

# SPIRENT COMMUNICATIONS PLC 2023 FULL YEAR RESULTS

MARCH 2024

## SAFE HARBOUR STATEMENT

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.

# RECOMMENDED CASH OFFER FROM VIAVI

## Offer value

- **175 pence** for each Spirent Share held comprising
  - **172.5 pence** in cash
  - **2.5 pence** per Spirent Share as a special dividend (in lieu of any final dividend for FY23)
- Implied equity value of **£1,005 million**, on a fully diluted basis

## Offer premia

- **61.4% premium** to the closing price of Spirent shares of 108.4p on 4 March 2024
- **55.5% premium** to the one-month VWAP
- **49.2% premium** to the three-month VWAP

## Structure

- Transaction to be effected via a **Scheme of Arrangement**
- **Scheme document** setting out details of the offer, court process and shareholder meetings to be dispatched in due course

## Conditionality

- Offer is subject to standard conditions set out in the 2.7 announcement including **relevant clearances from competition and regulatory authorities in the US, UK, France and Germany**

## Timing

- Completion expected in **H2 2024**, after regulatory clearances received

# SPIRENT RECOMMENDATION

## Recommendation

- The Spirent Board believe that the Group's prospects are **fully recognised in the value of the Acquisition**
- **The ongoing challenging market conditions** are expected to continue, which will impact customer spend and decision making
- Cost saving initiatives are being implemented, but the **opportunity for further savings is limited** by the need to invest in research and development
- **The uncertain outlook is resulting in limited visibility** around revenue and profitability returning to 2022 levels in the short-to-medium term
- The Offer provides a compelling opportunity for Spirent shareholders to **accelerate and de-risk the potential future value creation**, and **realise an immediate and certain cash exit** for their investment at a **significant premium to the prevailing share price**
- As a result, the Spirent Board intends to **recommended unanimously** the Offer

# CURRENT SNAPSHOT

- Challenging market backdrop in short term
  - Long-term drivers still intact
- Good progress in diversifying customer base
  - Strategic win in Financial Services
- Re-aligning organisation
  - Strategy aligned to address opportunities
  - Enabling solutions selling
- Prioritising R&D whilst driving cost initiatives



# FINANCIAL RESULTS

# FINANCIAL SUMMARY

\$m	2023	2022
Orderbook	293.7	288.1
Order intake	477.0	625.7
Revenue	474.3	607.5
Gross profit	343.6	437.1
Gross margin	72.4%	72.0%
Operating costs <sup>1</sup>	(298.4)	(307.6)
Operating profit <sup>1</sup>	45.2	129.5
Operating margin <sup>1</sup>	9.5%	21.3%
Profit before tax	22.9	114.6
Effective tax rate <sup>2</sup>	10.8%	12.9%
EPS <sup>1,3</sup> (cents)	7.55	18.86
Cash	108.1	209.6

- Robust orderbook
- Revenue impacted by market conditions
- Strong gross margin maintained
- Profit impacted by negative operating leverage
- Rigorous focus on cost control
- ETR outlook c11-13%
- Balance sheet remains strong

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.  
 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

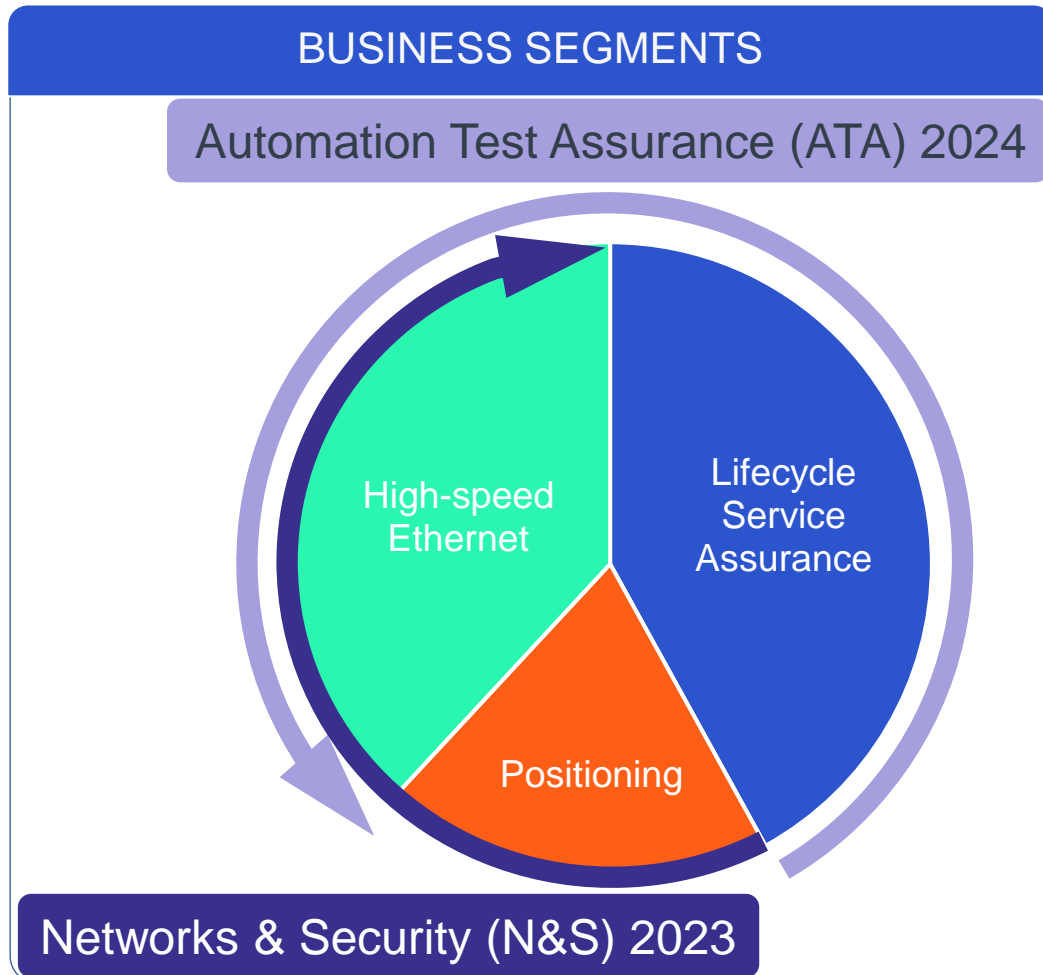
- Margin materially impacted by revenue reduction
- R&D protected to support future growth
- Good orderbook build for Positioning business

