

# SPIRENT COMMUNICATIONS PLC 2022 HALF YEAR RESULTS

AUGUST 2022

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# GROWING MOMENTUM AND OPPORTUNITIES

- Significant, growing markets
- Strategy aligned to address opportunities
  - Consistently improving go to market
  - Investing in the right R&D
  - Building resilience and visibility
  - Evaluating M&A targets
- Another strong set of results - signal of success



# FINANCIAL RESULTS

PAULA BELL

CHIEF FINANCIAL & OPERATIONS OFFICER

# KEY METRICS

\$295.5m

Orders

↗ 12%

\$280.1m

Revenue

↗ 10%

\$49.0m

Operating profit<sup>1</sup>

↗ 10%

\$283.6m

Orderbook

↗ 30%  
(30 Jun 2021)

↗ 5%  
(31 Dec 2021)

6.97c

EPS<sup>1, 2</sup>

↗ 12%

2.63c

Dividend

↗ 10%

# FINANCIAL SUMMARY

\$m	H1 2022	H1 2021
Order intake	295.5	263.8
Revenue	280.1	255.1
Gross profit	201.6	184.0
Gross margin	72%	72%
Operating costs <sup>1</sup>	(152.6)	(139.3)
Operating profit <sup>1</sup>	49.0	44.7
Operating margin <sup>1</sup>	18%	18%
Profit before tax	40.3	34.8
Effective tax rate <sup>2</sup>	14.0%	14.8%
EPS <sup>1,3</sup> (cents)	6.97	6.23
Cash	188.8	156.4
Dividend per share (cents)	2.63	2.39

- Book to bill 105
- Sustained revenue growth, up 10%
- Opex – includes R&D and sales investment for high growth areas
- Maintained margins despite supply chain cost pressure
- Operating profit up 10%; EPS up 12%
- ETR outlook unchanged c14-15%
- Dividend up 10%

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.

# STRONG PORTFOLIO PERFORMANCE

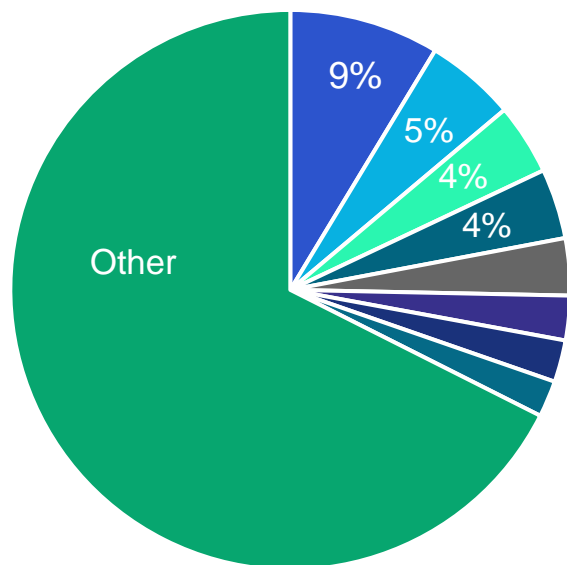
- 5G-driven growth continuing at LSA
- R&D and sales investment for new LSA VisionWorks solution and growing services
- Opportunities for N&S business gathers pace

	Revenue		Operating profit <sup>1</sup>	
\$m	H1 2022	H1 2021	H1 2022	H1 2021
Lifecycle Service Assurance	125.6	113.8	21.3	22.6
Networks & Security	154.5	141.3	32.0	26.8
Corporate			(4.3)	(4.7)
Group total	280.1	255.1	49.0	44.7

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

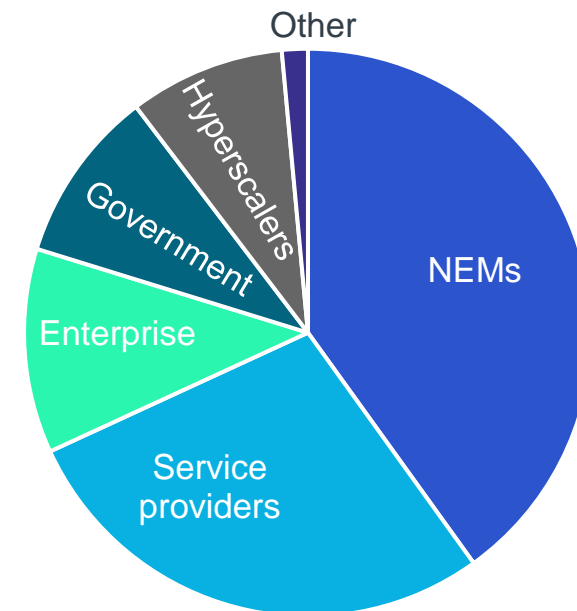
# STRATEGY DELIVERING GREATER VISIBILITY

