

SPIRENT COMMUNICATIONS PLC 2020 FULL YEAR RESULTS

MARCH 2021



SAFE HARBOUR STATEMENT

A short, thick green horizontal line.

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

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

EXECUTING OUR STRATEGY

- Strong market drivers with technical leadership positions
- LSA and 5G driving momentum
- Solutions and services to expand leadership and decrease cyclicalty
- Focused organic and inorganic investment driving sustainable growth
- Talented team executing on strategy
- Strong platform delivering sustained performance

WELL POSITIONED TO DELIVER LONG-TERM GROWTH

Spirent Today



Products & Hardware



Service Providers and
Network Equipment
Manufacturers



Majority Lab Testing



Network Service Assurance

**Customer
Centricity**



**Innovation
for Growth**



**Operational
Excellence**



Spirent Tomorrow



Increased Solutions,
Services and Software



Diversified Customers



Push into Live Network



Broader Assurance Market

2020 HIGHLIGHTS



Sustainable,
profitable
growth
continued

- Revenue up 4%
- Operating margin ~20%



Winning in 5G

- >600 deals won



Great progress
in Lifecycle
Service
Assurance



Growth vectors
gaining
momentum

- Services – 27% revenue
- Software – 32% revenue



Strategy in
action

- Acquisition octoScope - EPS accretive c3%

Delivered through COVID-19

FINANCIAL RESULTS

PAULA BELL

CHIEF FINANCIAL & OPERATIONS
OFFICER



KEY METRICS

\$ 522.4m

Revenue

↗ 4%

\$ 103.5m

Operating profit¹

↗ 11%

19.8%

Operating margin¹

↗ 1.4pp

14.68c

EPS^{1, 2}

↗ 10%

\$ 102.6m

Free cash flow³

↗ \$2.5m

6.04c

Ordinary dividend

↗ 12%

7.50c

Special dividend

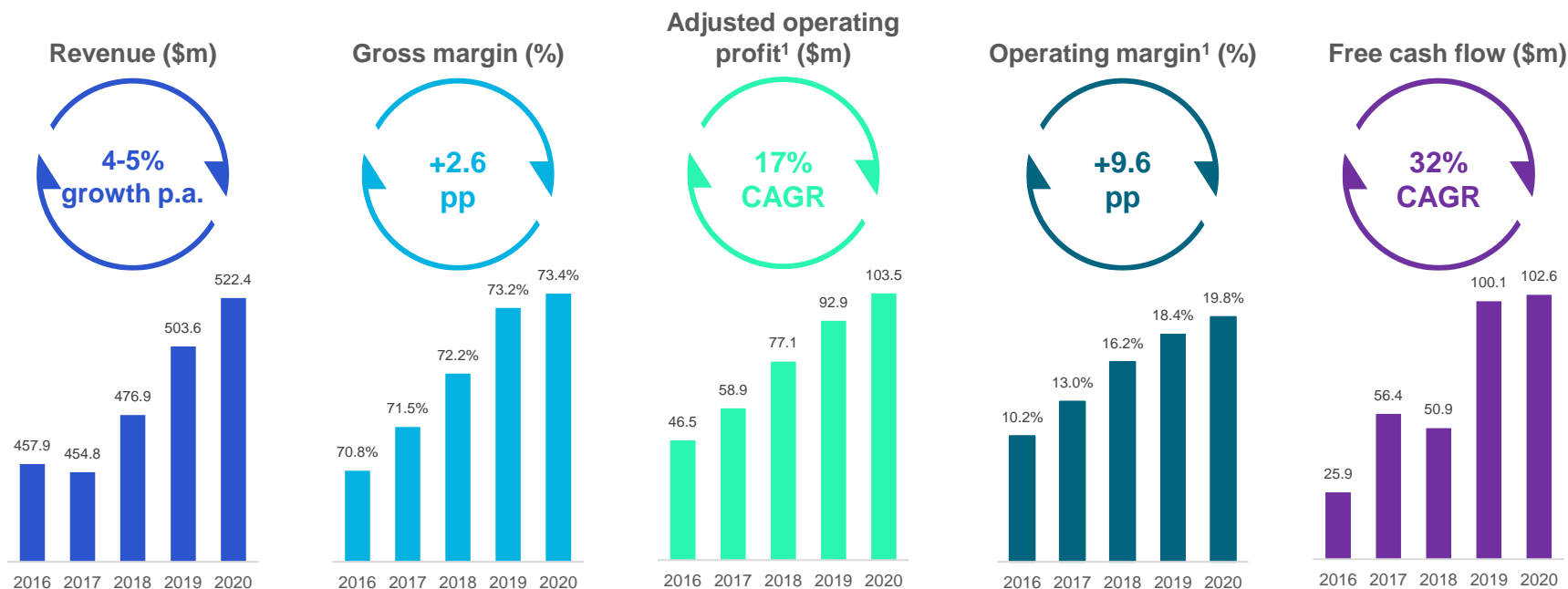
\$45m

1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

2. Before tax on items in note 1 and over/under provisions in respect of prior year tax.

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

GROWTH PERFORMANCE TO DATE



Strong momentum | Operational effectiveness | Strong balance sheet

1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

FINANCIAL SUMMARY

\$m	2020	2019
Order intake	539.4	532.0
Revenue	522.4	503.6
Gross profit	383.4	368.6
Gross margin	73.4%	73.2%
Adjusted operating costs ¹	(279.9)	(275.7)
Adjusted operating profit ¹	103.5	92.9
Adjusted operating margin ¹	19.8%	18.4%
Profit before tax	95.8	89.6
Effective tax rate ²	13.6%	13.0%
EPS ^{1,3} (cents)	14.68	13.40
Cash	241.2	183.2
Dividend per share (cents)	6.04	5.39
Special dividend per share (cents)	7.50	-

- Revenue growth sustained
- R&D – 20% revenue
- Operating profit up 11%
- Ordinary dividend up 12% (4% in Sterling)
- Tax rate outlook c14-15%

