

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

SPT.L - Preliminary 2011 Spirent Communications PLC Earnings
Conference Call (Listen Only)

EVENT DATE/TIME: MARCH 01, 2012 / 9:30AM GMT



CORPORATE PARTICIPANTS

Bill Burns *Spirent Communications Plc - CEO*

Eric Hutchinson *Spirent Communications Plc - CFO*

CONFERENCE CALL PARTICIPANTS

James Goodman *Investec Bank - Analyst*

Gareth Jenkins *UBS - Analyst*

Nick James *Numis Securities - Analyst*

Alex Duval *Goldman Sachs - Analyst*

Johannes Schaller *Deutsche Bank - Analyst*

Zahid Hussein *Citigroup - Analyst*

Sunil George *Morgan Stanley - Analyst*

Lee Simpson *Jefferies - Analyst*

Jon Imlah *Collins Stewart - Analyst*

PRESENTATION

Bill Burns - *Spirent Communications Plc - CEO*

Good morning everyone. Welcome to Spirent's 2011 preliminary results presentation. I'm Bill Burns, Chief Executive Officer. With me today is Eric Hutchinson, our Chief Financial Officer.

Before we get started, I ask you to just take a read through the Safe Harbor Statement. It's up here in the packs each one of you have.

The agenda for today, I'll cover the high level highlights of 2011; hand things over to Eric to cover the 2011 financials in detail. I'll come back up and talk a bit about the market and the update on 2012, and an outlook for you.

Overall, I'd guess we'd say that the highlights for 2011, driven by the continued demand for -- inside the IT and telecom marketplaces, driven by the need for anytime, anywhere access to always-on communication around the world, and no matter where you are in the world, continues to be the theme that we'll talk about through the presentation, and continues to drive our business.

We will tell you, and we'll spend a bit of time on our strategy that we put in place three-plus years ago now, and how we're executing on that strategy, to continue to drive growth across Spirent, across, specifically, Performance Analysis; and how we're applying that to the business overall.

The growth is really driven by the mobile Internet overall, so all the aspects that we play across our business today, in mobility. So it's not just wireless and positioning technologies around devices; it's really the mobile Internet driving the entire communications marketplace.

And then the support of applications behind that, all the way back into the data centers, through the communications network, that's really driving our business today. And did that and drove growth in 2011 and will continue to do that through 2012 and '13, as we move forward.

We continue to benefit from our global reach, so we'll spend a little time on this, talking about the Asia Pacific market later in the presentation. But we grew across all regions in 2011 and we expect to be able to grow globally in 2012 as well.



Our pace of innovation continues. We'll talk about our solutions as we get into the second part of the presentation, and how they're being accepted by our customers.

We'll talk a bit about some of the new areas that we're going to invest in, to expand our servable markets or our addressable markets in 2012 and beyond.

So we're making new investments in R&D into some [new] areas; and making current investments in our current solutions that apply very well into the areas which matters most to our customers today.

And overall, you know this has led to a strong financial performance in 2011.

We look at the highlights or key performance indicators for Spirent. We look to our book-to-bill ratio, which is 102 for the year, on the back of strong order intake throughout the year.

Revenues up 10% to \$528 million; operating profit up to 10% as well, up to \$125 million as well, \$126 million almost. What you're seeing here, again, is the matching between revenue and profitability growth as we're investing back into the business to drive future top-line growth in the business.

Return on sales up slightly to 23.8% during the year. Generated free cash flow of \$76 million, after giving almost \$50 million back to shareholders in the areas of dividends and share buybacks during the year. So \$76 million of cash generated, and we gave \$50 million of that back to shareholders during the year.

Adjusted EPS up 17% to \$0.1392 per share during the year.

So solid financial performance across 2011; we expect the growth to continue into 2012, and we'll talk more about that as we get further into the presentation.

Here you see a three-year financial picture. Again, growth, as we've told you three years ago, our focus is really growing the top line of the business. So we've grown orders, we've grown revenue, grown profitability, continue to grow earnings per share, across the business; really driven by the opportunities we see across the IT and telecom space.

So we're focusing in the right areas; we're focusing our investments in the right areas for growth; we're focusing in the areas that matter most to our customers, and where they're spending money.

We're leveraging our global reach across the world, and our strength in places like Asia and the North America market that's got a bit more confidence at the moment than it's had in a while.

And we continue to expect it to focus in the future on continuing to grow the top line of the business.

With that, I'll hand things to Eric and then I'll come back up later, talk more about the markets and the outlook for 2012.

Eric Hutchinson - *Spirent Communications Plc - CFO*

Thank you, Bill. Okay, so let's have a look at the financial statements and see what we can glean from that.

The full Group consolidated numbers, as Bill said, 10% up on revenue. Gross margin, the underlying gross margin is down slightly, but if you take out the \$2.9 million excess inventory provision we made in the Service Assurance division, then you'll see that the underlying margins are actually the same. So there's about 0.5 percentage point of revenue, so 66.6% is the underlying margin trend.



Profit is up 10%, as Bill said, to \$125.9 million; group return on sales, up a slight tick to 23.8%. You can see we're investing in the product development to underpin our organic growth initiatives and we'll talk about, or Bill will talk about, some of the projects that we've been investing in to take us into new served addressable markets, adjacent to our existing markets.

Also investing in the sales and distribution channel to expand our activities and again, you can see how we're delivering on that in the growth in regions, particularly in Asia Pacific and pretty tight control on G&A overheads.

The other major effect this year is that the tax rate came in at 27.7%. Remember at the interim stage, we were guiding to 30.4%. I'll explain some of that. That also means that looking forward, that our tax rate guidance for future years, which was 31.5%, we're now reducing to 30%, so we've got some sustainable benefits looking forward.

As Bill said, our adjusted EPS up 17% year on year. Basic EPS is higher because there is a prior-year tax credit that's also flowing through the numbers, which we've excluded.

So Performance Analysis, just over 80% of our revenue, over 90% of our operating profits. Here much stronger growth rates. Revenue grew 14% year on year to \$416.4 million. Order intake grew at 12% and the book-to-bill ratio for Performance Analysis was 104.

Similar growth rates in Q4 for Performance Analysis. They were up about 12% on both orders and revenue in Q4 year on year over Q4 2010. And the book-to-bill in Q4 itself was 103, really driven by strong demand for wireless device testing solutions, position testing and satellite simulation, data center growth and also within the wireless, there's mobile packet core; and Bill, again, will talk more about that in his presentation.

Here, this is where we're putting the bulk of the investment to expand our served markets in product development spending. Naturally -- so the gross margin largely maintained, natural expansion on the return on sales because we're growing the revenue, and gross margins higher than G&A effectively.

