

Spirent Communications plc 2019 Half Year Results

August 2019

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H1 2019 Highlights

Sharp focus on target markets

Key 5G wins and industry recognition
400G momentum increasing
Solid H1 results for Positioning
Increasing enterprise customer base

Innovate

First VisionWorks 5G win – strategic beachhead
Market leadership for 100G and 400G Ethernet testing
New security solution released – Data Breach Assessment

Strong financial and operational platform

Continued revenue growth
Targeted investment approach
Earnings per share growth up 22% to 3.03 cents

2019 Half Year Financial Results

Paula Bell
Chief Financial Officer



Key Metrics



Up
7%



Up
4%



Up
16%



Up
\$31.4m



Up
22%



Up
10%

(1) Before acquisition related costs, acquired intangible asset amortisation and share-based payment
(2) Operating cash flow, after tax, net interest, payment of lease liabilities and net capital expenditure
(3) Before gain on divestment (H1 2018)
(4) Before tax on items in notes (1) and (3)

Financial Summary – Continued Momentum

\$m	H1 2019	H1 2018
Order intake	219.5	205.6
Revenue	217.4	209.2
Gross profit	156.5	148.1
Gross margin	72.0%	70.8%
Operating costs ¹	135.8	130.3
Operating profit ¹	20.7	17.8
Operating margin ¹	9.5%	8.5%
Profit before tax	18.7	17.4
Effective tax rate ^{1,2,3}	13.1%	16.9%
Net cash	141.8	95.4
EPS ^{1,2,3} (cents)	3.03	2.49
Dividend per share (cents)	1.94	1.76

- Orders up 7%, revenue up 4%
- Software content and product mix driving improved gross margin
- Operating profit up 16%
- Continued effective tax management – ETR outlook is c.13-14%
- Earnings per share up 22%
- Dividend up by 10%
- Strong platform for H2 progress

(1) Before acquisition related costs, acquired intangible asset amortisation and share-based payment
 (2) Before gain on divestment (H1 2018)
 (3) Before tax on items in notes (1) and (2)

Portfolio Performance – Earnings Growth from all Segments

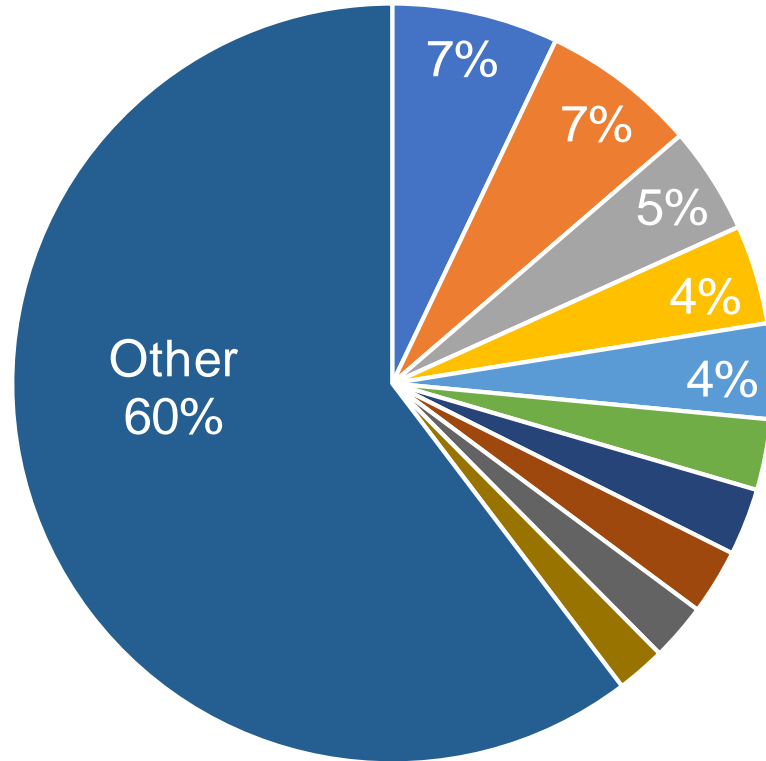


\$m	Revenue		Operating profit ¹	
	H1 2019	H1 2018	H1 2019	H1 2018
Networks & Security	131.0	125.3	16.0	14.8
Lifecycle Service Assurance	51.0	48.0	4.0	1.4
Connected Devices	35.4	35.9	5.2	4.0
Corporate			(4.5)	(2.4)
Group Total	217.4	209.2	20.7	17.8
Operating Margin			9.5%	8.5%

