Solutions from enabling underlying protocol development to measuring the VoLTE user experience
  - VoLTE bookings in 1H14 have surpassed all of 2013
  - Expanded the capabilities of our VoLTE solutions with the acquisition of Radvision TBU
- ◉ Identified market opportunities in the M2M and Connected Vehicle eco-systems

# Wireless & Service Experience



- Launched and received first bookings for three new Service Experience solutions
  - Quantum - mobile device battery life
  - AVS - audio quality for reverse logistics
  - IPAnalytics - mobile service diagnostics
- Major order from large Asian carrier to support 4G/VoLTE launch
  - Includes SE products as well iTest, Landslide and services
- Fit4Launch replaced major device provider's in-house field test programme
- Expanded Fit4Launch lab capacity by 50%

# Wireless & Service Experience



- ◉ GNSS vulnerability is an increasingly important theme, particularly with government and R&D customers
- ◉ Weak US government business
- ◉ Three positioning products launched to distinct markets
  - GSS9000 - new enhanced multi-GNSS platform for expert users
  - GSS6300MI launched to commercial receiver test market
  - SimSAFE launched as part of GNSS vulnerability strategy

# Service Assurance



- ◉ Successful release and deployment of Flex units in major US carrier
- ◉ Completed acquisition of DAX CEM business
- ◉ Booked first wireline analytics application with a tier-one US based carrier
- ◉ Expanded scope of wireless analytics application to include LTE and enhanced reporting
- ◉ Completed first customer trial of InTouch integrated with another Spirent product (Spirent TestCenter Live) for a tier-one US wireless carrier
- ◉ Expanded sales, product management, and engineering staff to position ourselves to scale

# Investing in the business

## ◉ Internal incubation

- Automotive - success in winning proof of concept with top-tier manufacturers and a tier-one test service lab supplier
- Enterprise - channel development to new customer segment
- Enterprise - Testing as a Service over the web: BLITZ, ArmorHub, Avalanche virtual



# Acquisitions

- Acquisitions to enhance the portfolio through software and solutions
  - CEM: DAX Technologies (data analytics)
  - Testing Tech (test tools and wireless conformance protocols, automotive test tools and aerospace voice traffic)
  - Radvision TBU (test tools for wireless, VoLTE, IMS, key protocols to enhance Spirent's solutions)
  - Expect to see further acquisitions coming through





# Acquisition of Radvision TBU business

- Announced July, cash consideration \$25 million
- Based Tel Aviv, Israel. Reported unaudited profit of \$2.7 million
- Complete development and test suite for Voice and Video over IP communications
- Enabling mobile chip and device vendors, wireless and wireline infrastructure vendors and operators to deliver their products to market faster and with higher quality
- Spirent will leverage ProLab's installed base at key customers and their lead in testing voice and video over LTE applications
- Voice and video intellectual property and expertise
- Recurring revenue streams through software sales with maintenance and royalty fees

# Business transformation

- ◉ Further development of virtual test solutions
- ◉ Nurture new ways to access new customers
- ◉ Business case solutions - selling added value
- ◉ High level executive contact with customers
- ◉ Recurring revenue streams through annual subscription and licensing - uptake in SW subscription pricing options



# Summary and outlook

- Foundation for greater success
- Seeing some growing pains: cyber-security product rationalisation
- Constrained by scarcity of resource
- Deliver long term strategic growth
- Current trading in line with expectations for high single digit organic revenue growth supplemented by acquisitions