Again, the three-year history on this business, we've gone from \$322 million of order intake in 2009, up to \$433 million in 2011. Profits from \$78 million to \$115 million and you can see the expansion in the return on sales from 24.7%, which was really our target number, let's make 25% on Performance Analysis, and here we are, we're now making 27.6%.

So our view is take the growth rate, invest back in the business, maintain the operating margin. So, looking forward, we will continue to invest for further organic growth in the business and underpin our growth expectation.

So it's really capitalizing on the long-term investment trends in data technologies globally. We saw growth across all regions. Again, we'll talk more about that later. And the financial performance of Performance Analysis is amongst the best in Test & Measurement.

Service Assurance, much more difficult market conditions. We saw service providers cutting back on spending, particularly on TDM technologies, the legacy technologies.

If you recall, we saw some really bumper spending particularly by AT&T in 2010, which boosted that. We also had a software contract in 2010 of \$2.8 million, which boosted both the revenue and the margin, which we didn't expect to repeat and we flagged that it didn't; and this is where we've taken \$2.9 million inventory provision of cost of goods sold this time.

If you add that back, the gross margin is around about 59%, 60%, which is the normal gross margin for the business. Because we're seeing weakness in the demand backdrop, you can see that we're tightly controlling the overheads in the business to make sure that we mitigate any weakness on top line.

At the end of the day, with the inventory revision, big drop in operating profit, but again, underlying, we're about 18% return on sales here if you add back the inventory provision.



We are investing in the business on Ethernet monitoring and wireless monitoring solutions, so we talk about mobility monitoring in this business, so wireless monitoring, and that's where we see the future growth drivers.

The drag on the business is really where you see the TDM legacy technologies tailing off. So likely to be, again, a tough year in 2012 for Service Assurance, but growth coming back in 2013 and thereafter.

Systems, here this is really being impacted by US Government tightening up reimbursement levels on Medicare, so Government cutting back on healthcare spending. So that squeezed the top line. We continue to make some progress in developing the industrial controller market to help offset some of that impact.

Gross margin's actually up because we've now pushed more production to subcontract. It's offshore; it's in Southern China. So we've got some permanent benefits in the gross profit margin improvement here, so you can look forward to that.

Again, investing a bit more into the industrial controller market and the high-end rehabilitation wheelchair. So the rehabilitation wheelchairs there's much more robust ongoing demand for. It's a smaller part of the business, but severely disabled people who do need these devices, that is being funded.

Again, pretty tight control on the overheads to maintain the margins at the operating level and despite 3% downturn in revenue, we actually saw a slight uptick in operating profit and margin return on sales.

Again, the outlook, fairly tough for 2012, probably flat to 3% up in this business, maintaining the returns.

If I turn to cash flow, so a pretty good conversion of cash, earnings into cash for the business. You can expect to see the tax burden as a percentage of profits going up as the tax losses and tax shelters have been worked off, which we've been guiding to for some time.

Big turnarounds here. The \$18.8 million working capital investment, some of that is paying for the bump-up in inventories that we made in 2010 and the cash flow impacted 2011. This is -- if you'll recall, we were shipping all of our buffer stock because demand levels were running so high, so that's gone back in.

The other turnaround effect is that we had a lot of deferred income received in 2010, which we didn't see for the same level in 2011. So there's about a \$10 million turnaround on working capital due to that.

The underlying receivables position is unchanged. It's our normal 59 to 60 days sales outstanding and so it's just funding growth in the business.

The other areas, we're investing more in capital expenditure. We need to get more demonstration equipment for our engineers and for our sales guys to go and sell the new products that we're introducing. But again, normal levels around about 3%, 3.5% to 4% of revenue would go into CapEx and that will obviously come through as depreciation charge in due course.

Of the cash flow, as Bill said, \$50 million went back to shareholders; \$17.5 million by way of dividend, \$32.6 million through share buybacks. We applied \$14.5 million on the acquisition, plus \$1.2 million acquisition expenses. So we've pretty much used most of the free cash flow generated, a little bit increased the balance on the balance sheet.

In terms of taxes, the real benefit was that we resolved state tax audits in the US and got a favorable result on the treatment of research and experimental tax credits. So that came in, as I said, lower than the 30.4%.

This is a favorable position that will also benefit future years, hence reducing the tax guidance to 30% going forward. We paid 18% of profits in terms of cash taxes paid. That will move up slightly to 21%, 22% of profits in 2012.



But there will always be a bit of a gap between P&L burden and cash taxes paid. But it will converge to around about 26% over the next two or three years.

Earnings per share on our adjusted basis, we add back share-based payment, amortization of acquired intangibles and acquisition expenses. So on that basis, we've excluded the \$5.4 million prior-year tax credit, so we get the \$0.1392.

So we've taken the \$2.9 million inventory provision increase as ordinary expense. We haven't put that through as an exceptional debit.

And shareholders' distributions; strong earnings growth supports an increase in the dividend. We said that we would grow dividends' progression with earnings growth, so 17% up on the total dividend to \$0.0293.

The dividend cover is maintained at 4.8 times. It's about \$19 million of cash going out and we've fixed that in sterling at 1.05p per share and it'll be payable on May 3.

In terms of share buybacks, we will buy back shares in the market to offset any dilution effect of the exercise of share-based incentives.

Okay, with that I'll hand back to Bill to look at the markets and the outlook.

Bill Burns - Spirent Communications Plc - CEO

Thank you, Eric. We'll spend a bit of time now talking about the markets and then an outlook for 2012.

I would say overall, it remains an exciting time across both the telecom and IT industry, as the fundamentals truly remain strong. And I think that anybody who was in Barcelona at the Mobile World Congress, other than the threat of public transportation strikes and the protests yesterday, if you're inside the show, there certainly was no hint of a recession or a challenging economic environment here in Europe as the focus of the attendees at the show really were around the mobile Internet.

And the excitement at the show, the amount of attendees at the show and the things that people were talking about around how do we drive more applications? How do we release more smart devices, whether it's tablets or smartphones? And many of the trends that we're seeing here was a buzz at the show; so mobile Internet continues to be at the forefront of driving the telecom and IT marketplace.

A concept we hadn't talked about prior but has gotten a lot of press lately is this concept of big data analytics; the idea of taking all the data around the world today, and IBM will tell you that 90% of the data in the world has been collected or generated in the last two years, and analyzing that data and making determinations about you as a consumer or you as a user. Then either marketing information to you or tracking your environment; you're in France using your credit card and do you have your mobile device with you? And does that say, okay, the mobile device and credit card are in the same place? Therefore, authenticate the credit card.

It is tracking behavior and selling and sending information to people. All that is driving the analytics inside the network, driving more traffic and data being generated from each of the consumers, that's then being analyzed and fed back out and pushed back out as information to each consumer.