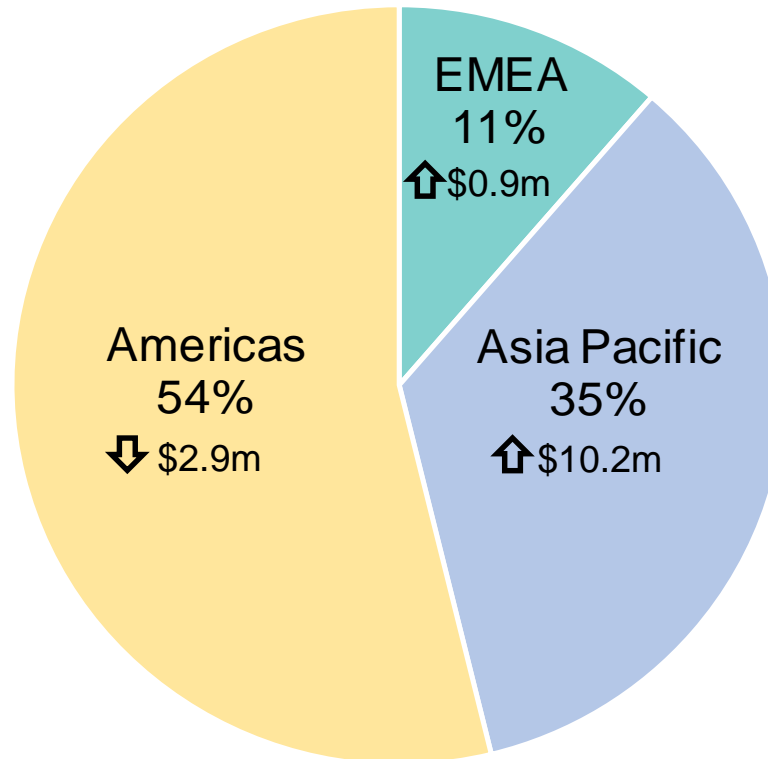
(1) Before acquisition related costs, acquired intangible asset amortisation and share-based payment

Strong Diversification

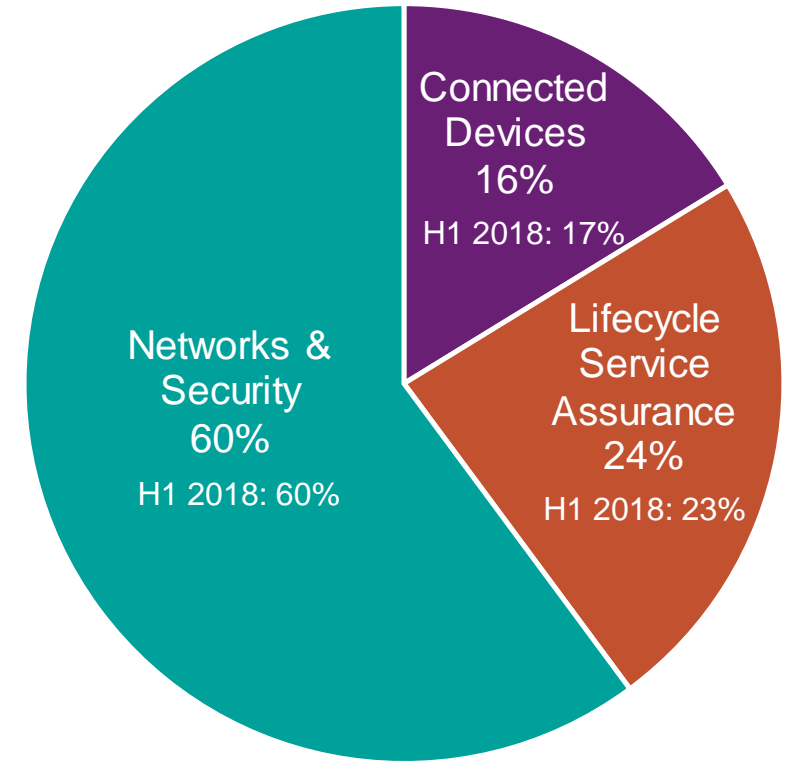
Revenue by customer



Revenue by geography



Revenue by segment



- Strong growth from APAC, Americas expected to pick up in H2
- US/China trade challenges
- Good portfolio balance with no overweight customer dependency; top 10 customers = 40% of revenue

Balanced Cost Management

\$m	H1 2019	H1 2018
Product development	48.5	48.6
Selling and marketing	63.1	60.5
Administration ¹	23.8	20.7
Sub total ¹	135.4	129.8
FX loss	0.4	0.5
Total operating costs ¹	135.8	130.3
Operating margin	9.5%	8.5%