	Revenue		Operating profit <sup>1</sup>		Operating margin <sup>1</sup>	
	2023	2022	2023	2022	2023	2022
\$m						
Lifecycle Service Assurance	199.1	264.5	16.9	51.0	9%	19%
Networks & Security	275.2	343.0	39.0	86.8	14%	25%
Corporate	-	-	(10.7)	(8.3)	-	-
<b>Group total</b>	<b>474.3</b>	<b>607.5</b>	<b>45.2</b>	<b>129.5</b>	<b>10%</b>	<b>21%</b>

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.



# NEW ORGANISATION STRUCTURE FROM 1 JANUARY 2024



## 2023 reporting segments:

- N&S = HSE & Positioning | LSA

## 2024+ reporting segments:

- ATA = LSA & HSE | Positioning

## ATA rationale:

- Aligning our products into “value streams” to better package them for solution selling
- Drives:
  - R&D oversight and prioritisation
  - Common platforms
  - Efficiency

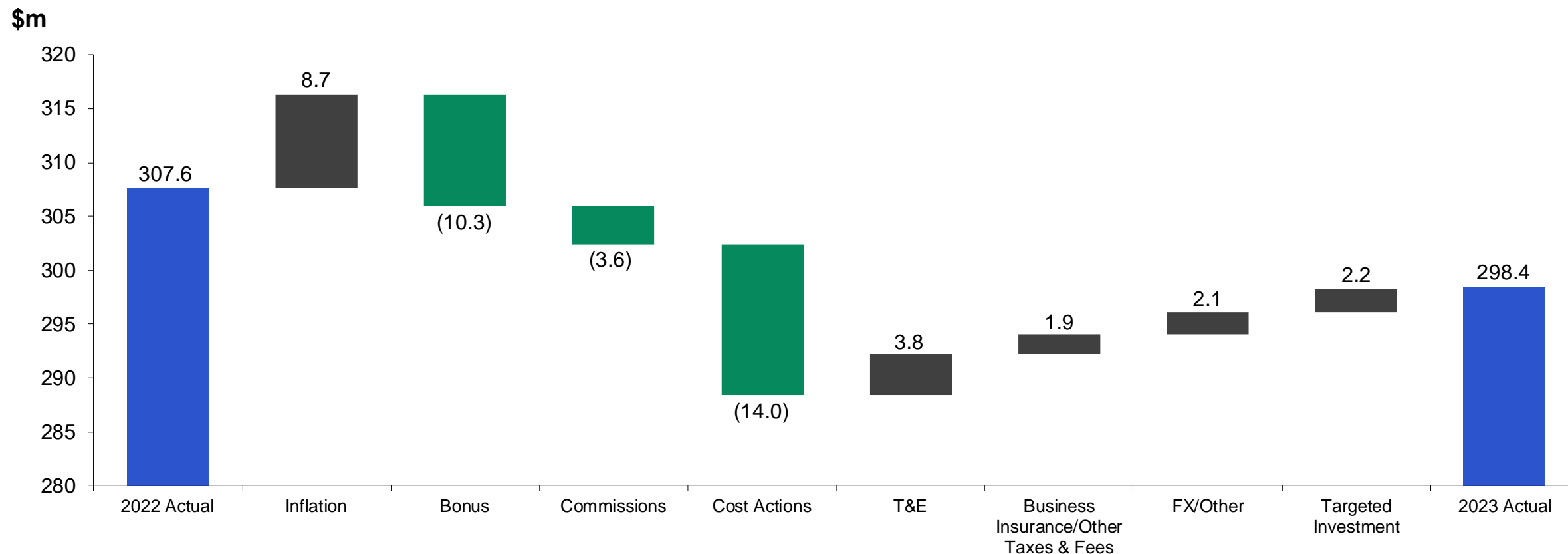
## EFFECTIVE COST FOCUS

\$m	2023	2022
Product development	102.4	111.3
Selling and marketing	133.9	138.9
Administration	61.2	57.6
<b>Sub total<sup>1</sup></b>	<b>297.5</b>	<b>307.8</b>
FX loss/(gain)	0.9	(0.2)
<b>Total operating costs<sup>1</sup></b>	<b>298.4</b>	<b>307.6</b>