So this will continue to be a big topic around the growth of data centers, the analytics of data throughout the network and the drive for more data on the network.

Cyber security has become part of, quite honestly, everything we do every day on the Internet, whether it's personal security of feeling comfortable about what we do on the Internet.

But certainly large businesses and firewalls, as we've seen, the hackers continue to look for ways to break security mechanisms inside firewalls and others. And it's an important area to all of us and certainly large business.



The Internet of things, the concept that everything from airplanes to refrigerators will be connected to the Internet in some way. One of the hottest new products during the year was the thermostat that connects to the Internet and allows you to control it through your iPad and others. But this will continue to drive the mobile and wireless business and trends within it.

Smarter planet, how do the cities become smarter? How does our smart grid become smarter? How do we better utilize the infrastructure around the world, driving again a data consumption, the use for data centers, the need for mobility and traffic and interconnection, the driver of the Internet?

Cloud computing, these large data centers and the amount of traffic that's hosting these data centers. If you look back a number of years ago, the traffic on the Internet was peer to peer, person to person, email to someone else.

I think 90% of the traffic today in the Internet resides or goes through a data center somewhere along the way, much less is peer to peer. And these data centers are growing and hosting the applications that people want to use everyday across social networking, in video, in business applications.

Then you've got global situational awareness, so we don't spend a lot of time talking about our global positioning business, but the opportunities there are incredible; the fact that we're seeing that business transition really in the consumer space.

And we're seeing more and more satellite constellations being launched. In the past, it was all about GPS, US satellite constellation. Today, 60% of our systems, test systems, are sold with both GPS and GLONASS, the Russian satellite system testing on it.

As we look forward, China's going to launch a constellation of satellites. You see European Union launching a constellation of satellites. You see India doing the same and Japan. As this becomes part of everyday life, they feed information from data across the mobile Internet to specific users that are in a specific geography knowing exactly where they are.

And these concepts are really the excitement around IT and telecom. And the growth that you'll see in spending across the service providers and inside these large data centers and the IT environment, that will drive our largest customers and network equipment suppliers and mobile device suppliers to continue to spend money on tests as we move forward.

If we look at the technologies that enable all of those trends, it starts with wireless. It's the growth of 3G, higher speed data rates on 3G. And the move to 4G LTE will continue to be a big driver for our business moving forward.

But it's not just the devices themselves, it's the mobile backhaul and packet core, so it's the idea that the mobile infrastructure is growing as well.

And everything's changing, not just the actual device that supports more data, but the [untenet] and [tenet] technology, feeding the device is an area in which we test; the backhaul, the data traffic itself; the mobile packet core doing things like the signaling and authentication and making sure you have the ability and use of that network.

All those things continue to grow, as we see the network evolve to support this demand for higher data rates and more users on the network.

10, 40 and 100 gigabit Ethernet, there has been a lot of talk of 40 and 100 gigabit Ethernet. Our fastest growing interface in the highest volumes are still 10 gigabit Ethernet.

Over the next couple of weeks, we'll announce a press release. We're working with one of our customers that test the largest 10 gigabit Ethernet data center switch, the largest test ever done, in the next couple of weeks; 1,600 10 gigabit ports on a single data center switch.

But 40 and 100 gigabit are just at their infancy. 40 gigabit will be used inside the data center; 100 gigabit will be used inside the service provider networks. But just starting to see growth in those areas, as our fastest growing interface is still 10 gigabit.



Virtualization and cloud computing, we continue to see demand for our solutions, as we look at the performance and availability and scalability and security associated with cloud networks and the equipment and services that actually are associated with these.

A lot of investment continues by Cisco and Juniper and Broadcom and Brocade. We see Huawei Enterprise, for instance, being created to spend a lot of money. We see in 2012 a great opportunity for us to focus on this enterprise market. As they sold off, Huawei, 3Com, they're entering the enterprise market again in a global way.

Applications testing, the idea that people want to test realism in the network; what are the protocols? What are the actual applications people are using every day? And how do you marry that just with traffic analysis to actually do real testing around security and applications in the network itself?

This infrastructure security, how well does my firewall work? How protected am I? Can those protocols get through to [target] my network or steal my data becomes an ever more important piece of everybody's business today.

And, again, we've talked about global positioning. It really has become part of everyday life.

These are all technologies that enable the things we talked about on the prior slide. And they're all areas in which we test today. So we continue to focus and refine our portfolio, to focus in the areas that matter most to customers and drive the larger trends within the telecom industry.

We thought we'd go back and talk a bit about our strategy that we introduced to you now three-plus years ago, that truly executing on that strategy is driving profitable growth for us at Spirent.

And we talked about the strategy and I'll talk more in detail on the coming slides, but it starts with developing the right solutions at the right time for the market, really having the technologies and continuing the innovation across our business.

It's about expanding and evolving our solutions portfolio, and we've talked about this before, about people don't buy a piece of test equipment for what it does today, they buy it for their roadmap. They want to buy it once, use it many times, they automate around it, they automate their testing, and they continue to expect us to evolve that piece of test equipment with them as technologies continue to evolve.

As you go from gigabit, to 10 gigabit, to 40 gigabit, to 100 gigabit, they expect us to move along with them. So we continue to evolve and expand our solutions. As we get into the presentation I'll show you how linking those solutions together, as Spirent has the broadest assets across Test & Measurement today, really matter to our customers as they want to test everything from the mobile device, all the way through to the data center in a single test solution, which is really an advantage for Spirent.

It's about our global reach, we continue to see why we grew across all regions in 2011. Asia Pac grew the fastest, and our relationships are very, very strong across the world, but also very, very strong in Asia.

Innovation, we continue to lead the world in innovation from a Test & Measurement perspective, and you'll see the awards and recognition we've got for that as we get through the presentation. And we continue to shift our resources and focus on these growing and emerging markets. Take resources off from our legacy products and move them to the areas that matter most to our customers.

And last, certainly, but not least, is investing in our people. Spirent is its people, and no matter where I go around the world, our people are committed to make Spirent successful, and we'll talk more about that.

So this strategy is the one we put in place three-plus years ago, to drive top-line growth, and that's what it's driving at Spirent today, and we'll talk more about each element to this.

Here is the Performance Analysis revenue growth in 2011, which you see is about 14% growth. But within those pockets of growth, within Performance Analysis, the areas that represent a large portion of our business, what you see is wireless device testing grew at 28% during 2011.



Our global positioning business grew at 37% and has a significant amount of opportunities moving forward for it. Our mobile packet core testing business, again back to mobility, represented 60% growth, a smaller portion of the business, but very, very important was we marry this solution on the Spirent TestCenter and test along with Ethernet the actual mobile packet core.