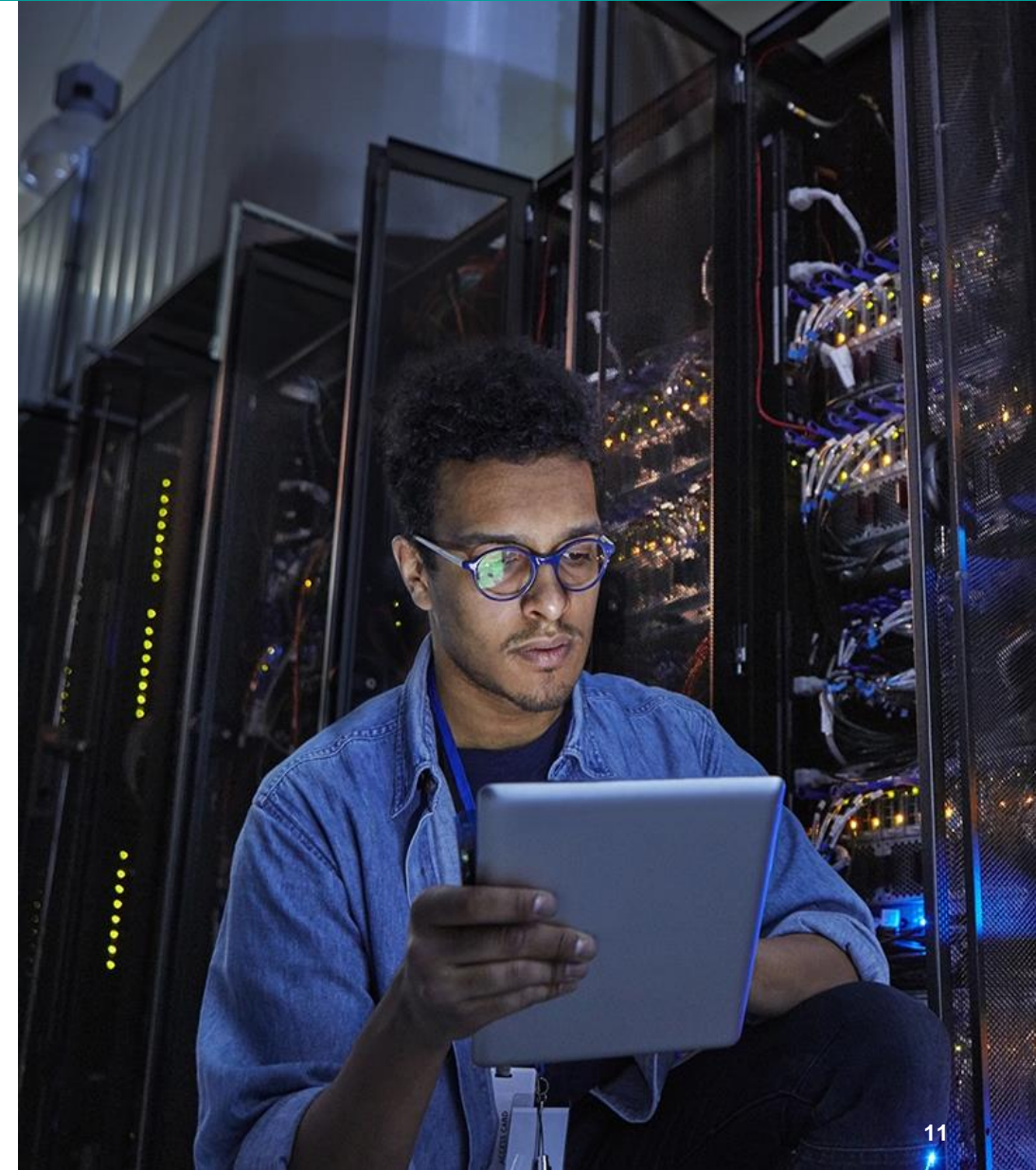
- Cost maintained as same % of revenue
- Improved effectiveness of our engineering resource
- Enhanced sales & marketing investment for developing routes to market for new technologies

Cash

\$m	H1 2019	H1 2018
Operating profit ¹	20.7	17.8
Depreciation, other amortisation and loss on disposal	12.0	8.8
Working capital movement (including provisions)	27.5	(2.3)
Pension	(3.0)	(3.0)
Taxation/interest	(1.5)	(3.6)
Lease repayments and interest (IFRS 16)	(4.9)	-
Net capital expenditure	(6.2)	(4.5)
Free cash flow	44.6	13.2
Ordinary dividend	(16.7)	(14.3)
Special dividend	-	(29.9)
Acquisitions/divestments	(1.9)	1.9
Employee Share Ownership Trust	(6.1)	(2.4)
Foreign exchange	0.3	(1.5)
Closing cash	141.8	95.4