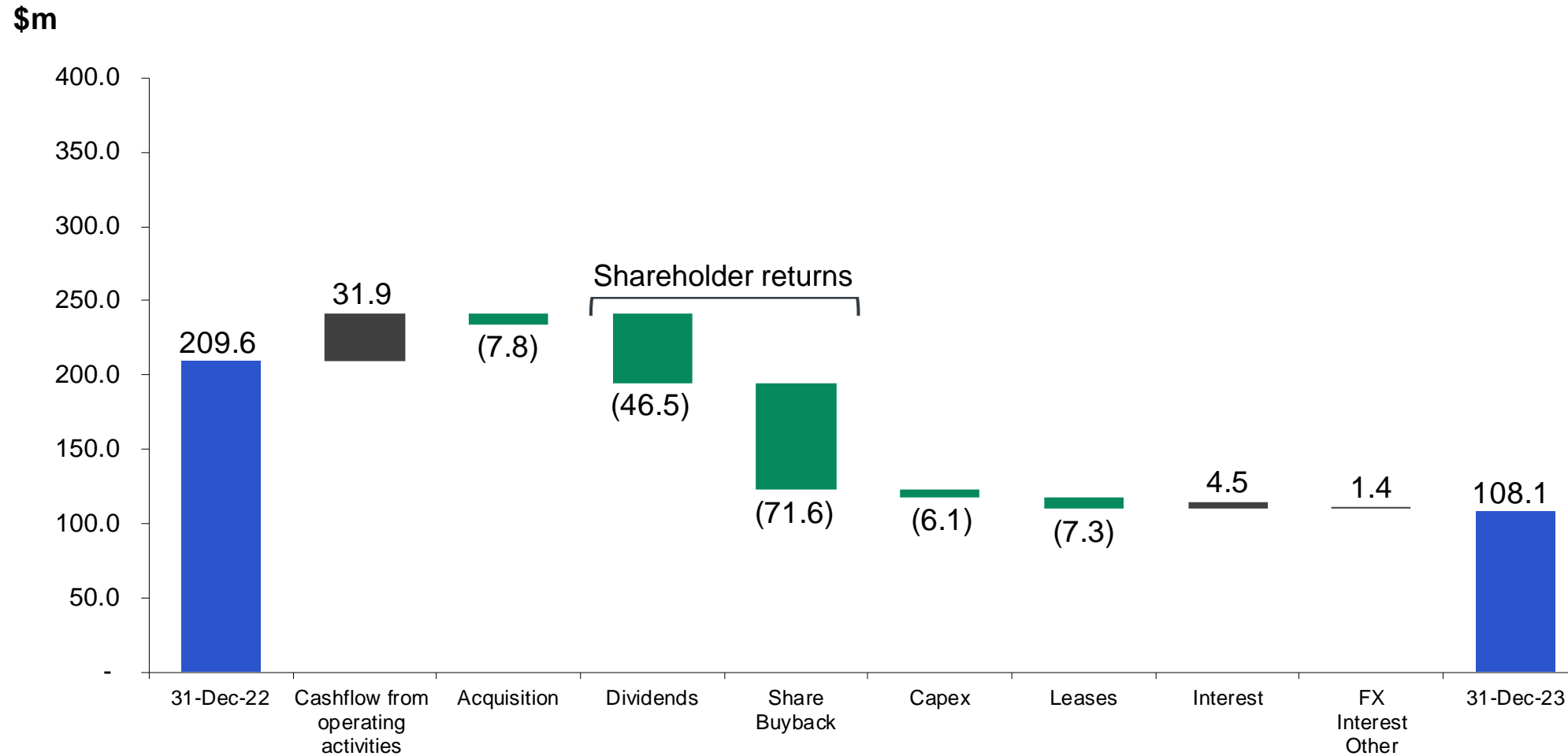
1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.

- Overall 8% FTE reduction in 2023
- Critical R&D protected
- Efficiency initiatives include:
  - Organisational restructure
  - Extension of offshoring plan
  - Reduction in office footprint

# DRIVING COST EFFICIENCY



# STRONG BALANCE SHEET AND CASH MANAGEMENT



# CAPITAL ALLOCATION

## Internal investments

- R&D leadership positions protected
- Reorganisation to support customer portfolio solution sales