## CUSTOMER DIVERSIFICATION



- Sales in live network up 20%
- Services up 17%
- Hyperscalers - almost doubled
- New logos up 10%
- More multi-year deals

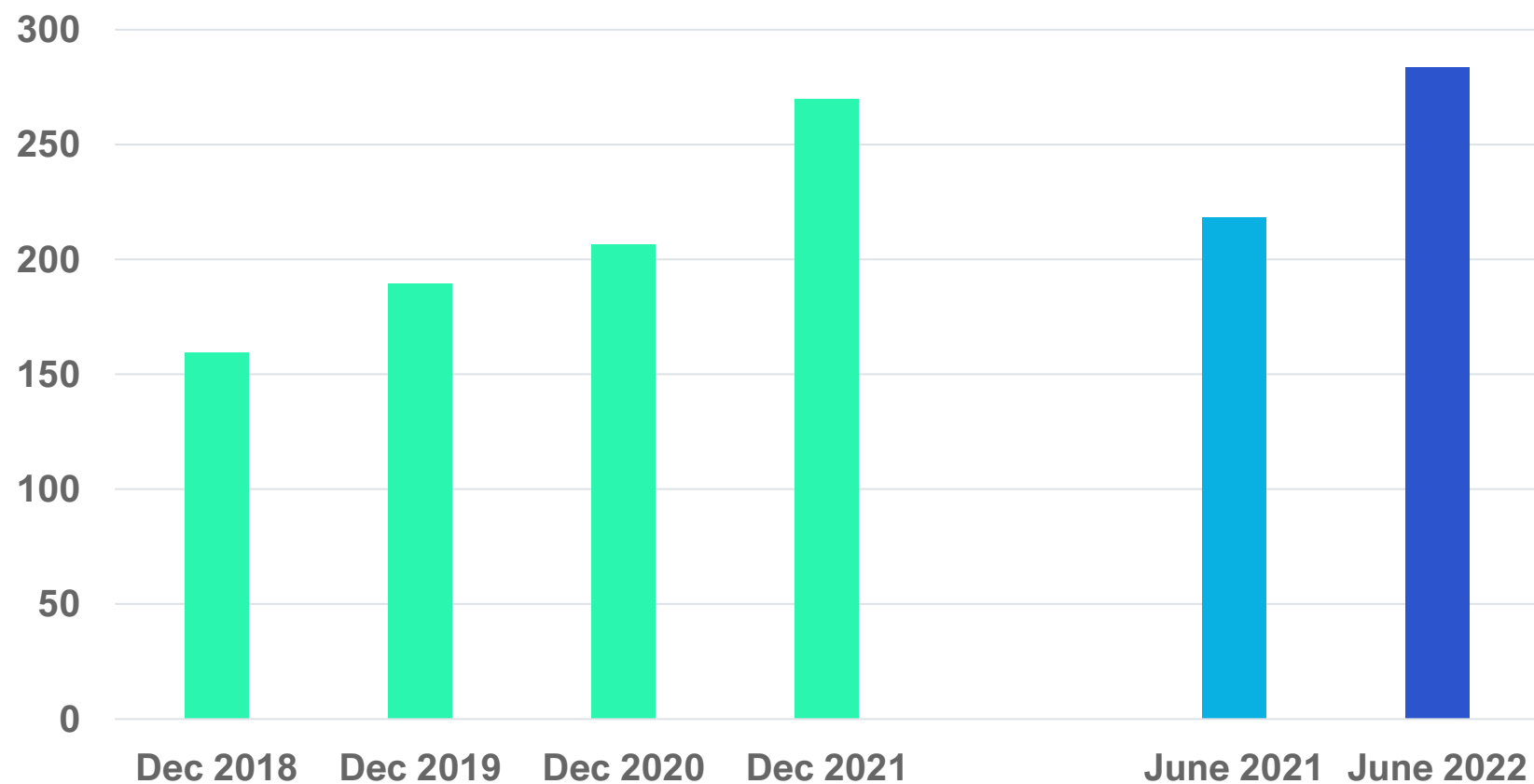
## CUSTOMER CATEGORY





# ROBUST ORDERBOOK DEVELOPMENT

Closing Orderbook \$m



- 5% growth in orderbook in 2022
- Circa 35% for delivery beyond 2022
- Live assurance solutions and increasing services drives multi-year deals

## EFFECTIVE COST FOCUS

\$m	H1 2022	H1 2021
Product development	57.2	52.5
Selling and marketing	67.1	61.8
Administration	28.2	24.6
Sub total <sup>1</sup>	<b>152.5</b>	<b>138.9</b>
FX loss	0.1	0.4
<b>Total operating costs<sup>1</sup></b>	<b>152.6</b>	<b>139.3</b>