- Strong cash conversion
- Working capital reduction driven by cash collections from busy Q4 2018
- IFRS 16 (Accounting for Leases) implemented 1 January 2019
- H1 capex included 5G investment, full year outlook unchanged at c.\$12-\$14m
- Small acquisition of GPS technology

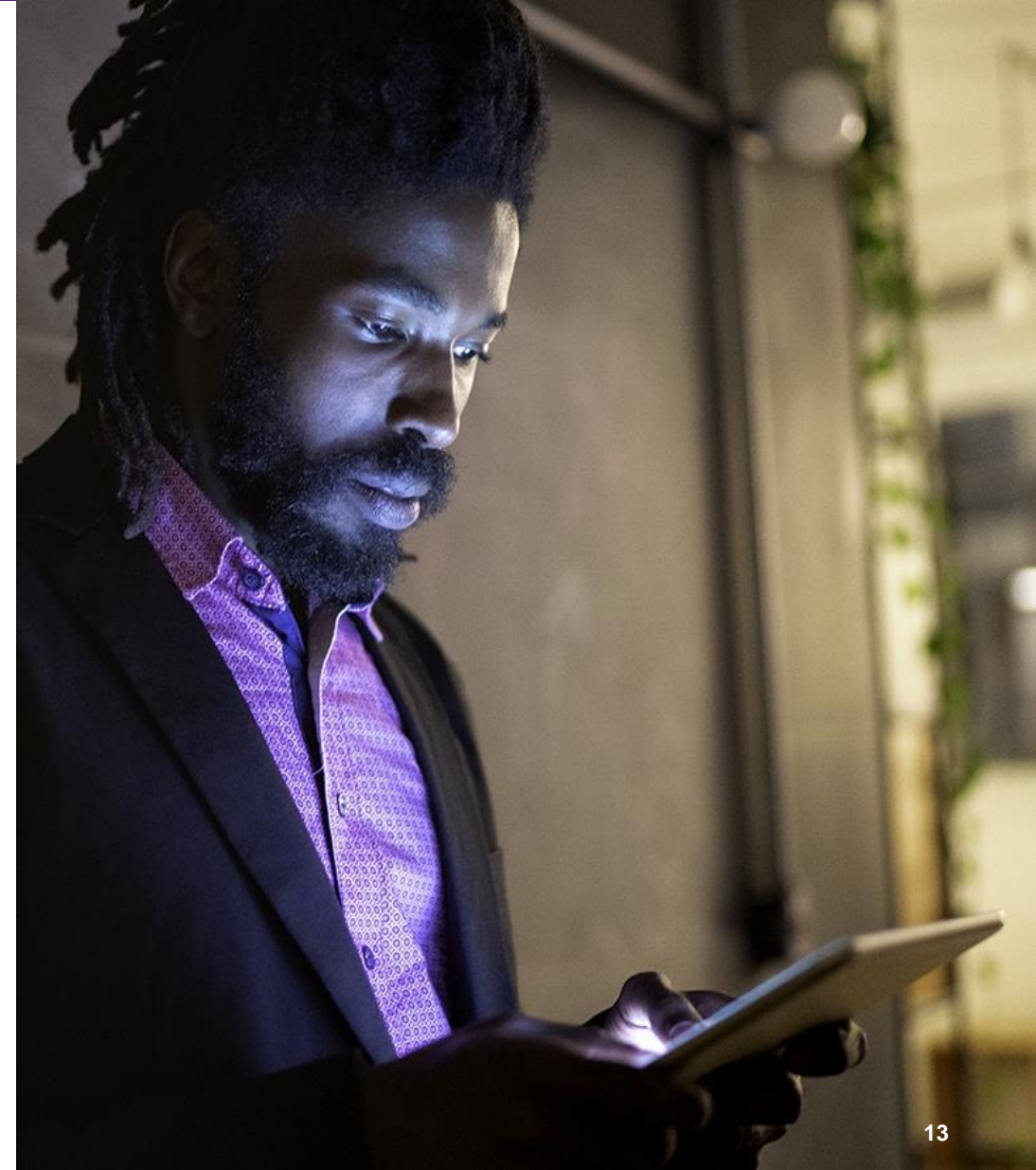
- Continued market share gains in 100G and 400G Ethernet performance test
- Released significant new offerings to support Cloud and NFV rollouts for 5G and network transformation
- Cybersecurity:
 - Enterprise customer base invested – 20 new logos
 - Released our new Data Breach Assessment solution
- Continued demand momentum for Positioning's GNSS simulators for US Government projects with increased interest to support customers in China



- Key 5G VisionWorks win – strategic beachhead
- Multiple Landslide wins for development of 5G networks in the lab
- Customer ‘onboarding and orchestration’ support
- Further VisionWorks wins from US key customers as benefits of our use cases gain traction