## M&A

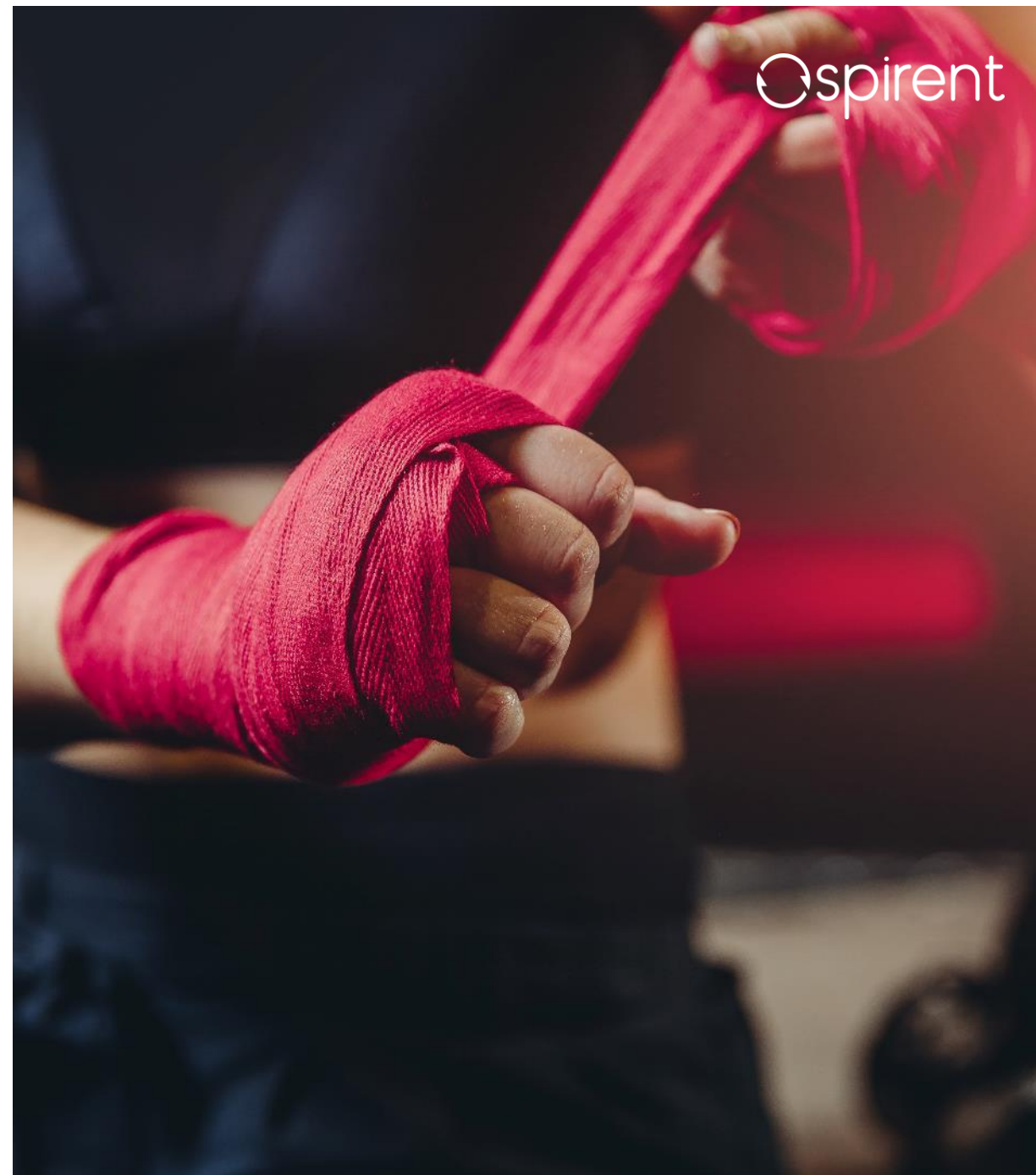
- 2023:
- Acquisition of NetScout's Test Lab Automation business
  - Partnership with XRComm to build new product in the radio frequency testing space

## Shareholder returns

- \$46.5m cash dividends in 2023
- \$71.6m share buybacks completed

## STRONG FINANCIAL PLATFORM

- Widely observed near-term customer budget reviews
- R&D investment protected
- Strong cost focus
- Strong cash conversion and balance sheet