1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

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

3. Before tax on items in note 1 and over/under provisions in respect of prior year tax.

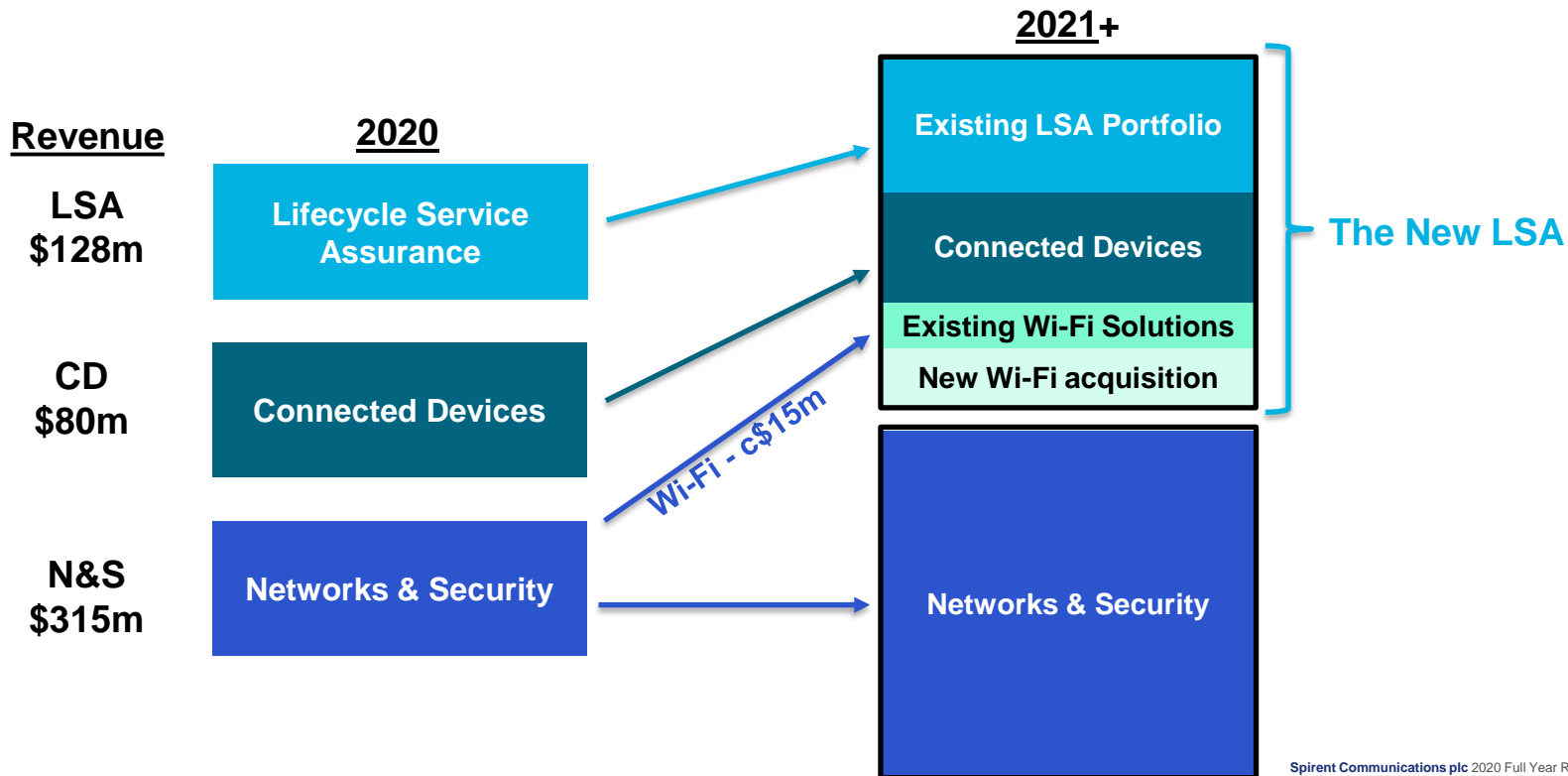
PORTFOLIO PERFORMANCE

	Revenue		Operating profit ¹		Operating margin ¹	
\$m	2020	2019	2020	2019	2020	2019
Networks & Security	314.7	319.9	65.3	73.9	21%	23%
Lifecycle Service Assurance	127.7	111.2	32.9	18.1	26%	16%
Connected Devices	80.0	72.5	14.5	9.5	18%	13%
Corporate	-	-	(9.2)	(8.6)	-	-
Group total	522.4	503.6	103.5	92.9	20%	18%

1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

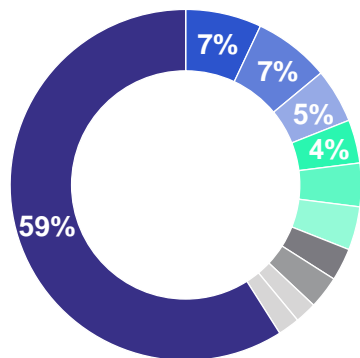
- Strong operating margin – all segments
- 5G drives Lab & Live assurance and device test demand
- Connected Devices to merge with LSA from 1 January 2021

SEGMENT CHANGES



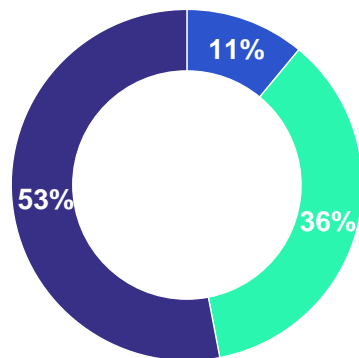
STRONG DIVERSIFICATION

Revenue by customer



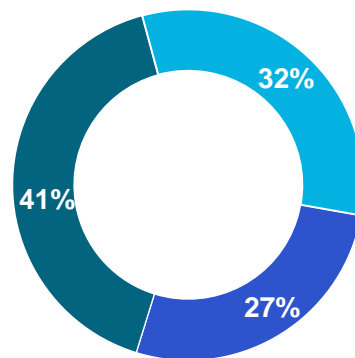
Other 59%

Revenue by geography



Americas 53%
APAC 36%
EMEA 11%

Services opportunity



Hardware 41%
Software 32%
Services 27%

- 5G remains a strong enduring driver
- Top 10 customers = 41% of revenue
- Customer diversity strong
- Software and services continues to grow

EFFECTIVE COST MANAGEMENT

\$m	2020	2019
Product development	103.1	96.5
Selling and marketing	123.4	129.2
Administration	52.8	49.4
Sub total ¹	279.3	275.1
FX loss	0.6	0.6
Total operating costs¹	279.9	275.7

\$m	2020	2019
Product development:		
Networks & Security	59.4	56.0
Lifecycle Service Assurance	29.8	27.6
Connected Devices	13.9	12.9

- Tight cost control whilst investing in key areas for future growth:
 - Leadership team development
 - New services function
 - Marketing reorganisation
 - New M&A function
- Increased R&D investment across the portfolio
 - New CTO office