- Solid H1 performance, with increased demand for wireless products
- 5G device testing solution is on track and seeing increasing interest from our customer base
- Developing new channels
- Well positioned for continued progress



Strategy in Action

- Continued revenue growth – solid platform for H2
- 5G and 400G upcycle
- Maintaining technical leadership with focused R&D investment
- Continue to evolve Sales & Marketing
- Strong operational management
- Solid balance sheet



First Impressions

Eric Updyke
Chief Executive Officer



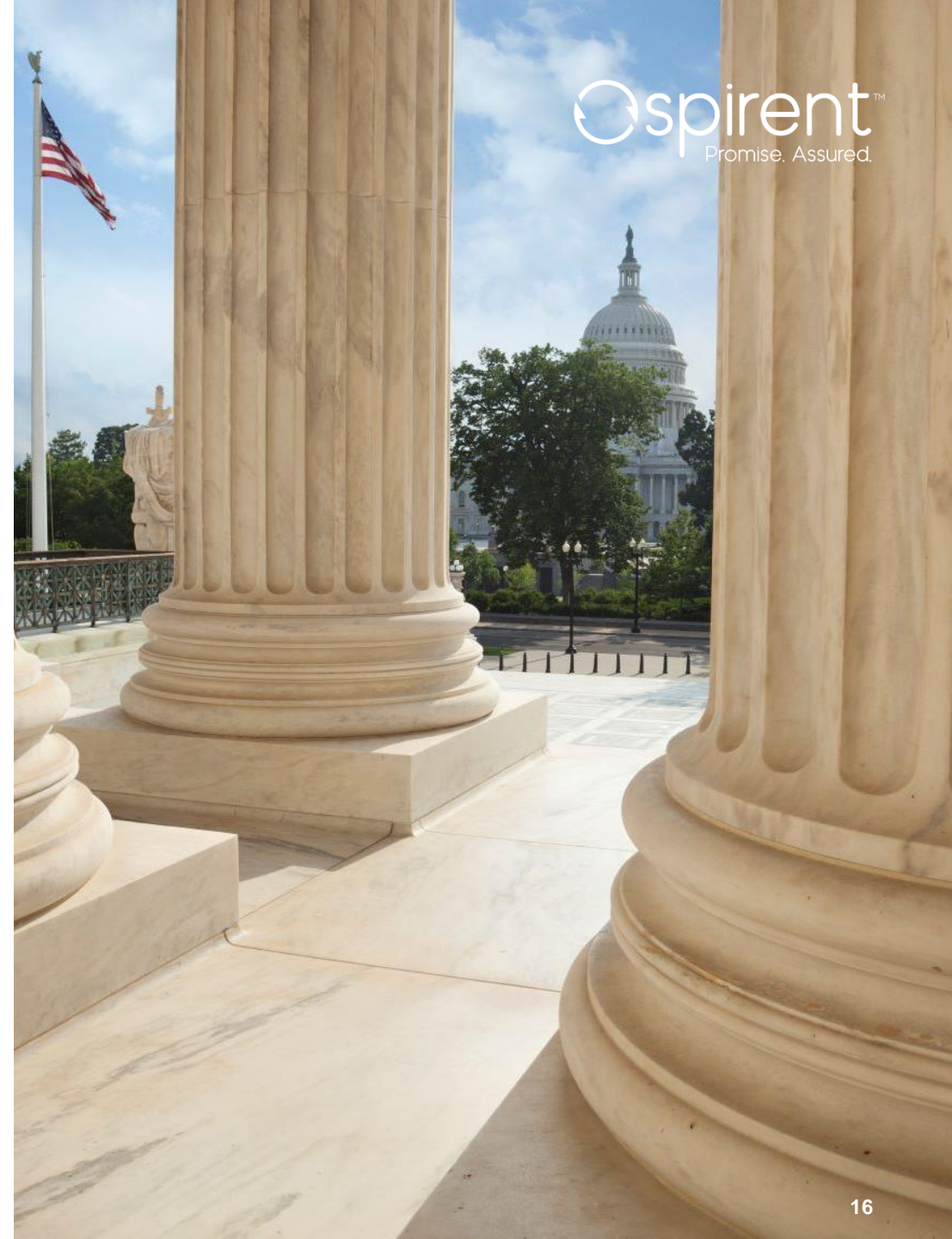
Strong Platform

We have a strong platform:

- Committed customer base
- Engaged, passionate, experienced employees
- Solid operational base and balance sheet

We have exciting opportunities ahead:

- Industry change is accelerating
- New/emerging technologies are real and impacting our business
- Customers want innovative solutions for emerging technologies, value added services and expertise