# DELIVERING OUR STRATEGY



# OUR MARKET DRIVERS REMAIN STRONG

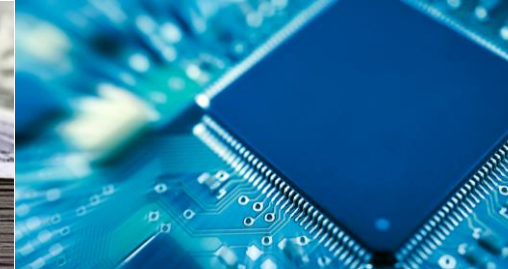
5G &  
Open RAN

AI/Data Center  
Evolution

Focus on  
Efficiency &  
ROI

Digital  
Transformation

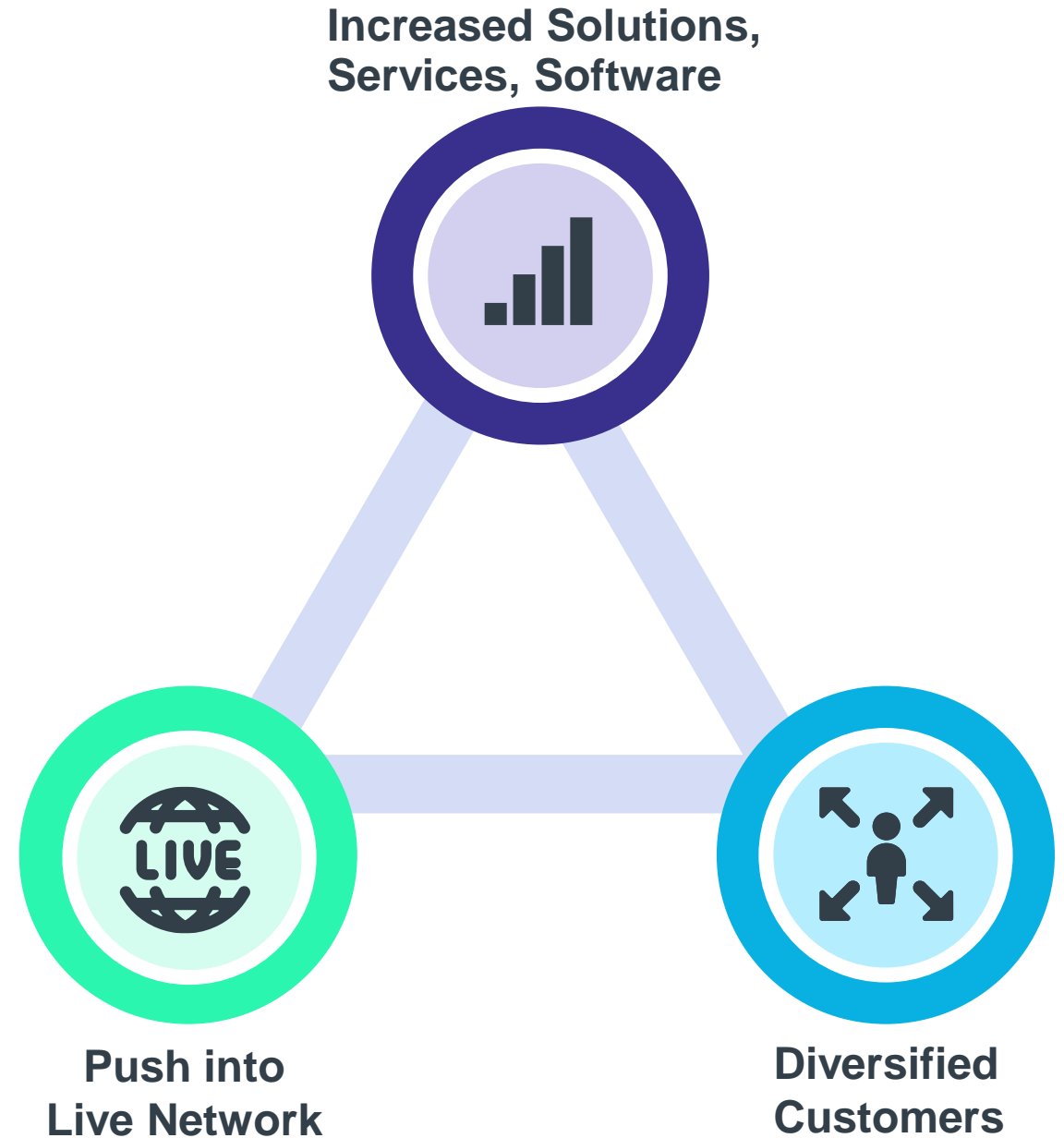
Location  
Awareness as  
a Key Enabler



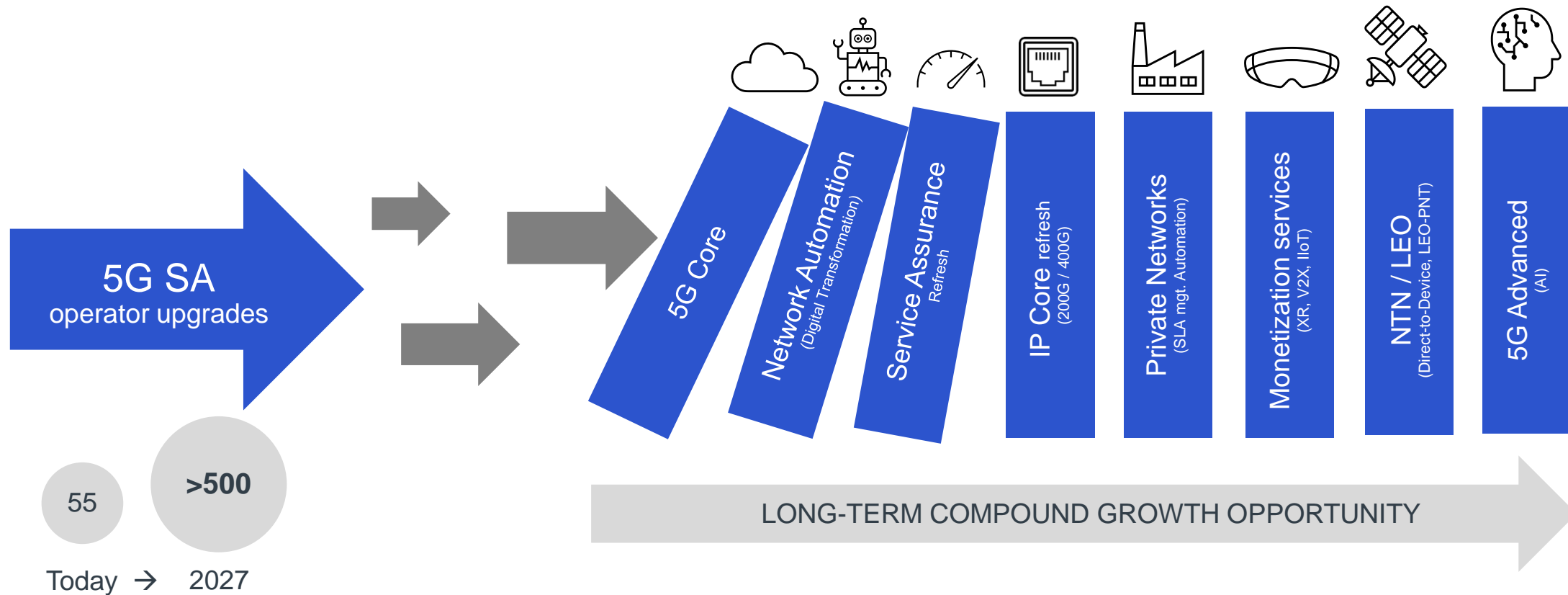
# OUR STRATEGY AND DIRECTION

Our strategy is built on three strategic pillars:

- Customer Centricity
- Innovation for Growth
- Operational Excellence



# 5G STAND-ALONE IS A CATALYST FOR LONG-TERM GROWTH



Spirent is the market leader (#1) in 5G Core Test & Automation & was selected by over 30 operators in 2023

# O-RAN OPPORTUNITY

Open RAN momentum growing:

<p><b>&gt;32</b> Operators Promoting &amp; adopting O-RAN</p>	<p><b>&gt;95</b> Suppliers Supplying O-RAN components</p>
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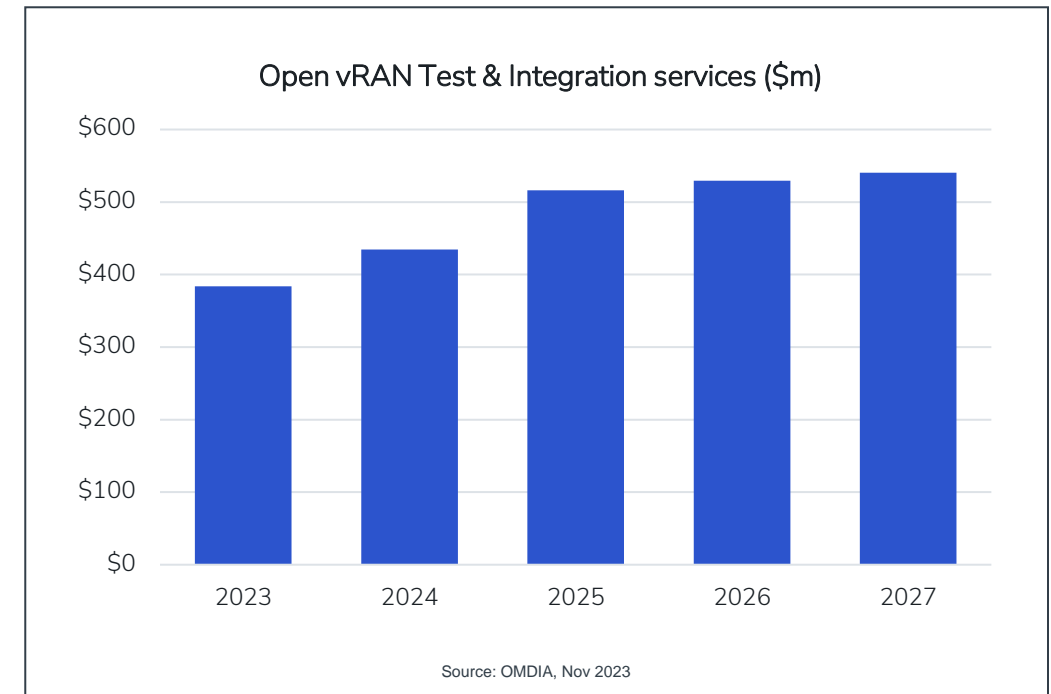


**AT&T** expects **70%** of its wireless traffic to flow across O-RAN-capable platforms by **2026**.



**Vodafone** commits to Open RAN in **30%** of its European sites by **2030**.

**Testing complexity increases exponentially**



**~\$2.4 billion** cumulative spend on Test & Integration services (2023-2027)

Spirent's **O-RAN test solutions** provide the **most comprehensive** test & validation available, used by market leaders including **NTT-Docomo**

# DATA CENTER NETWORKING IS THE FOUNDATION FOR AI

## Market dynamics:

- AI driving Data Center CapEx to **>\$500bn** by 2027<sup>1</sup>
- Network performance critical for AI GPUs handling **trillions** of parameters.
- Accelerating move to **400G / 800G** Ethernet.






Source: 1. Dell'Oro, 2023

## Opportunity:



- **Testing** performance of high bandwidth 400G / 800G networking fabrics.
- **Emulating** GPU traffic at a fraction of cost & availability of real GPUs.

## Customers:

-  Cloud Hyper-Scalers
-  Data Center Providers
-  Large Enterprises
-  Network Equipment Providers (routers & switches)
-  Chipset Manufacturers

Spirent is the industry **leader in 800G** performance testing, highlighted in 2023 with the industry's first large-scale 800G test with H3C

# LAB & TEST AUTOMATION AT THE HEART OF DIGITAL TRANSFORMATION

## Key Financial Services Win



Value: **\$15m**

### Customer challenge: Time & Cost

- Manual compliance & certification testing
- Siloed facilities
- High level of incidents and outages

Customer goal: efficiency & reduced OpEx!

Why Spirent: Proven leadership in Lab & Test automation in mission critical environments.

### Results for Customer

- ✓ \$20M+ Annual Savings
- ✓ 17-month Payback
- ✓ 90x Productivity Gain
- ✓ 18 Weeks → 8 Hours

Spirent's Lab and Test Automation portfolio **highly applicable beyond telecoms**



# THE NON-TERRESTRIAL OPPORTUNITY

Growing PNT and SATCOM test & assurance opportunity:

**Growth in LEO satellites**  
for PNT resilience & SATCOMs



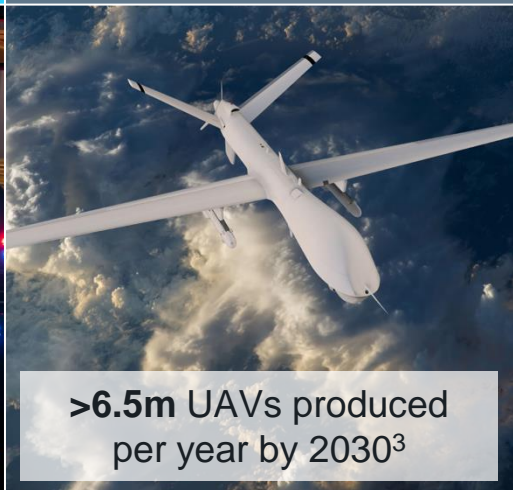
~58,000 in orbit by 2030<sup>1</sup>

**Autonomous vehicles & safety regulations**

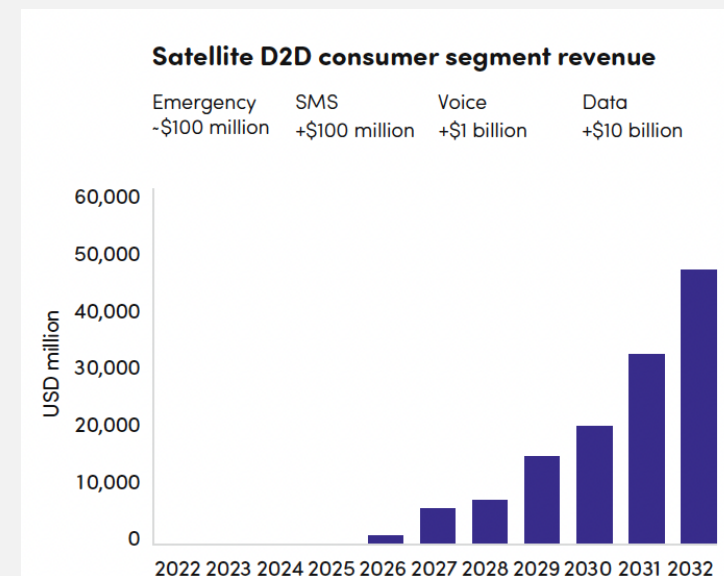


>60m V2X vehicles sold per year by 2034<sup>2</sup>

**Advanced air mobility**  
in commercial & military sectors



>6.5m UAVs produced per year by 2030<sup>3</sup>



~\$137bn revenue opportunity (22-32) for direct-to-device (D2D) SATCOM services.

Source: <sup>1</sup>US Government Accountability office; <sup>2</sup>IDTechEx; <sup>3</sup>UN International Civil Aviation Organization (ICAO)

Source: Analysys Mason/NSR

Spirent is the industry leader in **Satellite PNT & Mobility Service (Comms) testing**



# FOCUSED ON SUSTAINABILITY

Achieved ISO 14001 Environmental Management Systems certification

Products helping customers achieve their sustainability goals

Investing in diversity and inclusion



# SUMMARY OUTLOOK

## Long-term guidance reiterated

- Managing macroeconomic challenges
- Difficult to predict timing of telco customer spend recovery
- Continued diversification into non-telco areas
- Focused investment
  - Disciplined cost management
  - Investing in the right R&D
  - Attractive long-term market trends
- Well placed to support our customers



# APPENDIX

# INCOME STATEMENT

\$m	2023	2022
Revenue	474.3	607.5
Gross profit	343.6	437.1
Operating costs	(298.4)	(307.6)
<b>Adjusted operating profit</b>	<b>45.2</b>	<b>129.5</b>
Adjusting items:		
Acquired intangible asset amortisation	(5.0)	(4.7)
Share-based payment	(7.6)	(8.5)
Other adjusting items	(14.2)	(3.6)
<b>Operating profit</b>	<b>18.4</b>	<b>112.7</b>
Net finance income	4.5	1.9
<b>Profit before tax</b>	<b>22.9</b>	<b>114.6</b>
Tax credit/(charge)	2.3	(14.7)
<b>Profit after tax</b>	<b>25.2</b>	<b>99.9</b>
Adjusted basic earnings per share (cents)	7.55	18.86

# LIFECYCLE SERVICE ASSURANCE – CUSTOMER SPENDING DELAYS

\$m	2023	2022
Revenue	199.1	264.5
Gross profit	147.8	198.0
Gross margin	74.2%	74.9%
Product development	(52.0)	(56.6)
Other expenses <sup>1</sup>	(78.9)	(90.4)
<b>Operating profit<sup>1</sup></b>	<b>16.9</b>	<b>51.0</b>

1. Before other adjusting items of \$6.1 million charged in 2023 (2022: \$0.9 million).

- Encouraging O-RAN wins with market-leading end-to-end solution
- Lab and test automation and “as-a-Service” offerings providing efficiencies for customers
- Expansion into financial services vertical
- World’s first comprehensive WiFi-7 testing solution

# NETWORKS & SECURITY

\$m	2023	2022
Revenue	275.2	343.0
Gross profit	195.8	239.1
Gross margin	71.1%	69.7%
Product development	(50.4)	(54.7)
Other expenses <sup>1</sup>	(106.4)	(97.6)
<b>Operating profit<sup>1</sup></b>	<b>39.0</b>	<b>86.8</b>