1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

CASH – BALANCE SHEET STRENGTH

\$m	2020	2019
Operating profit¹	103.5	92.9
Exceptional items	(3.1)	0.5
Depreciation and amortisation	21.6	23.3
Net lease repayments and interest	(11.1)	(9.9)
Working capital movement	14.9	12.9
Pension and deferred compensation	(5.4)	(5.0)
Tax paid	(10.8)	(5.6)
Bank interest/other	2.0	2.9
Capex	(9.0)	(11.9)
Free cash flow	102.6	100.1
Ordinary dividend	(33.6)	(28.6)
Acquisitions	-	(1.9)
Employee Share Ownership Trust	(11.9)	(8.6)
Foreign exchange	0.9	0.6
Closing cash	241.2	183.2

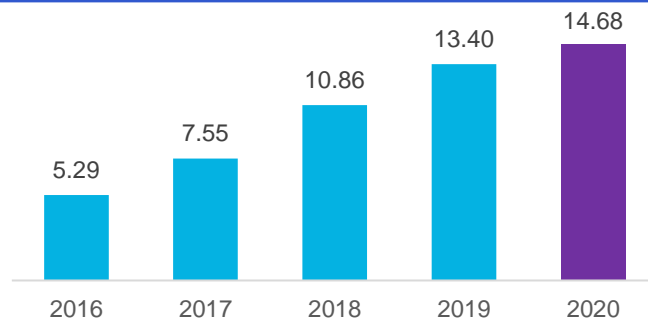
1. Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

- Strong cash conversion – 115%
- Tax – cash payment higher in 2020 due to timing
- Highly effective working capital management
- Debtor day reduction

CAPITAL ALLOCATION

- Focused investment – both organic and inorganic
- Disciplined approach to M&A
 - Robust performing targets
 - Growth enablers to new customers/new adjacencies
 - Technology bolt-ons
- Progressive dividend policy (2-2.5 x earnings cover)
 - 12% Ordinary dividend increase
 - \$34m paid in 2020
- \$45m Special dividend
- \$4.5m Pension top up

EPS (adjusted basic) (cents)



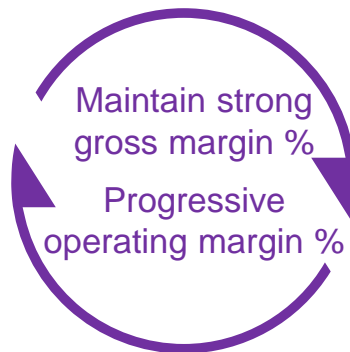
Dividend per share (cents)



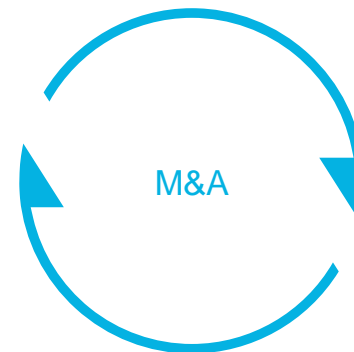
MEDIUM TERM TARGETS



- Recurring revenue
- Software } Neutral impact to
- Services } gross margin
- Lab to live
- Technical cyclical
mitigation



- Potential for operational leverage and/or increased product development investment



- Accelerate strategy
- Drive faster growth and leverage

STRATEGY IS WORKING

- Strong momentum continues
- Organisation evolution to leverage opportunities
- Another year of revenue and earnings growth
- Highly effective working capital management
- Strong cash balance – inorganic opportunities



2020 UPDATE & OUTLOOK

ERIC UPDYKE

CHIEF EXECUTIVE OFFICER



OUR AMBITION

To be the global **leader** and
trusted partner for **innovative** technology
test and assurance solutions

Customer
Centricity

Innovation
for Growth

Operational
Excellence

KEY GROWTH DRIVERS REMAIN UNCHANGED

Spirent's market-leading portfolio is well-positioned to support our customers



5G: The Game-Changer

Extensive 5G portfolio and subject matter expertise accelerates time-to-revenue



Complex Networks + Cloud Migration

Cloud and Service Assurance solutions help deploy, develop and optimise networks



Connected Everything

Leading Wi-Fi, high-speed Ethernet and cellular device test solutions support growing demands



Intelligent Location

Innovative Positioning and Location solutions help assure accuracy, integrity and reliability



Pervasive Security Threats

Advanced security testing helps fulfill the promise of secure communication

5G IS ACCELERATING



5G Network Launches

145 launches in **61** countries –
>60 operators investing in 5G
 Standalone¹



5G Devices

>365 5G devices already
 commercially available¹



5G Spending

~\$15B ('20) → **~\$56B** ('24)
 Radio & Core infrastructure and
 Telco Cloud spend²



5G Uptake

~290M ('20) → **~3.5B** ('26) 5G
 subs – China leading with
>\$250M subs ('20)³

¹ GSA | ² Gartner & Analysys Mason | ³ Ericsson & Spirent analysis

5G Wins

>600 Deals Won.