Seizing the Opportunities

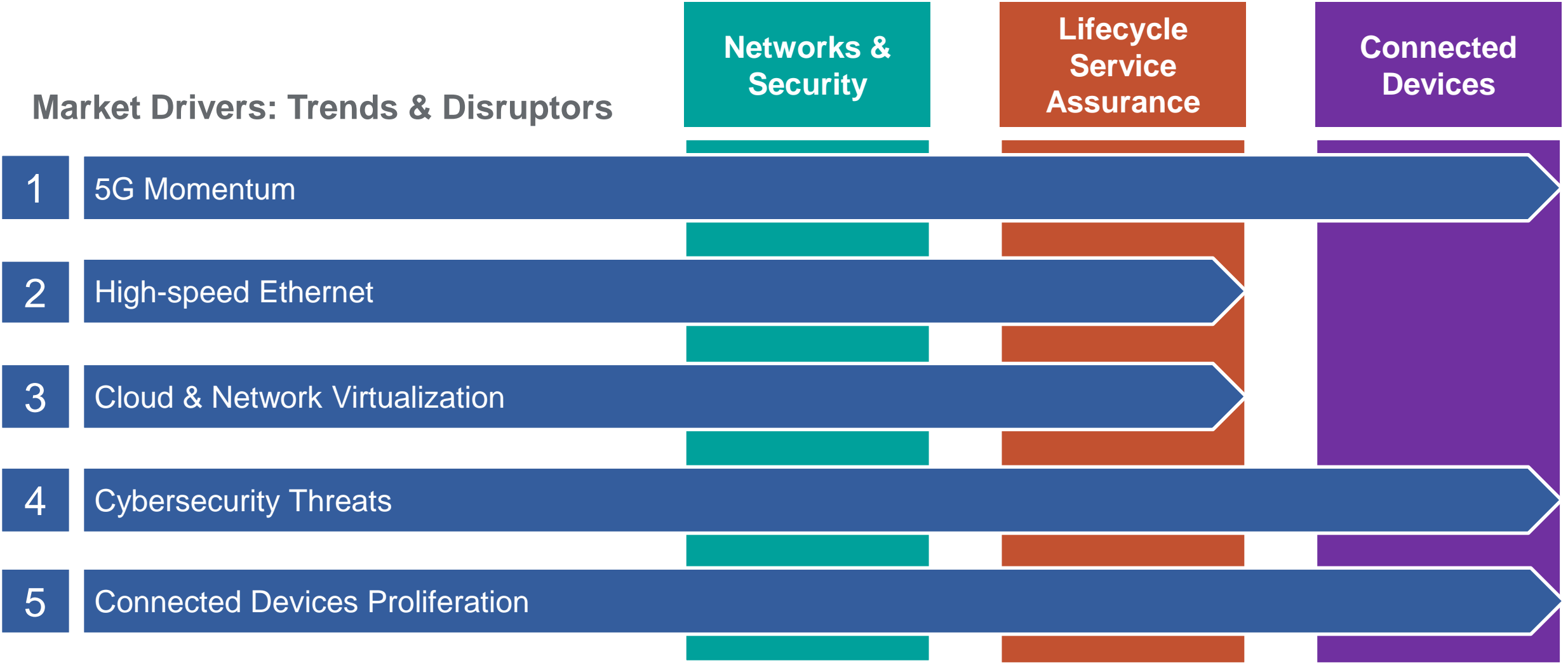
But we will need to move faster to capture the full opportunity:

- More aggressive in selling and going after new markets
- Move beyond the lab
- Drive services and solutions
- Diversify customer base
- Manage external risks (e.g. geopolitical, competition)