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

\$m	H1 2022	H1 2021
Product development:		
Lifecycle Service Assurance	27.9	24.7
Networks & Security	29.3	27.8
<b>Total</b>	<b>57.2</b>	<b>52.5</b>

- Temporary increase in R&D for new LSA solution
- Sales investment includes:
  - Further expansion of Key Accounts
  - Expanding new customer segments
- Administration includes investment into support functions and infrastructure:
  - IT for new services business
  - Standardising global processes
  - Increasing compliance

# CASH CONVERSION 110%

\$m	H1 2022	H1 2021
<b>Operating profit<sup>1</sup></b>	<b>49.0</b>	44.7
Depreciation and amortisation	9.7	10.7
Net lease repayments and interest	(4.5)	(4.9)
Working capital movement	12.2	12.0
Capex	(4.1)	(5.3)
Pension funding	(1.3)	(3.2)
Tax paid	(14.1)	(5.8)
Bank interest/other	(0.2)	(0.1)
<b>Free cash flow</b>	<b>46.7</b>	<b>48.1</b>
Other adjusting items (acquisition)	(1.8)	(4.8)
Dividends	(25.0)	(69.6)
Acquisitions	-	(51.3)
Employee Share purchases	(1.6)	(3.1)
Foreign exchange	(4.3)	0.5
One-off employer contributions to UK pension scheme	-	(4.6)
<b>Closing cash</b>	<b>188.8</b>	<b>156.4</b>

- Cash conversion 110% (H1 2021: 127%)
- Debtor days improved again
- Tax payments accelerated due to new US R&D Capitalization rules coming into effect

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

# DELIVERING SUSTAINABLE GROWTH

- Positive financial momentum continues
- Strong growth in all of our key focus areas:
  - Lab to live
  - Software
  - Services
  - Hyperscalers
  - Multi-year deals
- Robust cash conversion
- Record orderbook
- Strong platform for a busy H2



# DELIVERING OUR STRATEGY

ERIC UPDYKE

CHIEF EXECUTIVE OFFICER



# ENDURING MARKET DRIVERS

5G



Work from  
Anywhere



Emergence of  
the Metaverse



Expansion of  
Hyperscalers



Location  
Awareness as  
a Key Enabler



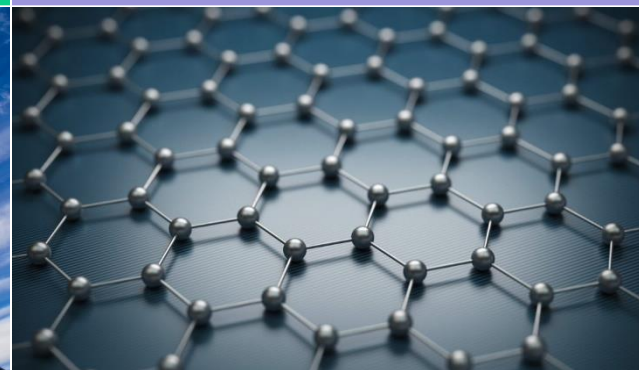
# 5G – SUSTAINABLE GROWTH DRIVER FOR THIS DECADE AND BEYOND

**5G Infancy**  
**<20%**  
 of CSPs globally have commercially deployed any 5G<sup>1</sup>

**Embryonic “Real” (Standalone) 5G**  
**<3%**  
 of CSPs globally have commercially deployed a 5G core network<sup>1</sup>

**Rapidly Increasing Complexity**  
**~50X**  
 more complex compared to 4G

**Accelerating Spending Growth (2022-25)**  
**>\$250bn**  
 on RAN, Core, Cloud, Private Network infrastructure<sup>2</sup>



## 5G spend is non-discretionary

- Network operators’ spectrum and network capital investment commitments are already in place
  - Growth in 5G core and private network rollouts is only just beginning