#1 5G Core Test Vendor.

10/10 world's top 5G CSPs
working with Spirent.



Core Test-as-a-Service

Managed solution for Tier-1 CSP to continuously validate performance & security.



Network Digital Twin

“Security Sandbox” for National security organisation.



Device Test Solutions

Validating the **world's most advanced** range of 5G handsets.



Transport Network Test

Helping APAC NEP to deliver **world record 400GE** switching performance.



Service Assurance

Proactive assurance for North American operator's **national roll out**.



KEY WINS

Continued strength in delivering market-leading solutions to our customers



Services – Solving Bigger Business Problems

- Major Test-as-a-Service wins
- Winning deals in the US, APAC and EMEA
- 5G Video Benchmarking deal



High-speed Ethernet Technology Strength

- Leading with world-class 400G solution
- Continuing global success, especially at NEMs and SPs



Positioning, Navigation & Timing Leadership

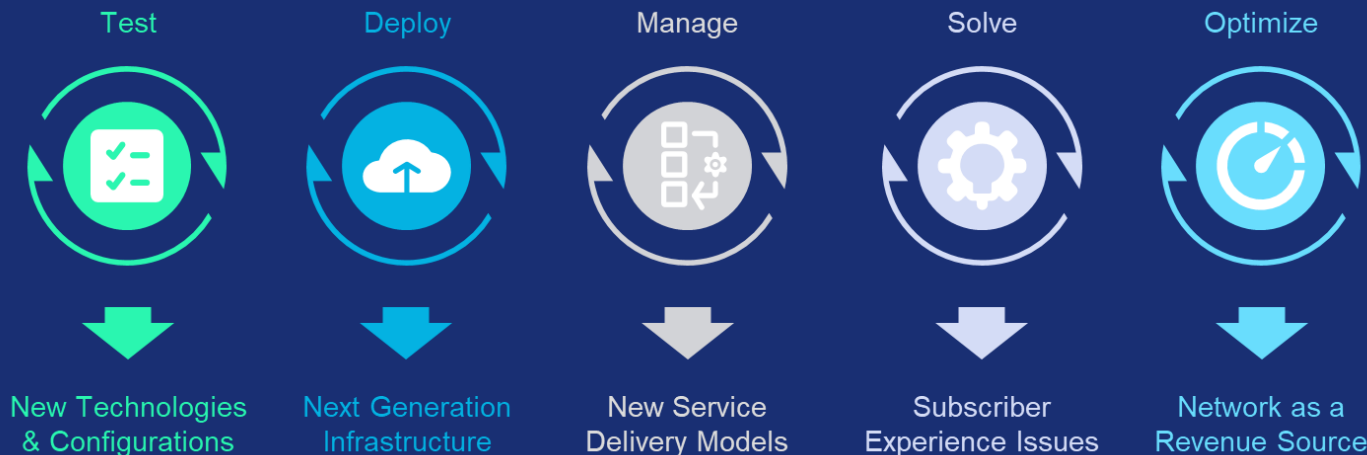
- Expanding into new customer segments
- Accelerating automotive segment success with new offerings

LSA – STRATEGY RECAP

Driven by need to actively test and assure exponentially complex technology

- Automation is key!
- Growing leadership in test and assurance – including 5G and Wi-Fi

**Solutions
span entire
customer
lifecycle**



LSA – 2020 PROGRESS

Revenue

\$128M

▲ 15%

Operating Profit

\$33M

2019: \$18M

- Driven by 5G and expansion into operational networks
 - Double-digit growth in Landslide and VisionWorks
 - Expanded VisionWorks customer base
- Strong increase in subscriptions and support contracts
- Move to 5G Standalone Core will continue to drive Landslide growth in near-term
- Good YoY pipeline growth

LSA - COMBINING WITH CONNECTED DEVICES

Beginning 1/1/21, combined to accelerate momentum and capitalise on:

- Scaling of 5G deployments
- Evolution to an “open RAN” environment
- Expansion of 5G tech into new verticals