These three mobility segments alone equal about 43% of our business today. If we marry the Ethernet test business along with it, and test things like mobile packet core, likely our business is more like 50% plus in the wireless testing business today, which is the fastest growing segment of Test & Measurement as we see it.

The other area of growth through the year was the investments, as I said before, in the data center, technologies that go inside of the data center. So whether it's switches, or routers, or firewalls, load balancers, the equipment that actually supports these data centers, and the equipment that sits on the top of every rack, at the end of every row, leaving the data center and connecting into the branch offices into the data center, that supports the Internet growth and the mobile backhaul, all that grew at about 19% revenue growth through the year.

So a significant portion of our revenue is in the right areas, delivering solutions at the right time, that our customers need, and the solutions that matter most to them, that'll drive growth for us in 2012 and beyond.

Looking beyond the strategy of evolving and expanding our solutions portfolio, we've used slides like this in the past that we've got positive feedback on how it helps me understand what you test. But if you start at the mobile devices and out to the consumer, and you look at the access network of wireless and residential access and the access of a large business into the network, and you look at the unified core, where the world's moving to packet, as Eric said, less spending on TDM, more spending on packet and you've got the signaling networks coming together in the wireless side. So some would call this to converged mobile packet core as 3G and 4G are coming together, just as all the traffic's coming together, wireline and wireless.

And you've got here, content delivery; video, social networking, you've got cloud applications hosted, you've got the Internet itself. We test across all these dimensions, whether it's the mobile device, and the application's performance on that device, whether it's handovers between cell towers, whether it's the antennae technology that feeds those devices, whether it's the backhaul and the edge of the mobile traffic, whether it's the air interface to the actual phone itself, whether it's fixed/mobile convergence, where we're seeing a lot of equipment being focused on the wireline network in the past, now adding technology to support the backhaul of wireless traffic and the support of wireless protocols through the network, all the way to the performance and availability and scalability inside the cloud itself, and the equipment that fits into that, we test across these areas.

And what we're seeing is that we're continuing to expand and evolve our solutions' portfolio. As our customers continue to make more investments in their equipment, to continue to evolve their solutions to the market, we continue to evolve our solutions in these areas.

In a couple of slides, I'll show you how we tie this all together, in the test solutions and why it matters to our customers as they want to test, all the way from the applications through the actual device that it renders on.

Our global reach, so another key element of our strategy we talked about was our global reach around the world. And we talk about the Asian market specifically here; while all the regions grew for us in 2011, Asia Pac grew at 16%. And it's driven by a couple of elements. First is the global equipment and device suppliers investing as we are in the Asia Pac region for research and development.

That's going to continue, but also large and growing Asia Pac equipment vendors. Again, the folks that were in Barcelona saw the stands of ZTE and Huawei, LG and Samsung that continue to invest in the Asia Pac market for global presence inside the telecom market. They will continue to be companies that are based in Asia, or headquartered in Asia, that will sell to the global telecom market, and be formidable competitors across the world inside the telecom market, and they're large customers of ours today.

Strong desire by the Asia Pac service providers to test, so whether it's China Mobile or China Telecom or NTT or Singapore Tel, what we're seeing is -- Tata in India -- we're seeing a desire for the Asia Pac service providers to actually test equipment and mobile devices before they actually go into the network. NTT DOCOMO is another great example.



A strong manufacturing base; so while we don't do a lot of our business inside manufacturing, what we're seeing is some opportunities within the manufacturing base in Asia to sell more of our equipment as people like Cisco and others continue to drive testing at the end of the manufacturing area. So all of this, is a great opportunity for Spirent as we lead the market within the Asia Pac region for Test & Measurement.

Our innovation; so another element of our strategy was to continue to innovate across our solutions portfolio to bring new products to market. And the fundamental areas for growth for us, again, are mobile devices and Ethernet networks and application & security. And within each one of these you see things like LTE and location based services, this global positioning we talked about, the RF and antennae performance we talked about. The mobile internet and high speed Ethernet, IPv6, the move to a packet infrastructure across the core of the network, cloud computing and virtualization and tested applications.

But what our customers are asking us to do is to drive innovation across all of these. How do I take a mobile device and test all the way through the applications in the data center, across the network to test how well the application renders on an actual device itself? How well does this device perform when it draws applications from the data center? How secure is somebody's network, all the way out from a mobile device back into the data center?

So we're seeing this convergence of a high performance service delivery vehicle across our customers. They're saying I've got to link these different separate elements together, give me solutions that actually marry your test solutions together. Global positioning through wireless device, all the way through wireless packet core to the actual infrastructure itself, to test across the converged core of the network and across the service delivery platform for our customers. Make it more real. Emulate the subscribers, and emulate the servers for me across the network, so I can actually test in a realistic environment with real protocols. So again we continue to lead in the innovation area of this.

Focus on growing emerging technology markets; in the first part of 2011, we invested in a solution to expand our wireless solutions to a larger addressable market. That addressable market was really focused on the R&D market within wireless.

So today, we've told you in the past we've focus primarily on carrier acceptance. Now think of that as, once a mobile device is actually a device, a real device, there's network equipment vendors, or mobile device suppliers, end of service providers use our test equipment to test that device. How well does it perform, how well is the data throughput, how well is the handover between cell towers, how well is the handover from 3G to 4G, how well does the antennae work?

We don't do a lot of work back into the R&D cycle before it's actually a device. So when it's a reference design, when it's coming together as a device, testing discreet elements of the device before it actually comes to market. So we've taken our assets and leveraged our customer relationships on our products and solutions inside carrier acceptance, and we've grown our addressable market to look at a new area inside wireless R&D to grow our addressable market in 2012 and beyond.

And we're making several investments in this area organically to look for ways to continue to expand our markets into other areas that we don't do business in today. So it's about focusing and growing emerging markets, and making some of these R&D investments into new areas that we don't compete in today, to grow our addressable market.

Investing in our people; when we looked across Spirent, again Spirent is its people, and our technical expertise and the expertise our people have around the globe associated with testing and the need for test, and what it means for our customers from everything from what do I need to test, how do I test it, how do I automate to get products and services to market faster? That's the value we bring to our customers.

It's not just the solutions. It's the knowledge around test to allow our customers to be more efficient and more effective in everything they do across their development cycle; and across the service providers, they want to bring new products and new services to market faster. So it's that technical expertise.

But it's about rewarding and recognizing our employees. It's about attracting the best individuals. So we've got performance-related incentives tied to our employees. We've got an employee stock purchase plan. We continue to have a college intern program, and new college hiring programs, to bring in the best and brightest into Spirent, to continue to grow our innovation and grow our team.



So we continue to evolve our workforce around things like management leadership and career progression. No matter where I go in the world, whether it's Beijing or Southern California or the East Coast, our employees are committed to make Spirent successful. And it's really important that we continue to attract and retain the best talent inside Spirent. And it's important for us as part of our strategy.