# THESE DRIVERS MEAN RAPID CHANGE FOR OUR CUSTOMERS

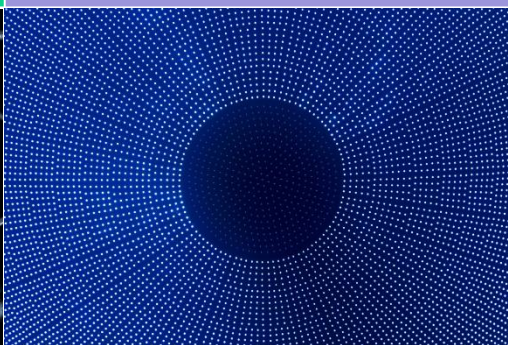
## 5G and open networking

More vendors, more potential issues



## New networks and devices

Increasingly complex to launch and operate



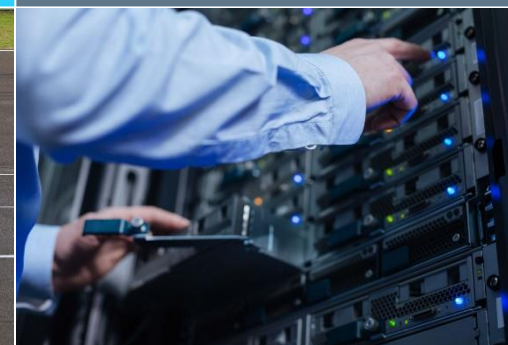
## Launching new services

Requires agility and speed



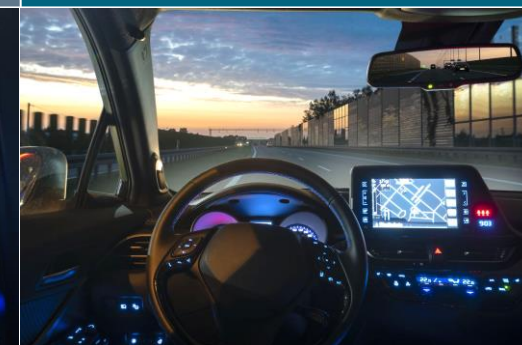
## Disaggregated, cloud-native network

Far more frequent software updates



## Location awareness

Enhanced real-world performance and robustness



## Lab-based testing remains important, but is often no longer sufficient to address all this change

- Continuous, automated testing and assurance is needed throughout the technology and service lifecycle
- More complex challenges can no longer be addressed by products alone – requires a solutions and services-led approach



# HOW OUR DIFFERENTIATED APPROACH HELPS US WIN

## We go to market differently

We address our customers' newer, larger challenges with services and solutions, not just products