Connected Devices 2020 Momentum

- 5G drove strong growth in revenue
- Strong momentum in new 5G Location Testing in partnership with NI
- Double-digit growth in services offerings
 - Fit4Launch helping service providers evaluate 5G devices and services
 - Competitive 5G Video Benchmarking

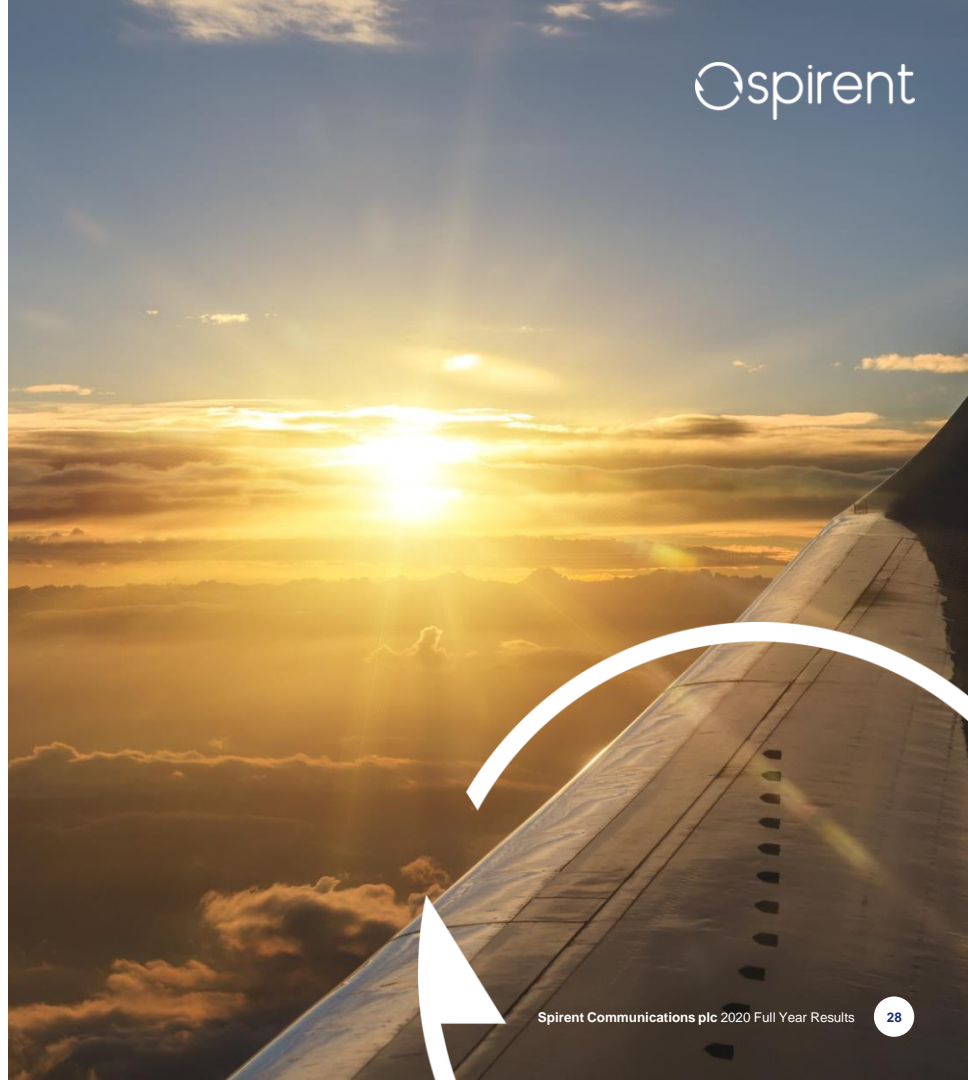


LSA AND THE STRATEGIC IMPORTANCE OF WI-FI

- Clear growth drivers: Wi-Fi 6 → 6E → 7
- Critical next-gen tech that will complement and grow with 5G
- Opportunities driven by:
 - Complexity of deploying and supporting Wi-Fi 6-enabled CPE and mesh network nodes increases
 - WFH trend increasing consumers' performance demands
 - Cellular (4G/5G) data offload needs
 - Enabling new key services for SPs (smart home, E2E slicing, etc.)