Strategy View

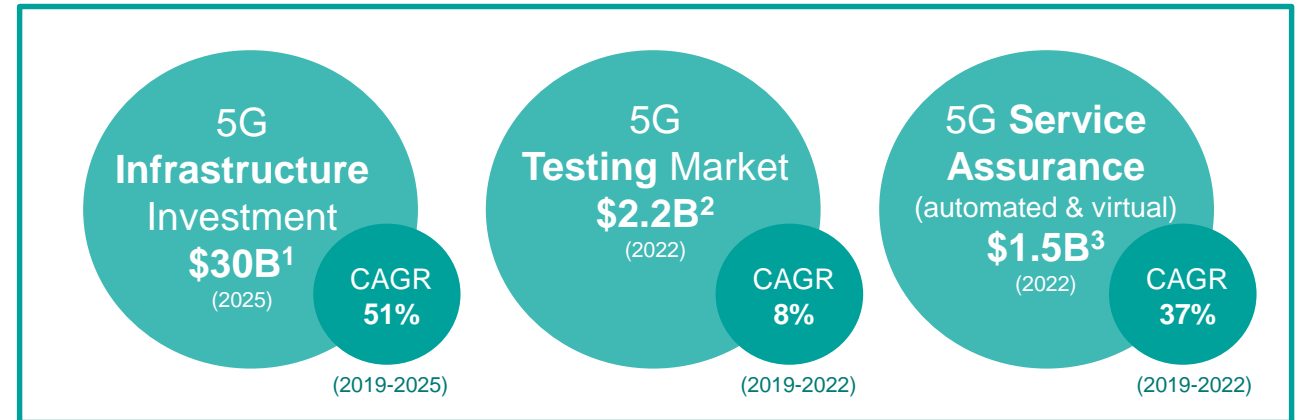


Strong Alignment with Key Market Drivers



5G Industry Investment & Spirent Opportunity

5G is a **positive** driver for our industry & addressable markets



Networks & Security

- High-speed Ethernet to support 5G buildout
- Test and assess security readiness

Lifecycle Service Assurance

- 5G development
- 5G field trials & buildout
- Service assurance & analytics

Connected Devices

- 5G and IoT device testing for location and video

Sources

(1) Appledore Research (2019)

(2) Spirent view based on Markets&Markets and Appledore Research (2019)

(3) Analysys Mason (2018)

5G Momentum Across the Portfolio

- Broadest 5G solutions portfolio for development & network operation
- Early successes demonstrate we are well positioned to capitalise on 5G investment cycle
- More than 60 5G deals; 33 unique customers
 - More than 30 bookings for Vertex Channel Emulation (for 5G radio)
 - More than 20 bookings for Landslide Mobile Infrastructure Test Systems (for 5G core network evolution)
- Won “Outstanding Test & Measurement Vendor” award from Light Reading’s Leading Lights for our achievements & leadership in 5G

