

# Spirent Communications plc 2019 Full Year Results March 2020

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# 2019 Highlights

- Strong performance delivery
  - Orders growth – increasing multi-year contracts
  - Continued revenue growth momentum
- Critical product launches
- 250+ 5G related orders
- Leadership team talent expanded
- Refreshed strategy



# 2019 Full Year Financial Results

Paula Bell  
Chief Financial & Operating Officer

# Key Metrics



**Up**  
**13.2%**



**Up**  
**5.6%**



**Up**  
**21%**



**Up**  
**23%**



**Up**  
**\$49m**



**Up**  
**20%**

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

(2) Before tax on items in note (1), prior year tax and gain on divestment (in 2018)

(3) Cash flow generated from operations, less tax and net capital expenditure, interest paid and/or received, and payment of lease liabilities/sublease income.

# Financial Summary

| \$m                                    | 2019           | 2018    |
|--|----------------|---------|
| Order intake                           | <b>532.0</b>   | 470.0   |
| Revenue                                | <b>503.6</b>   | 476.9   |
| Gross profit                           | <b>368.6</b>   | 344.5   |
| Gross margin                           | <b>73.2%</b>   | 72.2%   |
| Adjusted operating costs <sup>1</sup>  | <b>(275.7)</b> | (267.4) |
| Adjusted operating profit <sup>1</sup> | <b>92.9</b>    | 77.1    |
| Adjusted operating margin <sup>1</sup> | <b>18.4%</b>   | 16.2%   |
| Profit before tax                      | <b>89.6</b>    | 61.2    |
| Effective tax rate <sup>2</sup>        | <b>13.0%</b>   | 15.4%   |
| EPS <sup>1,3</sup> (cents)             | <b>13.40</b>   | 10.86   |
| Net cash                               | <b>183.2</b>   | 121.6   |
| Dividend per share (cents)             | <b>5.39</b>    | 4.49    |
| Dividend per share (pence)             | <b>4.29</b>    | 3.42    |

- Multi year contracts improve visibility
- Revenue growth momentum
- High software mix drives gross margin
- Opex increase – inflation only
- R&D investment maintained
- Operating profit up 20%
- EPS up 23%
- Tax rate outlook 13-14%
- Dividend up 20%, 25% in sterling

(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), prior year tax and gain on divestment (in 2018)