LSA - ACQUISITION OF OCTOSCOPE

- octoScope – Wi-Fi test leader
 - 2020 Revenue ~\$20M, growing and profitable
 - Based in Boston
- Establishes Spirent as Wi-Fi test market leader through consolidation of the #1 and #3 players
 - In 2020, we each experienced strong growth in Wi-Fi test solutions
- Energizes Spirent's 5G strategy
 - Highly complementary technology
 - Fits well into our sales channels
- Revenue and EBITDA accretive



NETWORKS & SECURITY

- Well-positioned for high-speed Ethernet
 - Softness in H2 2020
 - Maintaining market share and high win rate
 - Developing global R&D site strategy
- Security Services wins at Tier-1 service provider for 5G
- Continued Market Leader in Positioning
 - Leading in advanced large scale test systems to US military
 - Expanding beyond GNSS into PNT



INVESTING FOR THE FUTURE

- M&A Team formed to drive inorganic opportunities
- New CTO Office focused on advancing new opportunities, particularly in Cloud
- Major Growth opportunities
 - Services – Dedicated Team, LaaS, TaaS
 - PNT – assurance and simulation
 - Enhancing automation platform
 - Cloud – including SASE, Edge, SD-WAN
 - Wi-Fi 6/6E, complementary to 5G
- Expanded Key Account Programme



INVESTING FOR A SUSTAINABLE FUTURE

Progress update:

- Carbon emissions down 30% since 2014
- Focused on diversity and inclusion
- STEM ambassadors around the world

Five key promises:

- Deliver a sustainable future
- Be Net Zero carbon
- Promote diversity and invest in people
- Operate responsibly
- Be accountable and transparent