So what does all this mean? So this is a series of awards we were given in 2011. What's interesting about this is that many of these awards aren't given by just industry leaders or magazines or analysts. A lot of them are voted on by actually users of our equipment. So Test of Time is a great example of that. It's a vote by actual customers themselves about test solutions that give them value over time.

And they voted Spirent TestCenter as their Test of Time award for the year in 2011. Because it continues to evolve everything from Ethernet testing, to applications and security testing, all the way through mobile packet core, to continue to keep up with them as they continue to look to evolve their solutions in the market place.

Frost & Sullivan voted us the global leader in Ethernet testing as well as the global leader in cloud computing testing. LTE Visionary Award, what you're seeing is we continue to win with our customers which is most important, but continue to be recognized in the industry, and around the world, as having a leading portfolio of test solutions. We continue to shift our resources to the areas that matter most to our customers. And they're most interested in buying our solutions from us to grow the top-line of our business.

Conclusion. Telecom and IT industry fundamentals remain strong. We participate in those in many areas, when you look at Internet and big data, internet of things, cyber security, all the areas in which we test today. We continue to drive and execute our strategy which is driving profitable growth for Spirent. We're leaders across the Test & Measurement industry, especially in the Asia Pac region, but globally.

We continue to invest in our core markets and make those investments to capitalize on the growing and emerging trends. So it's evolving and expanding our solutions portfolio. We continue to expand our addressable markets by new investments in R&D to grow into new addressable markets across the globe. All of which, we believe, will enable Spirent to continue to deliver profitable growth in 2012 and beyond.

With that I thank you and we'll take questions.

QUESTIONS AND ANSWERS

James Goodman - *Investec Bank - Analyst*

James Goodman, Investec Bank. Just firstly on the Performance Analysis revenue outlook. It feels like there are some very positive trends there which you've seen come through in the fourth quarter. Just if we go back to Q3, and the feeling at the time that we'd be towards the lower end of the 7% to 10% range, I was wondering if you could update us on whether it's just timing or whether you're seeing specific things in the fourth quarter that have improved that for next year? And I've got a follow-up.

Eric Hutchinson - *Spirent Communications Plc - CFO*

Really what we saw was there was quite a slowdown with equipment manufacturers being quite concerned about service provider demand level. And that was coming through in September, October, November. In December we saw a lot of the prospects, particularly in the wireless positioning market, and especially in China and Korea, coming through.

And those trends look set to continue. We're certainly seeing that coming through in the first quarter of 2012. And in our planning for this year we're expecting to see that to continue to be a growth trend. Yes. So really some of that nervousness was more than compensated by China, Korea wireless positioning. But also we saw a level of confidence coming back in the US market.



James Goodman - *Investec Bank - Analyst*

Great, thanks. Just also you've talked a lot about investment today. I understand the way in which you also alluded to protecting your operating profit margins going forward. Just wondering if there is any further guidance you could give on a divisional basis? Because you've made some operating progression in Performance Analysis this year. And I'm wondering whether that's caution around the other two divisions, or whether you're looking for really consistent margins specifically within the Performance Analysis division?

Eric Hutchinson - *Spirent Communications Plc - CFO*

So really when we're talking about investment levels and sustainability of margin, we look at each segment separately. So when we talk about 7% to 10% growth rates through cycle on Performance Analysis, and maintaining the operating margin in Performance Analysis, then that's what you should be modeling. So we're looking to invest in product development engineering primarily, but also in sales channel.

To the extent that you see higher growth rates, then we're going to get leverage over the G&A number, which is really what you saw in 2011. The other businesses we would look to more modest growth levels, flat to 3% up in 2012. Go back to the normal trend lines of 3% to 5% growth. This is both Service Assurance and Systems. We would expect the underlying profit margin in those businesses to be maintained.

Gareth Jenkins - *UBS - Analyst*

Gareth Jenkins, UBS. Just two if I could, just on that last point as a follow-up. To get to 0% to 3% growth for SA and Systems this year implies quite a pick-up on the run rate from Q4. Are you already seeing signs of a recovery in both of those business areas into Q1?

And then the second one is just on the regions. I think, Bill, you said that you grew in all areas in 2011, and you expect wide growth in 2012. Are there any -- or could you just give us a sense of what the different growth rates by region for 2012 will be? Are there any areas where you feel you might actually be flat and offsetting Asia slightly?

Eric Hutchinson - *Spirent Communications Plc - CFO*

On the Systems business we saw the weakness in Q4, it was difficult. January, February actually looks better. So relatively weak Q1, but actually are back on trend we think for Systems. Service Assurance order intake is much more -- comes in larger contract amounts. So the bookings actually were very large in Q4 but they normally are, because a lot of the annual maintenance contracts come in in Q4.

And, to be quite honest, it's pretty difficult with Service Assurance in the first quarter of this year. So that seems to be -- I think it's going to be a weak first half with a stronger second, as we see some of the newer areas' growth offsetting the decline in the legacy business.

Bill Burns - *Spirent Communications Plc - CEO*

I think the challenge in Service Assurance is really the idea that we saw a lot of spending in the large customers in building out mobile backhaul in 2010. Because they couldn't get Ethernet facilities, they built out TDM facilities and bought more TDM test equipment in 2010. You saw a drop off in 2011. You see a real focus, the shift of spending to wireless inside those operators in the first part of 2012.

So I think that, while the first half will be tough, it's too early with the opportunities that we have across Ethernet and other areas of the business. We've just introduced a solution around Service Assurance mobility. To say that the growth rate for the year wouldn't be any different than that, even though the first half will be pretty tough, it's just too early in the year to predict where we're at.

So tough in the TDM side, that's the biggest challenge. We saw 50% growth rates in the Ethernet side of our business. We won four new contracts in the fourth quarter, all of which now need to be installed before they pick up into ongoing business from those service providers. Which gives us more confidence in the second half around Service Assurance.



Growth rates globally, so about 5% in North America, 9% in EMEA, 16% in Asia. Overall, I would say that we see more confidence in the North American market than we've seen in a while. Job growth coming back. People felt good about their businesses through any of the questions or skepticism or concerns around the global economy, but still had to make prudent decisions and still became cautious. And we saw a lot of that, as Eric said, come through in September, October, November in their thinking.

It all came through in orders in December as I think they continue to feel good about all the prospects within the global economy from opportunities inside fundamentals of Telecom and IT. I think that even our exposure to the EMEA market, which is about 17% of our revenues, is really about people investing in a global world.

So it's the Alcatels and Ericssons, Nokias and Nokia Siemens networks and the chip vendors like Intel and Infineon and others that are investing for products around the world that are our largest customers, that's 50% to 60% of our business, versus the service provider.