## We are the only vendor addressing all phases of the technology lifecycle

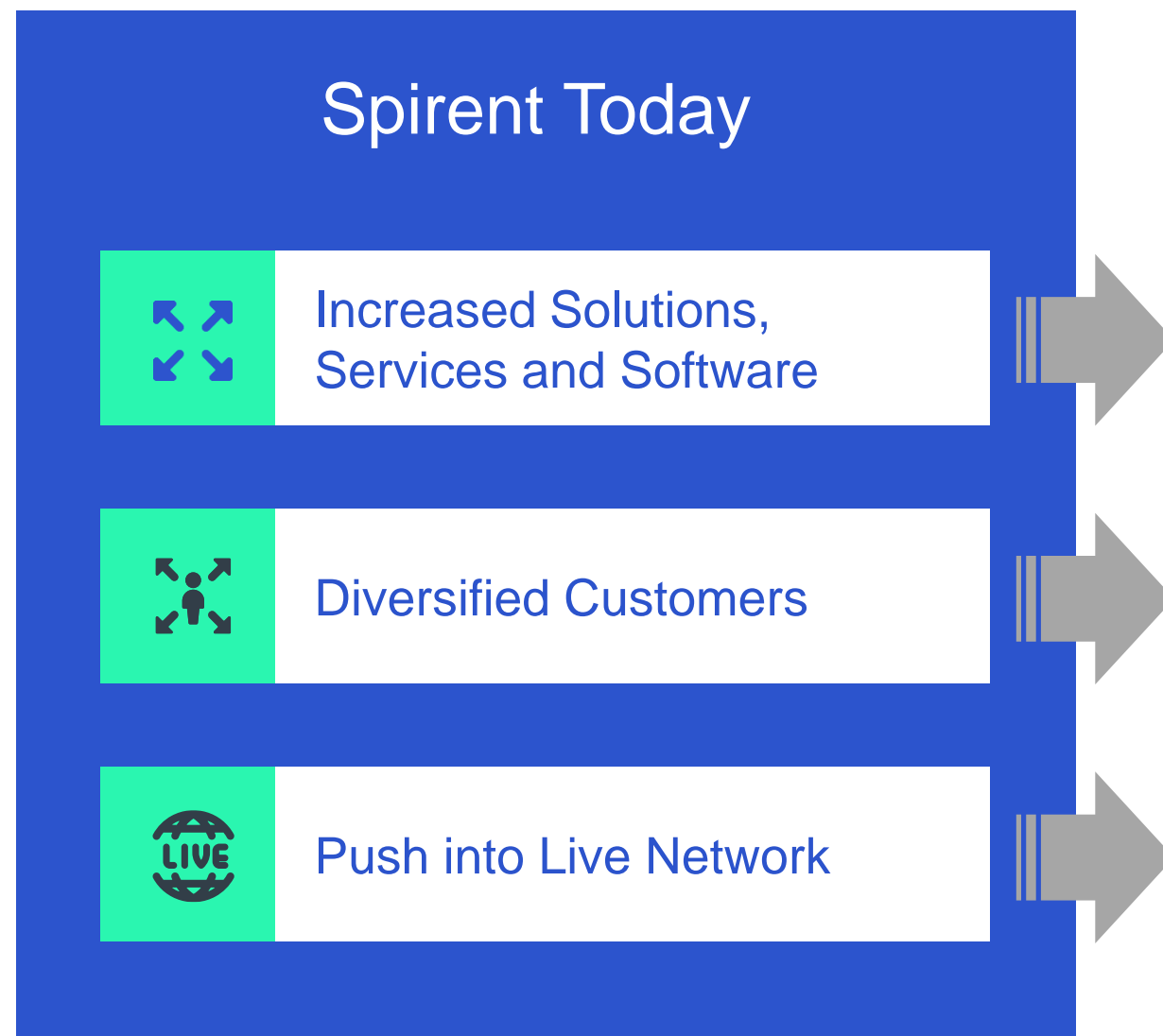
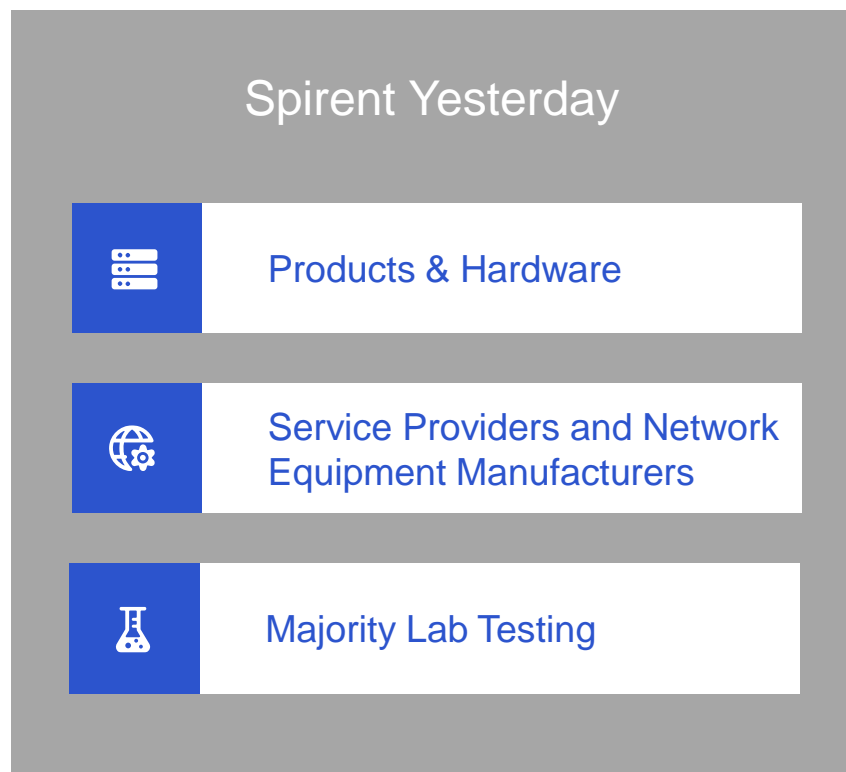
We apply our subject matter expertise gained in the lab to our customers' live networks

## We ensure disciplined investment allocation

Our customer intimacy enables us to focus on faster-growing market areas most critical to our customers



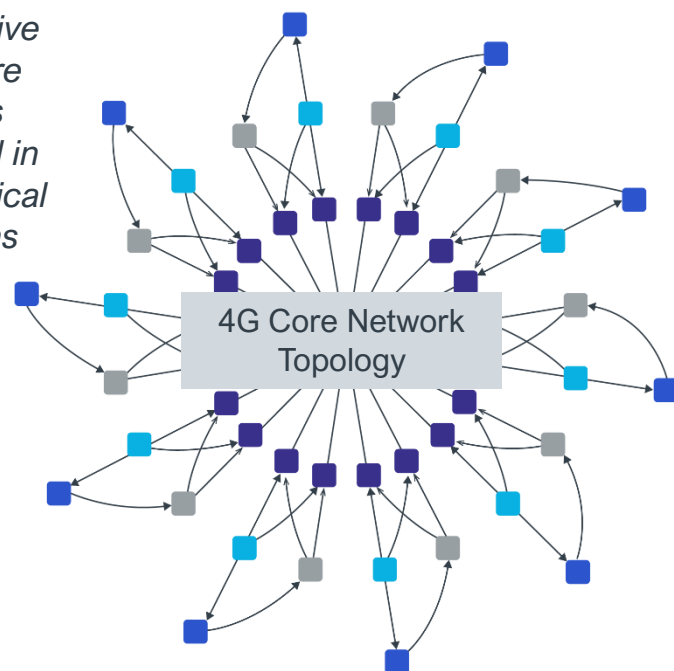
# OUR WINNING STRATEGY



# 5G NEEDS A NEW APPROACH: ACTIVE ASSURANCE

For **4G**, a large provider might have just 8-10 core network locations around a country