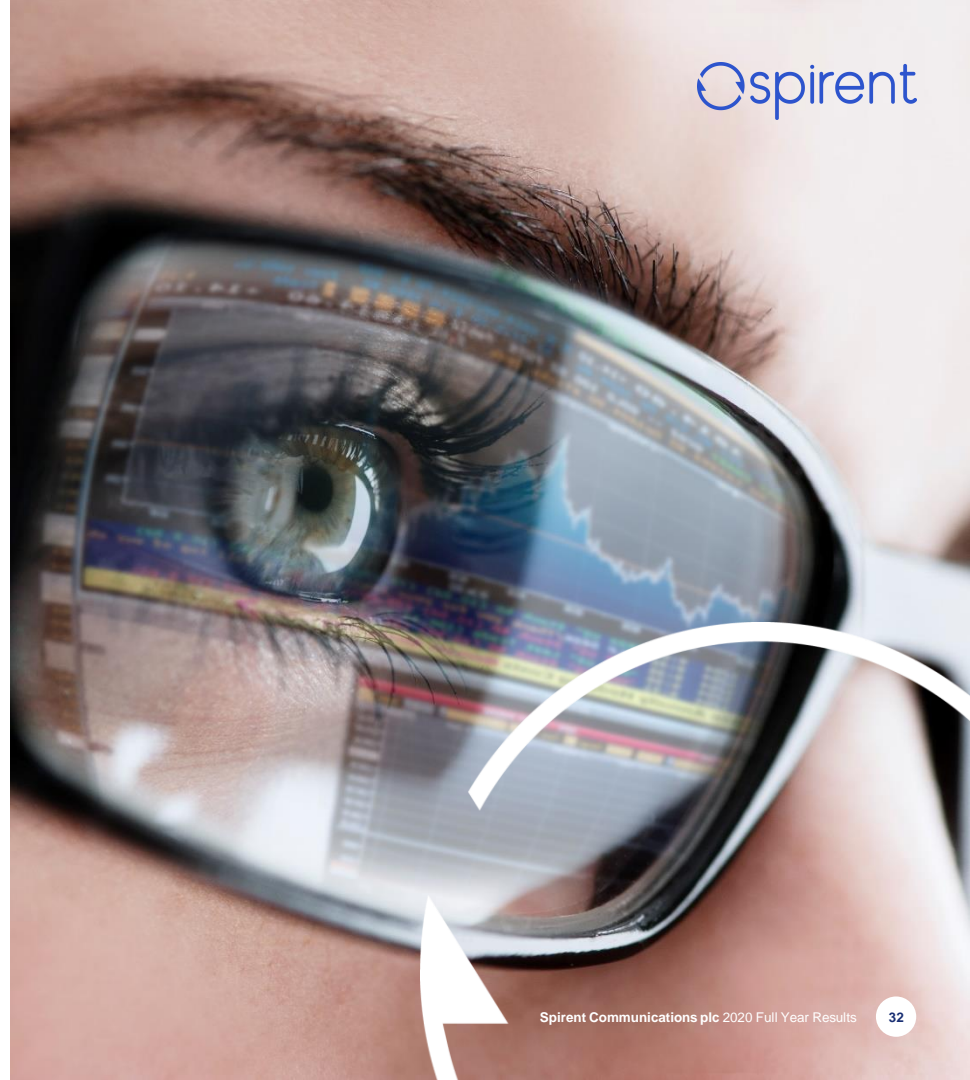


FTSE4Good



2021 OUTLOOK

- Enduring growth drivers
- Set up for sustainable, profitable growth
 - Aligning our organisation for growth
 - Focused M&A agenda to supplement inorganic investment
 - Diversifying customers
 - Selling more solutions, services, software
- Managing through ongoing COVID uncertainty



THANK YOU



FINANCIAL APPENDIX



INCOME STATEMENT

\$m	2020	2019
Revenue	522.4	503.6
Gross profit	383.4	368.6
Product development	(103.1)	(96.5)
Selling and marketing	(123.4)	(129.2)
Administration	(53.4)	(50.0)
Adjusted operating profit	103.5	92.9
Adjusting items:		
Exceptional items	(3.1)	0.5
Acquisition related costs	-	(0.1)
Acquired intangible asset amortisation	(0.5)	(1.2)
Share-based payment	(4.2)	(3.5)
Operating profit	95.7	88.6
Net finance income	0.1	1.0
Profit before tax	95.8	89.6
Tax	(11.4)	(11.6)
Profit after tax	84.4	78.0
Adjusted basic earnings per share (cents)	14.68	13.40

NETWORKS & SECURITY

\$m	2020	2019
Revenue	314.7	319.9
Gross profit	229.6	232.3
Gross margin	73.0%	72.6%
Product development	(59.4)	(56.0)
Other expenses ¹	(104.9)	(102.4)
Operating profit¹	65.3	73.9
Operating margin²	20.7%	23.1%

Maintained market-leading position for high-speed Ethernet and PNT

Wi-Fi 6 standard rolled out globally

Product development investment increased to develop medium term solutions

1. Before exceptional items of \$0.8 million charged in 2020 (2019: \$1.1 million).

2. Operating profit before exceptional items as a percentage of revenue.

LIFECYCLE SERVICE ASSURANCE

\$m	2020	2019
Revenue	127.7	111.2
Gross profit	102.1	88.6
Gross margin	80.0%	79.7%
Product development	(29.8)	(27.6)
Other expenses ¹	(39.4)	(42.9)