So even the spend in Europe, while we don't have a -- we don't think it's as nearly anywhere near like an Asia Pac growth would be, I think we feel okay for 2012.

Nick James - *Numis Securities - Analyst*

Nick James, Numis. A couple of questions, the first was on wireless which is one of the strongest areas of the business.

I guess there's no doubt that a lot of the underlying market growth in smartphones. I guess one of the things of that market is that all the profits seem to be centered around two large players and then everybody else is really struggling. So is there any risk of a consolidation of this market which would impact on the test tools industry?

And then second was just on Asia, which has again been a strong area for Spirent. One of the big competitors, Ixia made some comments that they've actually seen a pick-up there. Are they becoming more competitive in that region, or is that in a different area to where you're playing?

Bill Burns - *Spirent Communications Plc - CEO*

Yes, so I would say that across wireless, I think we've got a fairly diverse customer base as one could have in wireless. So if you're a wireless device manufacturer, if you're a wireless infrastructure manufacturer, if you're a large service provider inside wireless, you're likely our customer and not in a small way, in a fairly large way.

So that diverse customer base, all the way from the Qualcomms and the Intels and the Broadcoms and the chip side, all the way through, the Motorolas and the RIMs and the Nokias and the Huaweis and ZTEs quite honestly, as we're seeing a big investment by them in devices, to Samsung who's one of the ones rivaling the iPhone and others today, we continue to do business across those.

And the investment continues, whether their businesses are struggling or they're doing well into the marketplaces, they know the only way they're going to do well is to develop new devices that quite honestly rival the guys that are making all the profits at the moment.

So that's a good thing for Test & Measurement, if people have to catch up in a market, they're going to spend more in test to bring new products to market to do well. That's a phenomenon we continue to see, opposite of what you think; if somebody's struggling as a business they spend more on the test area with us, typically, to bring new products to the market.

So I think we feel good about our wireless business overall, and I don't think consolidation will really hurt us in any way.

Consolidation recently has actually been good for us. So a good example of that is Cisco purchase of Starent is a good example of -- they're both good customers of ours and they continue to be good customers after that acquisition, as Cisco looks to leverage the technology of Starent inside their broader router area.



From an Asia Pac market perspective, I would say the competition around the world's about the same. I think that we hear others talk about the Asia Pac market; we continue to have very, very strong relationships in Asia Pac.

In the China market, we basically developed the test business there. As Huawei's and ZTE's and others wanted to move to a global market, they really wanted to test with western test equipment, this is going back 10 years ago. And they used our test equipment first and we've continued to have strong relationships with them.

We believe in many of the areas in which we test, we're leaders in the Asia Pac market. That market continued to invest through the downturn in 2008 and 2009 and they certainly continue to invest now.

And it's not just in Asia; we're seeing people like Huawei and others invest in the US as they want to enter -- Verizon in a bigger way and the 3G and 4G area of our test solutions. So we're seeing investments by Chinese equipment manufacturers around the world quite honestly.

So we feel good about the Asian market, we feel good about our position there. We've got a strong team. Our offshore R&D center is in Beijing that allows us to also leverage our skill sets in the China market, which is the biggest market for us in Asia.

Alex Duval - *Goldman Sachs - Analyst*

Alex Duval, Goldman Sachs. I just wondered if you could give us some color on the speed of growth in testing the 4G handsets, relative to previous cycles of technology such as 3G and perhaps some more color on that?

And the second question if I may, is just around CDMA. Obviously from the likes of Alcatel and Ericsson, that's an area analysts focus on in terms of potential declines. I wondered if you could comment on how that would translate into revenues at your business? Thank you very much.

Bill Burns - *Spirent Communications Plc - CEO*

Yes I would say that, I guess we would say that the pace of 4G is faster than even we had expected.

The commitments to the rollout, once somebody actually makes a commitment, and there's lots of trials and promises and others, but we believe that what you saw in the Verizon case was a commitment to the rollout and then the progression throughout that rollout pretty quickly and pretty efficiently in about the timeframes that they said.

I think just like Verizon, what we're seeing is that AT&T wanted to move to 4G as well, very, very quickly, upping 3G data rates today and moving to 4G. I think you'll see that dynamic in markets around the world. Once one operator moves to 4G in a geographic area, the others will follow very, very quickly.

I think the other aspect that we're seeing of 4G that surprised us a little bit from what we initially thought was that voice over LTE is moving along much faster than we anticipated. We believed that things like the CDMA network of Verizon would stick around longer and that the 4G would carry data and the 3G network would carry voice.

We're seeing opportunities today in voice over LTE testing as people want to get off that spectrum. They want to free up the CDMA spectrum in the case of Verizon, or the 3G spectrum in the case of other operators, and quickly move the voice traffic onto the LTE traffic along with the LTE because it's such a small piece of data traffic overall. But it frees up the spectrum for them.

So we're seeing opportunities faster than we thought we would in things like voice over LTE. We're also seeing other dynamics inside the 4G, things like antenna technologies are trying to go to faster speeds, continue to evolve and create opportunities for us.

So I would say a faster pace of innovation and rollout than we've seen with past technologies and some areas which we initially thought would be slower to evolve are actually evolving faster and creating more opportunities for us in the short term.

CDMA, it was interesting that another concept we had as we went into LTE testing. We thought people would be evolving their CDMA test solutions and adding LTE to them. Instead we're seeing the opposite phenomenon. What we're seeing is people continuing to develop CDMA handsets because they have to and there's large market associated with them.

It's the same thing with 3G, UMTS or wideband CDMA. Those test solutions are staying in place and building new test solutions and new labs with both either CDMA and LTE or UMTS and LTE, or in the case of people like AT&T all three technologies, in new labs to develop new LTE devices that have to be backwards compatible.

Because those current test solutions are being used full time to bring new handsets to the market in the 3G area wideband CDMA or in the CDMA area. So from a test phenomenon, we're seeing CDMA actually remain fairly robust, I would say, better than we thought. It's going to decline, we know that but right now we're seeing a phenomenon of people buying new test solutions and include CDMA and LTE.

One other thing we're seeing is that new entrants, so Huawei is a good example of that, as they want to do more in the Verizon and sell more handsets, they weren't a player in CDMA. So they're investing in both CDMA and LTE at the same time, so some new entrants who want to play in the Verizon network, which is probably the most advanced in the LTE area at the moment.

Johannes Schaller - *Deutsche Bank - Analyst*

Johannes Schaller, Deutsche Bank. You've talked a bit about your new market, maybe a new addressable market in development testing. I just wanted to get a bit of more color how you think you are positioned there, specifically against the guerillas in the market like Rohde & Schwarz and those guys, and what the value-add of your solutions is.