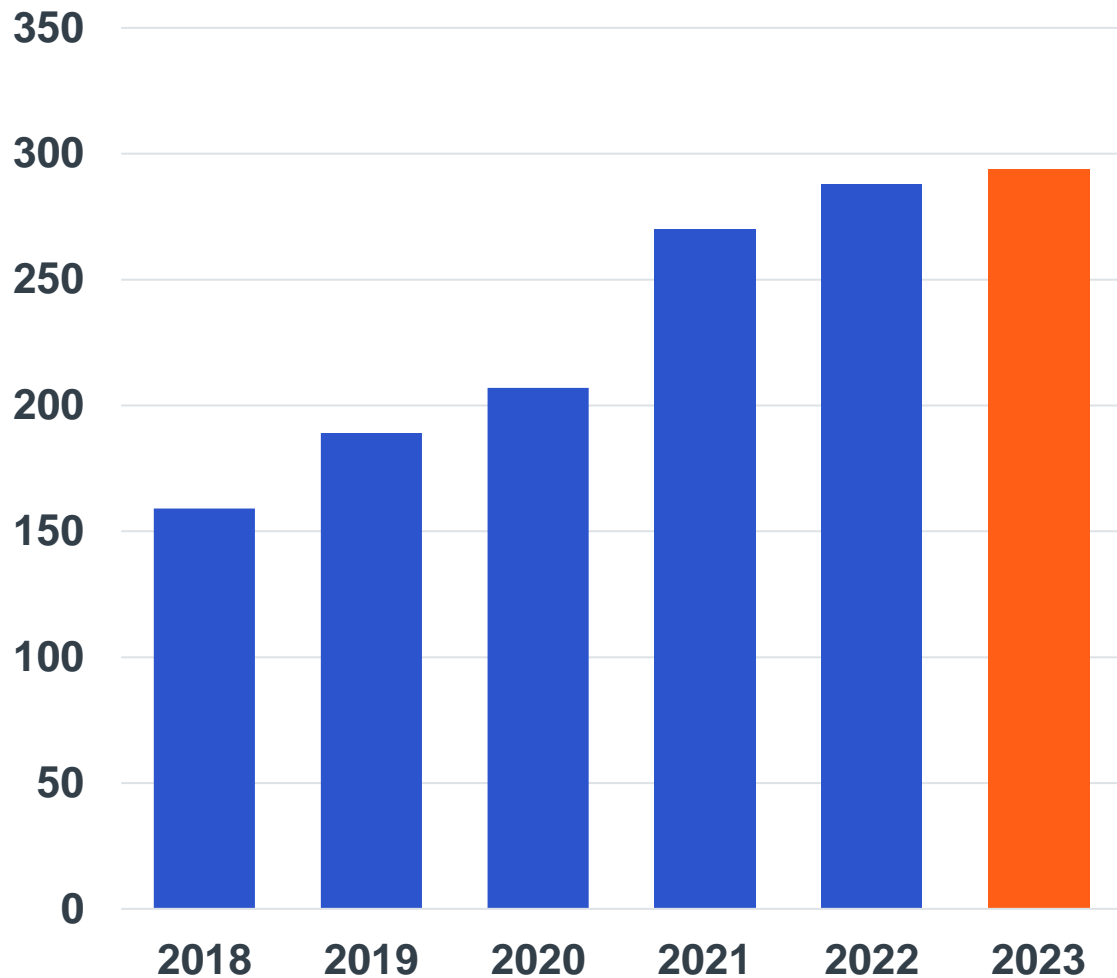
1. Before other adjusting items of \$7.3 million charged in 2023 (2022: \$2.1 million charge).

- Robust performance from Positioning business
- Benefitting from diverse end-markets and drivers such as LEO
- Maintaining leadership in 800G high-speed Ethernet with multiple strategic wins
- Release of powerful new 400G appliance
- Critical for Data Centre evolution to support AI



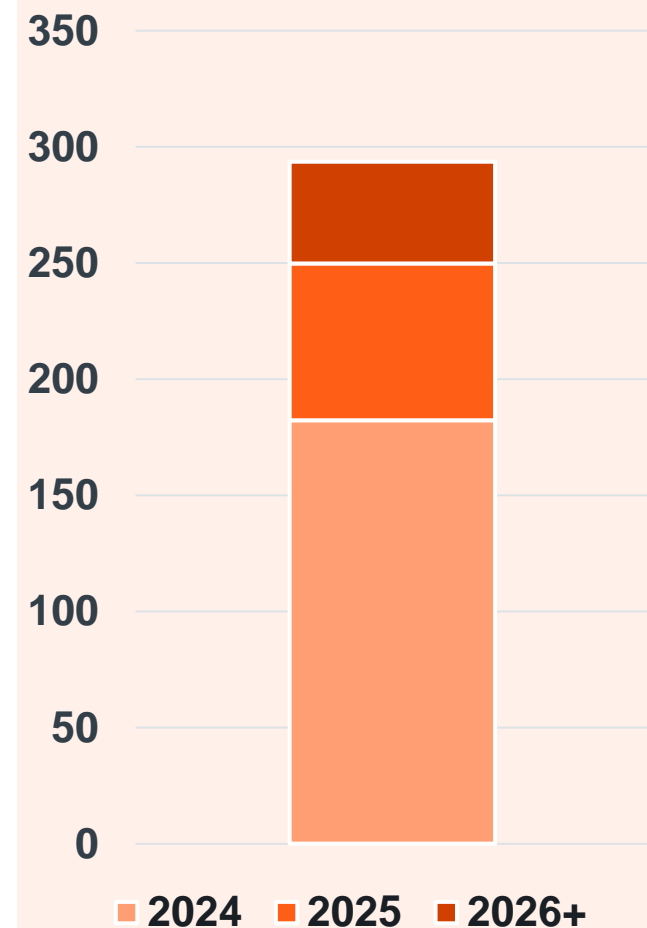
# ROBUST ORDERBOOK

Closing Orderbook \$m



2023 Orderbook to Revenue Unwind

2023 Orderbook to Revenue Unwind \$m





## OTHER ADJUSTING ITEMS

\$m	2023	2022
R&D engineering plan	(0.7)	(1.5)
Finance transformation	(1.1)	-
Organisational restructure	(8.8)	(1.3)
Facilities downsize	(2.9)	-
Acquisition related costs	(0.7)	(0.8)
<b>Total charge</b>	<b>(14.2)</b>	<b>(3.6)</b>

- R&D engineering plan completed
- Finance transformation programme undertaken
- Facility footprint and cost base reduced
- 8% head count reduction in 2023
- 1 January High-Speed Ethernet merging with LSA segment

## FOREIGN CURRENCY

Our significant foreign exchange (FX) exposure relates to GBP

Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal

Average USD:GBP exchange rate for 2023 of 1.24 in line with 2022, the closing rate at 31 December 2023 was 1.27 vs 1.21 at 31 December 2022.

FX loss of \$0.9m debited to the income statement in 2023 (2022: \$0.2m credit) 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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