Operating profit¹	32.9	18.1
Operating margin²	25.8%	16.3%

Growth in both Lab (Landslide) & Live (VisionWorks) assurance portfolios

Increase in demand for lab based 5G network test solutions

1. Before exceptional items of \$0.7 million charged in 2020 (2019: \$0.4 million).

2. Operating profit before exceptional items as a percentage of revenue.

CONNECTED DEVICES

\$m	2020	2019
Revenue	80.0	72.5
Gross profit	51.7	47.7
Gross margin	64.6%	65.8%
Product development	(13.9)	(12.9)
Other expenses ¹	(23.3)	(25.3)
Operating profit¹	14.5	9.5
Operating margin²	18.1%	13.1%

5G roll out supports growth opportunities

From 1 January 2021 Connected Devices to be merged with Lifecycle Service Assurance to exploit technical leverage and accelerate 5G success

1. Before exceptional items of \$0.2 million charged in 2020 (2019: \$0.3 million).

2. Operating profit before exceptional items as a percentage of revenue.

EXCEPTIONAL ITEMS

\$m	2020	2019
CEO strategic review	(3.1)	(1.8)
French import duty VAT refund	-	2.3
	(3.1)	0.5

2020 includes:

- CEO strategic review complete
 - Leadership review
 - Strategic evolution
 - S&M restructure

FOREIGN CURRENCY

A short, solid green horizontal bar.

- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD: GBP exchange rate for 2020 of 1.28 compared to 1.28 in 2019, the closing rate at 31 December 2020 was 1.37 vs 1.32 at 31 December 2019
- FX loss of \$0.6m charged to the income statement in 2020 (2019: \$0.6m loss) in relation to:
 - Transaction exposure in UK operations from US dollar sales; and
 - Retranslation of cash balances held in non-domicile currency



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