And also you said it could contribute to 2012 revenues already. Just if you could give us a bit of a feeling on the potential contribution, also the longer-term size of that business, given that development testing is quite a big market for you guys. Thank you.

Bill Burns - *Spirent Communications Plc - CEO*

Clearly one of the reasons we want to expand our addressable market is because we see the opportunities that some of the bigger players, the Agilent, the R&Ss and others are playing inside the development space or more the R&D space.

We have the test assets to do that. We just focus those assets primarily on the end of the development cycle when a device is actually a device. And there's more and more opportunities for us to take the same technologies and apply them back into the R&D area.

And we're seeing assets such as the Fanfare acquisition around automation where we're leveraging things like automated test tools inside the R&D environment.

We're focusing in the areas of strength such as our global positioning and our data throughput, in the areas that we've excelled inside performance testing to play that back into the R&D market as we're seeing more focus back at the design stage to do more testing in that area.

So we're taking our current solutions, we're adding more ease of use to them, we're adding more automation to them, we're leveraging the places that we're strong in the market today. And we believe we'll be able to grow our business in there and be able to grow market share.

So still early days, still early revenue, but the key is that we're looking for ways to expand our addressable market in all areas of our business. And this is one that's a very, very large market that we don't participate very much in today. We've got the test access; we've got the customer relationships; we have some areas that we believe we can apply some new unique things around ease of use and automation and others to go play in this market.



Johannes Schaller - Deutsche Bank - Analyst

Thank you.

Zahid Hussein - Citigroup - Analyst

Zahid Hussein, Citigroup. Going back onto that, Bill, just so if we're looking at the application side, which is really where the handsets are getting interesting, so thinking about security around payments, NFC at Mobile World Congress was clearly a very big theme, voice over LTE, again, very much around quality control, policy management, etc. So what are you actually doing today with some of your customers in terms of these applications? And where can you go next?

And then really, secondly, looking into it from another angle, WiFi. So we had Cisco, Ericsson, Juniper, and of course Alcatel now look at WiFi as a much more integrated technology; Ixia obviously went out and bought one of the larger players there. How are you thinking about WiFi going forward? And is that something that you're starting to address already with your load balancer products? Or should it be a market we think is too small for you to address?

Bill Burns - Spirent Communications Plc - CEO

So on the application side, I think that it's all about application performance. And, as you said, there's some other test areas that are relatively small today, near field communications and others, that we continue to take a look at.

The more interesting pieces are things like voice over LTE. The use of voice and data over LTE at the same time is -- the challenge is -- just using data and voice and now using data and voice over the data network at the same time are challenges. So we continue to test on the application side of the handset, and we continue to evolve our solutions to look at more performance of the actual applications themselves.

We don't do a lot in the security of the actual device on the actual handset; it's more the security backend of the network and who has authentication and access to that application and can go use it, and then the firewalls and others in the network. But we clearly test the performance of the application on devices, and we'll continue moving ahead with our voice over LTE as we're seeing that opportunity clearly accelerate.

On the WiFi area, WiFi testing itself isn't all that interesting. It's a fairly small area, even though our competitors seem to talk a lot about it. We took a look at that business and it wasn't all that interesting in what it did.

The more interesting play in WiFi, actually, for us, is the idea that service providers are looking to actually use part of a WiFi hotspot inside homes and businesses, and more on the side of homes, as your private WiFi and use the public piece of that to actually offload the spectrum in the mobility area.

So we're seeing a lot of investments, as I talked about mobile packet core testing, in the marrying of test center assets with the asset around mobile packet core. A lot of new entrants in the market are current customers that want to enter the market of WiFi, more from the idea of taking the traffic off of the mobile network. Again, all about this freeing up spectrum; the quicker I can get the traffic off of the spectrum of wireless and get it onto the wireline network, we're seeing a lot of opportunities in that area around WiFi.

So pure WiFi testing itself, we do some of that in the handset, or in the field test area, inside homes. There's just not a lot of testing to be done there. It's just not a big market. And it's only going to grow so large from the actual WiFi itself.

The more interesting thing is how do I use WiFi, and protocol-associated WiFi, to do handset handoff between mobility onto public WiFi routers, especially on things like voice over LTE? That's the more interesting application we're seeing today, and we're seeing a lot of investment in that area. That's more interesting.



I guess one other area of WiFi, just to mention, is just WiFi positioning. So the other area that we've got WiFi testing solutions in is around global positioning. So, again, the more interesting area is not even as much WiFi there, is about the move to global positioning indoors; about taking WiFi and sensors on the phones and location-based services around where's the base station and where were you when you came off a satellite network inside.

And we're seeing moves to actually have you do things like enter your height into your mobile phones so you can tell how big your stride is so they can tell, once you've moved inside, how far you've walked; or barometric pressure to see how far you've gone up height-wise in an elevator. So the sensors on phones today, married with WiFi, married with global positioning is another interesting area.

So [Wiplay] plays a lot of roles in our test solutions, but testing pure WiFi isn't all that interesting.

Sunil George - *Morgan Stanley - Analyst*

Sunil George, Morgan Stanley. On your comments on addressable markets, as you move into adjacent markets to performance testing, how do we think about how big your addressable market becomes? Is there any way to quantify that?

And another question is with over \$200 million of cash in your balance sheet, is that -- could you look at using some of that to enter into these markets, from an M&A perspective?

Bill Burns - *Spirent Communications Plc - CEO*

On the wireless R&D side, the difficulty is you've got people playing in that market that are either the gorillas, as somebody said earlier, I think, was the name, but the largest players; one being private, another, in the form of Agilent, is part of a much bigger business. So while we've got an estimation of the addressable market, it's much bigger than the carrier acceptance market, could be two to three times that size market.

But there's formidable big players there. And we're going to start in a relatively small way and go address that market, and we believe we can win within it. So, big market, big players; our test assets and our relationships, we believe we can go leverage in there.

We continue to look for M&A opportunities. So our primary investment focus is our organic investments and we've made -- I've only told you about one here. We've made four or five different investments across the last year to enter some new addressable markets that we'll announce at the right times. Service assurance mobility is one we announced over the last week at Mobile World Congress; we'll announce the others as those solutions continue to evolve and come out into the marketplace.

So we'll make those organic investments first, evolving our current solutions and finding new areas to grow our addressable market at the right time.

We'll continue to look for M&A opportunities that make sense. We've only done one small acquisition in Fanfare. We continue to look. We continue to look at the market as a whole; we just haven't found the right acquisition yet. Areas of focus would be the same as we've talked about before.

As I said, global positioning and wireless now represent 43% of our business; the fastest-growing area of Test & Measurement. Probably, over 50% when we add in wireless backhaul to it. That's an area of focus for us, if we can find the right asset.