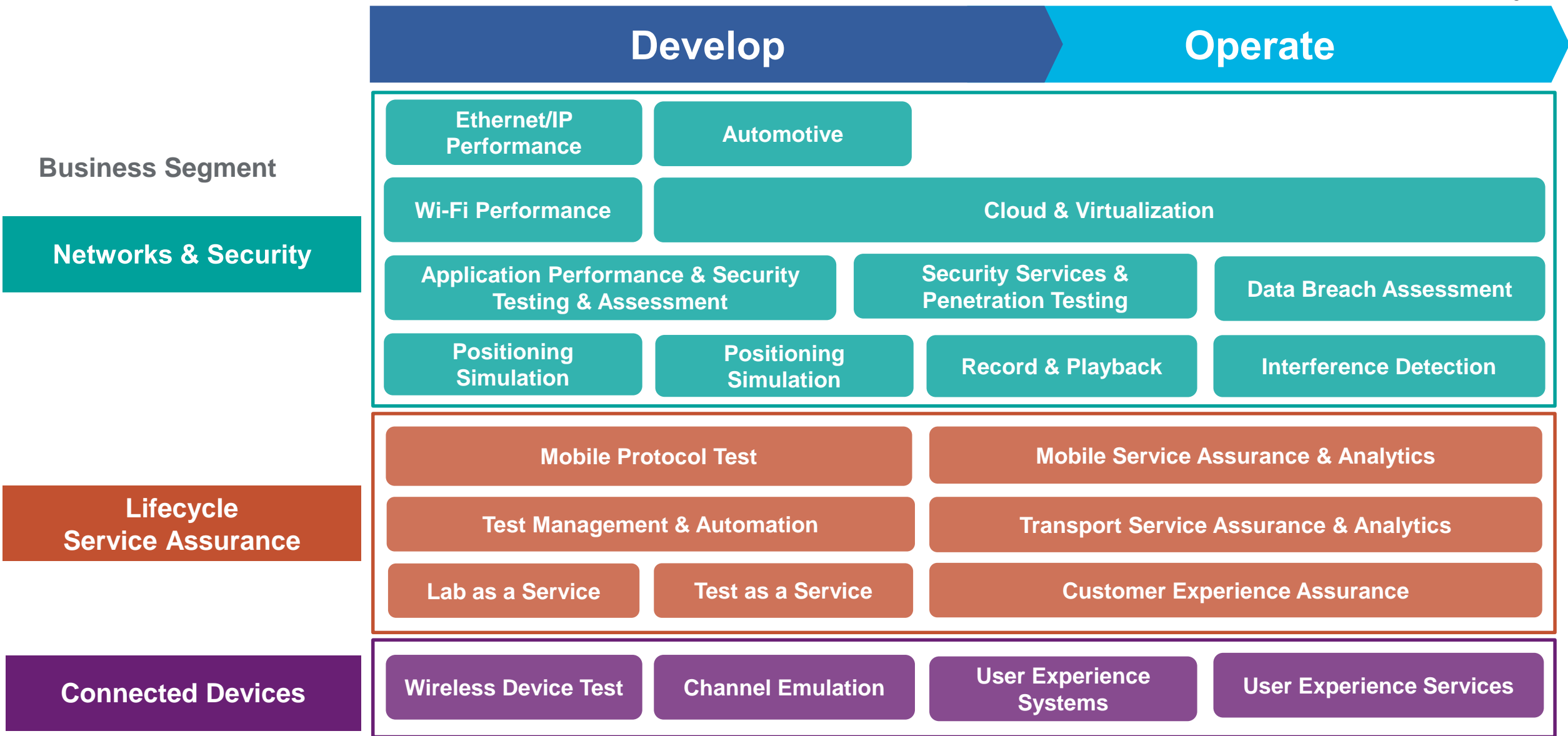


Broaden our Solution Portfolio

for emerging technologies & network operations

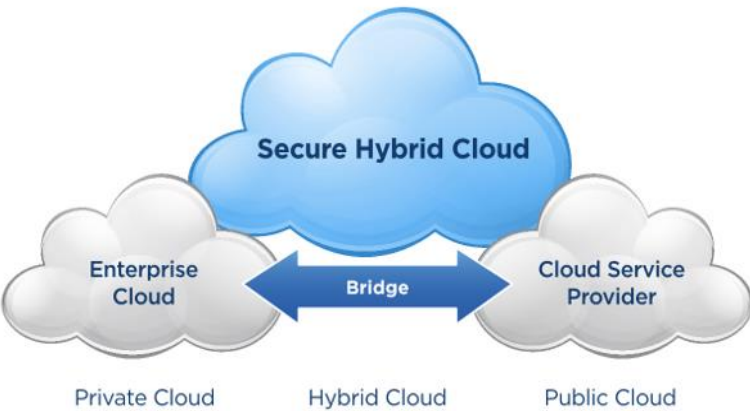


Opportunities



Expand Customer Reach

Cloud Service Providers



Enterprises



Governments



- ... offering new solutions, services & subscriptions
- expanding marketing, consultative direct channel and channel partners

Sharp focus on target markets

Market drivers remain positive
Clear technology leadership positions
Key 5G development wins

Innovate

Delivering new solutions & services for 5G, cloud & cybersecurity
Building deeper client relationships
Expanding our customer reach

Strong financial and operational platform

Revenue and earnings growth
Global customers and business

Outlook

Well positioned; continue to invest in market-leading technologies
Second half weighting remains; outlook unchanged
Sustainable profitable growth

Q&A



Appendix



Income Statement

\$m	H1 2019	H1 2018
Revenue	217.4	209.2
Gross profit	156.5	148.1
Operating costs	(135.8)	(130.3)
Adjusted operating profit	20.7	17.8
Adjusting items:		
Acquisition related costs	(0.1)	-
Acquired intangible asset amortisation	(0.8)	(1.8)
Share-based payment	(1.7)	(1.4)
Operating profit	18.1	14.6
Net finance income	0.6	0.5
Gain on divestment	-	2.3
Profit before tax	18.7	17.4
Tax	(2.1)	(2.9)
Profit after tax	16.6	14.5
Adjusted basic earnings per share (cents)	3.03	2.49

\$m	H1 2019	H1 2018
Revenue	131.0	125.3
Gross profit	93.8	88.4
Gross margin	71.6%	70.6%
Product development	(28.0)	(26.8)
Other expenses	(49.8)	(46.8)
Operating profit	16.0	14.8

- Market-leading technology underpins revenue growth – 400G/GPS/Security
- Product marketing investment increased to develop medium term solutions for automotive and virtual

Lifecycle Service Assurance



\$m	H1 2019	H1 2018
Revenue	51.0	48.0
Gross profit	38.9	35.9
Gross margin	76.3%	74.8%
Product development	(13.9)	(14.8)
Other expenses	(21.0)	(19.7)
Operating profit	4.0	1.4

- 5G lab support growth opportunities
- Gross margin improvement due to a higher proportion of software revenue

\$m	H1 2019	H1 2018
Revenue	35.4	35.9
Gross profit	23.8	23.8
Gross margin	67.2%	66.3%
Product development	(6.6)	(7.0)
Other expenses	(12.0)	(12.8)
Operating profit	5.2	4.0

- Revenue continues to be stable whilst continued earnings growth from effective cost management
- 5G product development on track

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 H1 2019 of 1.29 compared to 1.38 in H1 2018, the closing rate at 30 June 2019 was 1.27 vs 1.32 at 30 June 2018
- FX loss of \$0.4m charged to the income statement in H1 2019 (H1 2018: \$0.5m 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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