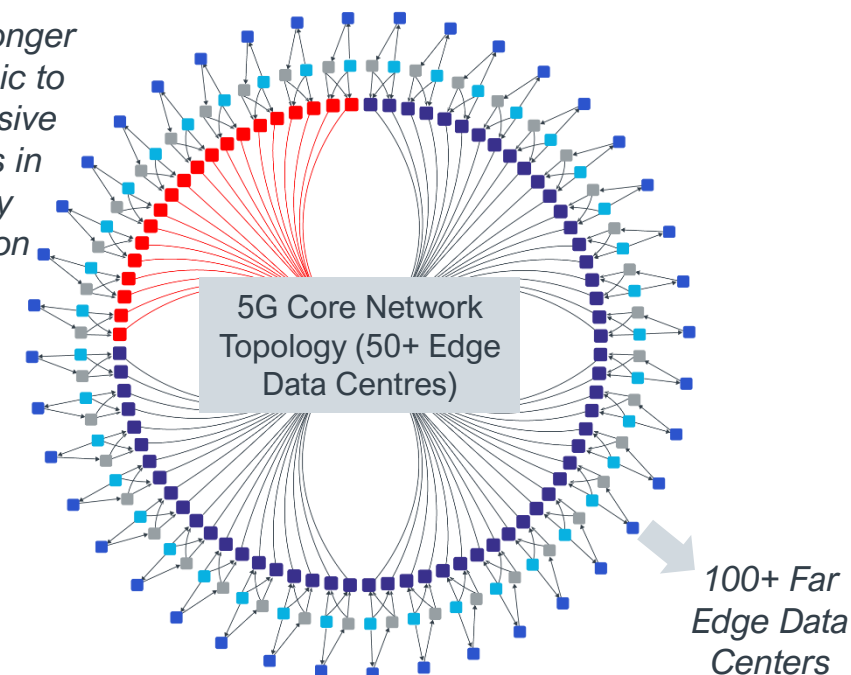
**4G:** passive hardware probes deployed in ~10 physical locations



Traditional **Passive Assurance** is reactive, major issues are only identified after they happen, so it can still be **challenging to prevent large outages**

For **5G**, networks are becoming clouds with core network functions in 100s of locations

**5G:** no longer economic to put passive probes in every location



**Active Assurance** uses software agents to continuously test any part of the network, **detecting issues before they impact customers**

# INTRODUCING **VANTAGE**: ACTIVE ASSURANCE FOR 5G & CLOUD

Applies our leadership in **Ethernet and 5G core and cloud test and validation** to a unique **5G and Cloud Active Assurance** solution

Advances significantly our strategy to **push into live networks** and to **grow software and services**

**Expands our addressable market** by targeting the needs of Tier 2 and Tier 3 operators with an easy-to-deploy and use solution

## Activation Testing

Will the network perform when customers use it?



*Validate new network functions **before going live***

## Proactive Monitoring

How is the network performing right now?



*Measure performance from the **end-user's perspective***

## Automated Troubleshooting

What part of the network is causing the issue?



*Automatically **isolate problems** by testing each network segment*



# H1 WIN STORIES

Leading Hyperscaler	UK Department for Digital, Culture, Media, and Sport	Global Hyperscaler	Tier 1 Equipment Manufacturer
Supporting AR/VR wearables/devices development for cellular and Wi-Fi connectivity	Equipping National Telecoms Lab to assure quality & security of 5G network equipment	Providing turnkey managed solution to help accelerate launch of next 5 new devices	Securing 800G test spend and major security solution win
			



# LIFECYCLE SERVICE ASSURANCE HIGHLIGHTS

- Vantage (new generation of VisionWorks) developed commercially – released in July
- Continued VisionWorks success in live networks
- Growth in leading hyperscaler accounts
- Expanded Wi-Fi test market leadership
- Key wins for our services offerings



# NETWORKS & SECURITY HIGHLIGHTS

- Good growth in high-speed Ethernet test
- Expanded our leadership in 800G high-speed Ethernet test
- Security Solutions took share at leading NEMs
- Significant new contract for 5G security Test-as-a-Service at leading Tier 1 operator
- Positioning saw strong orders growth in US Government and hyperscaler markets