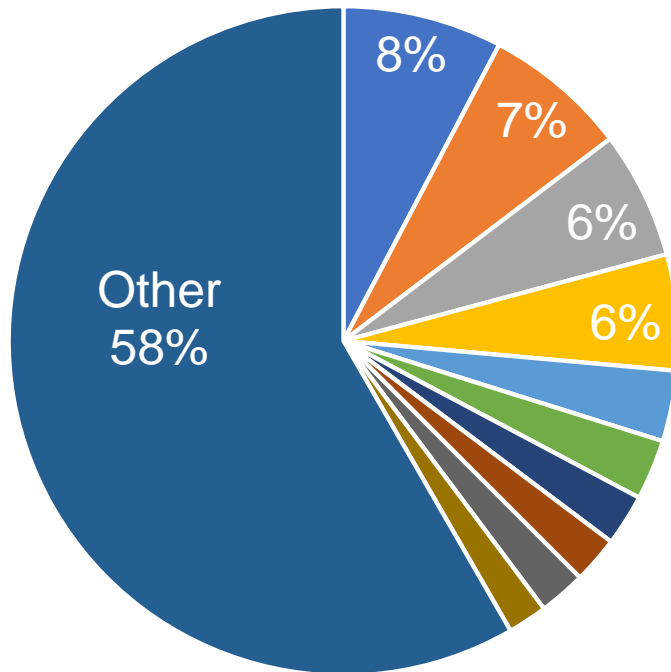
# Portfolio Performance



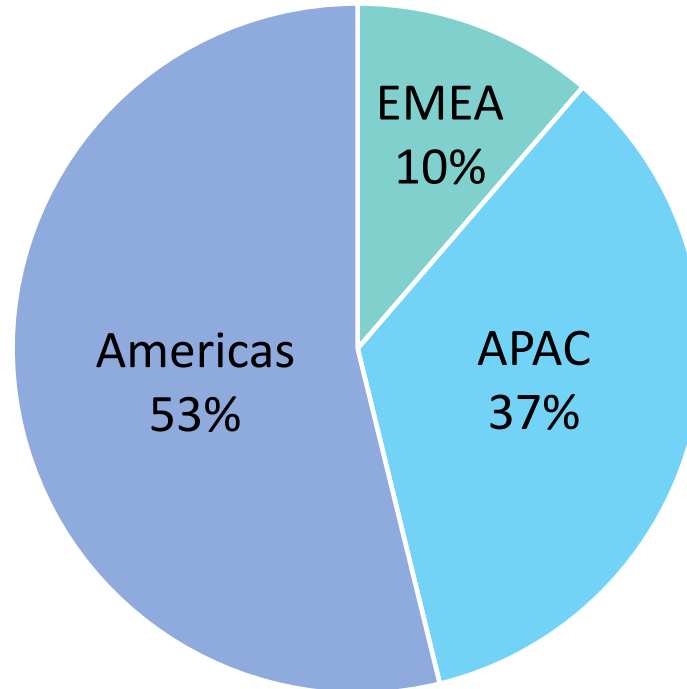
| \$m                         | Revenue |       | Operating profit <sup>1</sup> |       | Operating margin <sup>1</sup> |      |
|-----------------------------|---------|-------|-------------------------------|-------|-------------------------------|------|
|                             | 2019    | 2018  | 2019                          | 2018  | 2019                          | 2018 |
| Networks & Security         | 319.9   | 285.1 | 73.9                          | 56.4  | 23%                           | 20%  |
| Lifecycle Service Assurance | 111.2   | 112.8 | 18.1                          | 17.4  | 16%                           | 15%  |
| Connected Devices           | 72.5    | 79.0  | 9.5                           | 10.5  | 13%                           | 13%  |
| Corporate                   | -       | -     | (8.6)                         | (7.2) | -                             | -    |
| Group total                 | 503.6   | 476.9 | 92.9                          | 77.1  | 18%                           | 16%  |

# Strong Diversification

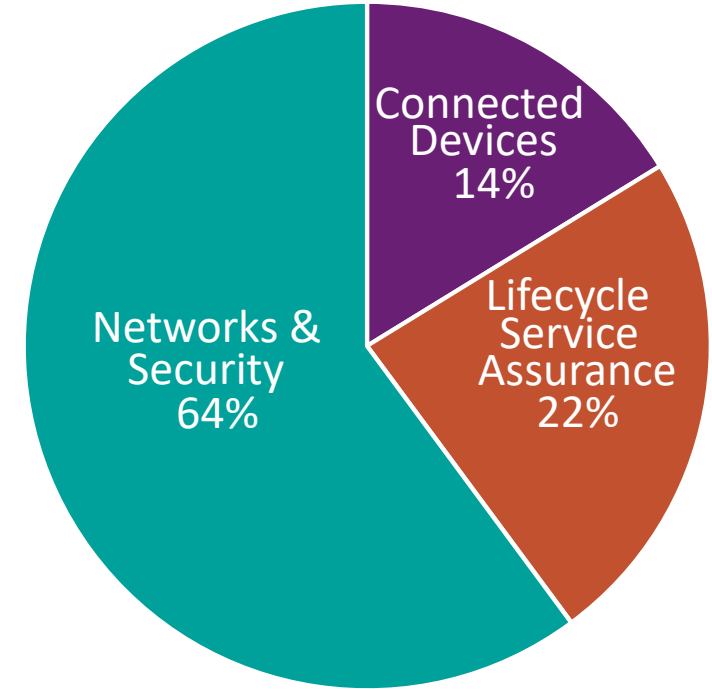
Revenue by customer



Revenue by geography



Revenue by segment



- US/China trade challenges managed well
- Good portfolio balance with no overweight customer dependency; top 10 customers = 42% of revenue



# Balanced Cost Management

| \$m   | 2019         | 2018  |
|---|--------------|-------|
| Product development                         | <b>96.5</b>  | 96.9  |
| Selling and marketing                       | <b>129.2</b> | 123.9 |
| Administration <sup>1</sup>                 | <b>50.0</b>  | 46.6  |
| Total adjusted operating costs <sup>1</sup> | <b>275.7</b> | 267.4 |
| Operating margin                            | <b>18.4%</b> | 16.2% |

- Improved effectiveness of our product development resource – target c20% of revenue
- Enhanced sales & marketing investment
  - developing routes to market for new technologies
  - broadening our customer base – enterprise, government
- Administration costs include CEO transition

# Exceptional Items

| \$m                        | 2019         | 2018   |
|----------------------------|--------------|--------|
| CEO Strategic Review       | <b>(1.8)</b> | -      |
| French import duty dispute | <b>2.3</b>   | (9.1)  |
| Pension GMP equalisation   | -            | (4.0)  |
|                            | <b>0.5</b>   | (13.1) |