We'll continue to look for more applications test in the security side. So security is going to continue to be a very, very important part of everybody's everyday life, and certainly inside large businesses, large data centers. So we'll continue to look for security in application test assets that allow us to replicate real protocols in the network and realistic testing; that's another area.

So those are the two primary. The third area's probably enterprise test. It'd be interesting to do more. Most of our business today is with network equipment suppliers, mobile device suppliers, service providers.



What's an interesting dynamic there is anybody who's a service provider today wants to be a hosted data center, and anybody who's a hosted data center wants to be a service provider. So we're seeing the mix of those customers, but we don't do a lot of business with large enterprise, per se. That's a big growing market that we may, some point, play a role in; don't know yet.

Unidentified Audience Member

Would it be fair to say then it's really sales channel that you're lacking, versus the technology? So it's really the different relationships with different parts of the food chain. So you might be selling already to the Test & Measurement guys, but you're not really early enough in the lab. Is that fair? When you're looking at the R&D side. So, let's say you're talking about a phone company in two years' time, it's --

Bill Burns - Spirent Communications Plc - CEO

Yes, it's evolving some of the solutions, so it is really around -- so R&D wireless is what [Leigh] is -asking about. It's two things. It's evolving the solutions a bit to play an ease of use role, to do more open test cases, as opposed to more canned-type of test cases when a device is a device and it's finished, around that. It's having more of an open tool. It's about having a user interface that's easy to use, and it's about automation.

So we have all the test assets; it's about repackaging those into -- wrapping in some software, usability, and really automation that really makes this solution more interesting. So there's nothing that we don't have technology wise; it's just about where's your focus and how do you go package it.

It's really no different than the enterprise market for us. We just don't have the ease of use for a Citi, or a Goldman or others in their IT departments to use our test assets. We have solutions that could apply there; we just have to put resources that wrap [QEs] and ease of use and make it simpler because the needs are different.

So that's the way we're looking to address our addressable market; is take the technologies that we have today and find ways to apply those, through a lot of software development around user interface and usability and others, and apply them to new markets. We think that's a great opportunity for Spirent to utilize its internal assets to grow its business.

Lee Simpson - Jefferies - Analyst

Lee Simpson, Jefferies. I just wanted to ask about data centers, if I could. So I'm just trying to understand what the opportunity might be there. As I see it, and I could have this wrong, you're testing the switch and maybe intra-traffic as well as applications such as network security, or security across that data center. So that's point one.

Point two, what are we looking at as far as re-circulating or recycling the product set you already have for network tests into that data center opportunity?

And point three, if we see an architecture change coming in the next few years in servers, how much of an opportunity does that offer? Are we seeing a fragmentation of the market that sees you guys step in nicely there? Or how does it work? How does the dynamic work? Thanks.

Bill Burns - Spirent Communications Plc - CEO

So I guess a couple of things. Data center market for us is really made up of predominantly the network equipment that goes inside those data centers.

And if you think of a data center, you think of rows and rows of servers, right, that are all being virtualized. And, at the top of every rack there's a piece of communications equipment. At the end of every row there's multiple pieces of communications equipment. There's multiple pieces of communication equipment leaving that data center in a big way.

And the speeds of those devices inside the data centers continue to evolve; gigabit Ethernet, the 10 gigabit, the 40 gigabit inside the data center and then leaving the data center to be 100 gigabit.

The investment spending we've seen shifts over the last several years from core switching and routing, which experiences higher volumes of traffic, meaning that core routers inside the core of the telecom network will grow from 10 gigabit to 100 gigabit interfaces, and the number of 10 gigabit interfaces will grow. But there's not a lot of new technologies in that area. It's IP MPLS. There's IPv6 opportunities. But the core of the network is more about volume. We're seeing volume growth as opposed to technology change.

What's really more interesting is inside the data center is you're seeing things like Juniper's QFabric, for instance; new ways to look at the data center, the flat and the architectures around the world. And we've been working with Cisco and Juniper and Broadcom and Brocade and now Huawei Enterprise as an example, to continue to, as they evolve and move their spending from core switching and routing inside the data centers, they're seeing this refresh cycle inside IT.

The largest enterprises around the world are updating their data centers. The data centers are growing. They're hosted data centers to host applications. And they see significant opportunities in everything from switching and routing, firewalls, load balancers, all the devices that sit inside there.

We're also seeing an opportunity where communications devices are being virtualized. So just like software is on a virtual server, we're seeing Ethernet switches become virtualized. In that case you need virtual test tools to test inside the data center. So you wrap a virtual test center product around a virtual Ethernet switch inside all-in software and you test that actual device inside a virtual world.

So all that's created opportunities which has driven 19% growth for our data center products and Spirent TestCenter, our flagship product, in 2011. We expect that growth to continue. The focus continues there; our larger scale testings around data center with our customers, 10 gigabits, the fastest growing interface. The emergence of 40 gigabit inside the data center will take place over the next couple of years. That interface will continue to grow.

And more pressure from our customers to say give me more realism. Give me more applications traffic. Give me more traffic that looks like Facebook traffic or Skype traffic or video traffic or social networking traffic in general. Make it more real and give me more security testing inside and around those devices which will create more and more opportunities for us.

So big focus area for us. A lot of spending today by the largest NEMs around the world. And I think we'll see even more of that as the equivalent vendors in China enter back into the enterprise space, quite honestly.

Jon Imlah - Collins Stewart - Analyst

Jon Imlah, Collins Stewart. Just two on LTE. Can you just say how much of total revenues does LTE testing make up? And also the growth rates you're seeing in LTE?

Eric Hutchinson - Spirent Communications Plc - CFO

So LTE, if I take the whole of Spirent Performance Analysis, it's about 20% of our business and that includes both device testing itself but also the related infrastructure convergence type of test tools.

And in terms of growth rates, it's one of those things that's full of doubling. So it's meaningless percentages. So it's growing very, very rapidly.



Unidentified Audience Member

Just on your Systems business, it's obviously non-core and so far I think you've been a bit reluctant to think about strategic options because there was some tax benefit involved. I just want to get a bit of an update on where you stand on the Systems business at the moment, how you think about it going forward.

Eric Hutchinson - Spirent Communications Plc - CFO

Well, if I just deal with the tax point, the rapid growth in profits in the UK, that's where the tax losses were for both our communications businesses in the UK and Systems, means that we've utilized the trading losses. So they're all fully utilized.

So it's a straight comparison of the net present value of the cash flows from Systems to whatever proceeds you could look at. So it's now more down to the dynamics of the business and how we look at Spirent's portfolio as a whole.

Bill Burns - Spirent Communications Plc - CEO

Okay. Well, thank you, everybody. Appreciate your time.

Eric Hutchinson - Spirent Communications Plc - CFO

Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.