# ROBUST OPERATING MODEL

## RESILIENCE

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- Strong growth and momentum despite macro factors
- Enhanced employee value proposition to achieve superior talent retention
- Proactively, aggressively managing supply chain
- Product simplification

## SUSTAINABILITY

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- On track for Carbon Neutral Certification by end of 2022
- Products helping customers achieve their sustainability goals
- Investing in diversity and inclusion





## SUMMARY AND OUTLOOK

- Very attractive long-term market trends – resulting in:
  - Complexity and customer need for faster launch of new services, real time reaction
  - Increased demand for test and assurance
- Live network assurance demand grows:
  - First-to-market, easy to adapt live network assurance solution (Vantage)
  - Increasing software – higher gross margin business
- Focused investment for growth, delivering strong financial performance
- Successfully managing macro-economic challenges
- Orderbook growth, strong momentum – expectations for full year remain unchanged

# QUESTIONS

# APPENDIX

# INCOME STATEMENT

\$m	H1 2022	H1 2021
Revenue	280.1	255.1
Gross profit	201.6	184.0
Operating costs	(152.6)	(139.3)
<b>Adjusted operating profit</b>	<b>49.0</b>	<b>44.7</b>
Adjusting items:		
Acquired intangible asset amortisation	(2.4)	(1.8)
Share-based payment	(4.1)	(2.6)
Other adjusting items	(2.4)	(5.3)
<b>Operating profit</b>	<b>40.1</b>	<b>35.0</b>
Net finance income/(cost)	0.2	(0.2)
<b>Profit before tax</b>	<b>40.3</b>	<b>34.8</b>
Tax	(5.7)	(5.2)
<b>Profit after tax</b>	<b>34.6</b>	<b>29.6</b>
Adjusted basic earnings per share (cents)	6.97	6.23

# LIFECYCLE SERVICE ASSURANCE – INVESTING FOR GROWTH

\$m	H1 2022	H1 2021
Revenue	125.6	113.8
Gross profit	92.9	83.5
Gross margin	74.0%	73.4%
Product development	(27.9)	(24.7)
Other expenses <sup>1</sup>	(43.7)	(36.2)
<b>Operating profit<sup>1</sup></b>	<b>21.3</b>	<b>22.6</b>

1. Before other adjusting items of \$0.1 million charged in H1 2022 (H1 2021: \$0.3 million).

- Revenue growth 10%
- Gross margin improvement as software sales increase
- H1 temporary increased investment for new live assurance product release
- Strong growth in Wi-Fi – successful 2021 acquisition octoScope

# NETWORKS & SECURITY – GOOD MOMENTUM

\$m	H1 2022	H1 2021
Revenue	154.5	141.3
Gross profit	108.7	100.5
Gross margin	70.4%	71.1%
Product development	(29.3)	(27.8)
Other expenses <sup>1</sup>	(47.4)	(45.9)
<b>Operating profit<sup>1</sup></b>	<b>32.0</b>	<b>26.8</b>

1. Before other adjusting items of \$0.6 million charged in H1 2022 (H1 2021: \$0.6 million).

- 9% revenue growth, operating profit up 19%
- Supply chain cost increase and delays efficiently managed
- Site strategy to deliver product development savings on track

## OTHER ADJUSTING ITEMS

\$m	H1 2022	H1 2021
R&D engineering plan	(0.6)	(0.5)
Direct acquisition transaction costs	(0.6)	(1.8)
Acquisition related performance payments	(1.1)	(2.5)
Acquisition integration costs	(0.1)	(0.5)
<b>Total charge</b>	<b>(2.4)</b>	<b>(5.3)</b>

- R&D site strategy deliver labour cost efficiencies as we set up in Romania and build presence in India
- \$7-8m project cost 2021-2023 with 2-year payback

## FOREIGN CURRENCY

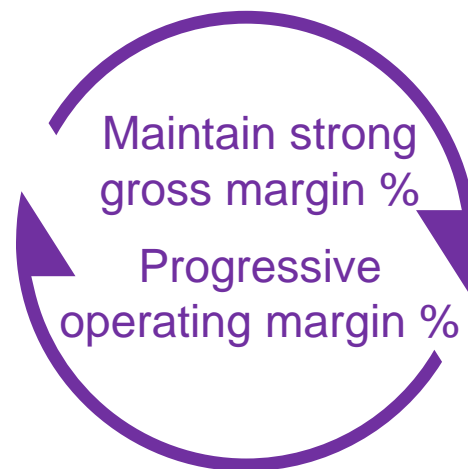
- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD:GBP exchange rate for H1 2022 of 1.30 compared to 1.39 in H1 2021, the closing rate at 30 June 2022 was 1.21 vs 1.39 at 30 June 2021.
- FX loss of \$0.1m charged to the income statement in H1 2022 (H1 2021: \$0.4m loss charged) in relation to:
  - Transaction exposure in UK operations from US Dollar sales; and
  - Retranslation of cash balances held in non-domicile currency



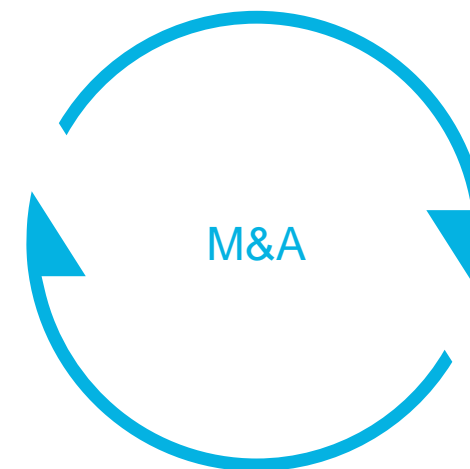
# MEDIUM TERM TARGETS



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



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



- Accelerate strategy
- Drive faster growth and leverage

# OUR FOCUS ON DIVERSIFICATION

Strategic Market Focus	Geographic Market Focus
<p>Live Network Assurance</p> <p>Hyperscalers</p> <p>MSOs</p> <p>Chipset</p> <p>Government</p>	<p>EMEA</p> <p>East Asia</p> <p>South Asia</p>
Partnership Expansion Focus	Inorganic Growth Focus
<p>Expand successful partner ecosystem, targeting faster-growing segments</p> <p>Expand key global system integrator (GSI) partnerships</p>	<p>Pursue targeted M&amp;A opportunities in core and adjacent markets</p>

# SPIRENT AT A GLANCE

## A GLOBAL LEADER IN NETWORK TESTING AND ASSURANCE


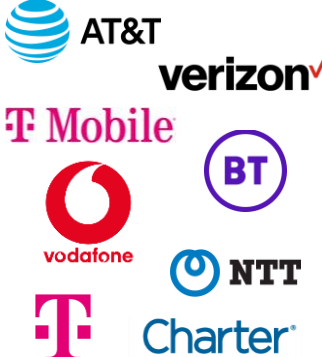





We deliver market leading, mission critical testing and assurance solutions for communications service providers, technology providers, enterprise and government

From testing 5G mobile and Wi-Fi networks, to securing IoT devices and improving the scalability and reliability of Cloud computing networks, we bring an end-to-end approach across the entire value chain, with an increasing focus on software and services

Our customers trust us to make sure that their technologies, products, networks and services work safely, reliably and efficiently, 24/7

Spirent's world-class team of over 1,500 employees serves in excess of 1,200 customers across more than 50 countries each year

Organised into Two Operating Segments	Diversified Customer Base				
<b>Lifecycle Service Assurance</b> An established global leader in cellular and Wi-Fi device test, and in testing and assurance of 5G mobile networks, delivering solutions that radically reduce the time and cost for customers to bring new services to market	Network Equipment, Technology & Device Vendors	Service Providers	Enterprise	Government	Hyperscalers
<b>Networks &amp; Security</b> A world leader in high-speed Ethernet/IP performance testing, developing test methodologies, tools and services for virtual networks, Cloud and proactive security validation, and location technology performance					

# SPIRENT'S UNIQUE STRENGTHS

Market-Leading Capabilities	Deep, Enduring Customer Relationships	Accelerating End-Market Growth
<ul style="list-style-type: none"> <li>Global leader in Test and Assurance</li> <li>More than 1,200 customers served each year across more than 50 countries</li> </ul>	<ul style="list-style-type: none"> <li>Trusted partner to the world's most innovative telecommunications and networking companies</li> <li>Embedded in the supply chains of our customers</li> <li>Addressing our customers' largest, most complex challenges with solutions and services</li> </ul>	<ul style="list-style-type: none"> <li>Strong secular growth trends in our chosen sectors</li> <li>5G represents a very large and enduring opportunity</li> <li>Exciting emerging high-growth technologies from the metaverse to IoT, device proliferation and Cloud</li> </ul>
Exposed to Non-Discretionary, Committed Spend	A High-Quality, Resilient Growth Business with Defensive Characteristics	Well Placed to Seize Attractive Opportunities
<ul style="list-style-type: none"> <li>We operate in markets underpinned by non-discretionary and committed spending decisions by companies who deliver critical connectivity solutions for their own customers</li> </ul>	<ul style="list-style-type: none"> <li>Proven track record of sustainable value creation</li> <li>Reliable and highly visible recurring revenue growth</li> <li>Strong cash generation</li> <li>High returns on capital</li> </ul>	<ul style="list-style-type: none"> <li>Focused on growing the business organically and through highly-selective, earnings-accretive acquisitions</li> </ul>



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