- 2019 includes:
  - French import duty VAT refund
  - CEO Strategic Review, programme concludes in 2020

# Cash

| \$m  | 2019   | 2018   |
|--|--------|--------|
| Operating profit <sup>1</sup>                            | 92.9   | 77.1   |
| Exceptional items credited/(charged)                     | 0.5    | (13.1) |
| Depreciation, other amortisation and loss on disposal    | 23.3   | 17.1   |
| Lease repayments, interest and sublease income (IFRS 16) | (9.9)  | -      |
| Working capital movement (including provisions)          | 12.9   | (12.8) |
| Pension and deferred compensation                        | (5.0)  | (6.4)  |
| Pension GMP adjustment                                   | -      | 4.0    |
| Tax paid   | (5.6)  | (5.7)  |
| Bank interest received and other                         | 2.9    | 1.3    |
| Net capital expenditure                                  | (11.9) | (10.6) |
| Free cash flow   | 100.1  | 50.9   |
| Ordinary dividend  | (28.6) | (24.9) |
| Special dividend   | -      | (29.9) |
| Acquisitions/divestments                                 | (1.9)  | 1.8    |
| Employee Share Ownership Trust                           | (8.6)  | (2.5)  |
| Foreign exchange   | 0.6    | (2.2)  |
| Closing cash   | 183.2  | 121.6  |

- Strong cash conversion
- Highly effective working capital management
- Small acquisition of GPS technology

# Strong Momentum

- Solid opening orderbook for 2020 – multi-year wins increasing visibility
- Maintain focused investment to sustain growth and maintain operating margin
- Sales and marketing initiatives continue into 2020
- Highly effective working capital management
- Strong cash balance – inorganic opportunities



# 2019 Update & Strategic Priorities

Eric Updyke  
Chief Executive Officer





# Growth Drivers

- Revenue Growth and Drivers
  - High-speed Ethernet
  - Positioning
  - Test-as-a-Service
  - APAC
  - Key Accounts Programme
- Driving bookings **ahead** of revenue
- Improved margins



# 2019 Business Segment Performance

## Networks & Security



Leading market positions and technologies driving growth

Surge in Q4 400G Ethernet orders

Continued high win rate with US GNSS defence spend

Released DBA security product in H2

Strong opening orderbook for 2020

## Lifecycle Service Assurance



New leader appointed in October

Strong orders growth secured late in year

Strong demand for 5G lab test

Secured large, strategic TaaS contract

## Connected Devices



Maintained solid operating margin

Some 4G legacy testing decline

Strategic partnership and pivot to 5G

Released new 5G device testing product and secured orders

Key win for 5G Service Experience field test methodology

# Impressions on Spirent and the Market

- Market drivers and trends
- Well-positioned for growth
- Clear, differentiated opportunities
- Expanding customer base
- Move beyond the lab
- Engaged, talented team committed to winning
- Maintaining leadership in key areas





# Spirent's 5G Momentum



## 250+ 5G Deals Won in 2019

- Front lines of 5G
- Market-leading solutions
- Key 2019 wins across portfolio
  - #1 in 5G Core and High-Speed Ethernet test and validation
  - VisionWorks: Industry's first Active Assurance 5G nationwide deployment
  - Accelerating innovation with our 5G Digital Twin
- Tip of the iceberg



# 5G driving business across **Spirent** portfolio



## 5G Launches

64 initial launches.  
>349 planned<sup>1</sup>.

*Field Testing, Automation &  
Service Assurance*

Spirent **Umetrix** &  
**VisionWorks**



## 5G Devices

47 available today.  
>199 in dev.<sup>2</sup>

*Device Perf. & Security  
Testing*

Spirent **5G Device Test**  
& **Security Labs**



## 5G Radio

New **frequency** ranges &  
**antenna** technology.

*5G Radio Frequency  
Modelling & Testing*

Spirent **Vertex** & **Digital  
Twin**



## 5G Transport

Preparing for the **data  
tsunami**.

*High Speed Ethernet  
Performance Testing*

Spirent **Test Centre**  
(10-400GE)



## 5G Core & Edge

Network evolution to **Cloud  
& Virtualisation**.

*Multi-Vendor Validation  
(perf., features, security)*

Spirent **Landslide**,  
**CloudSure** & **Test-as-a-  
Service**



# 5G Test-as-a-Service Case Study

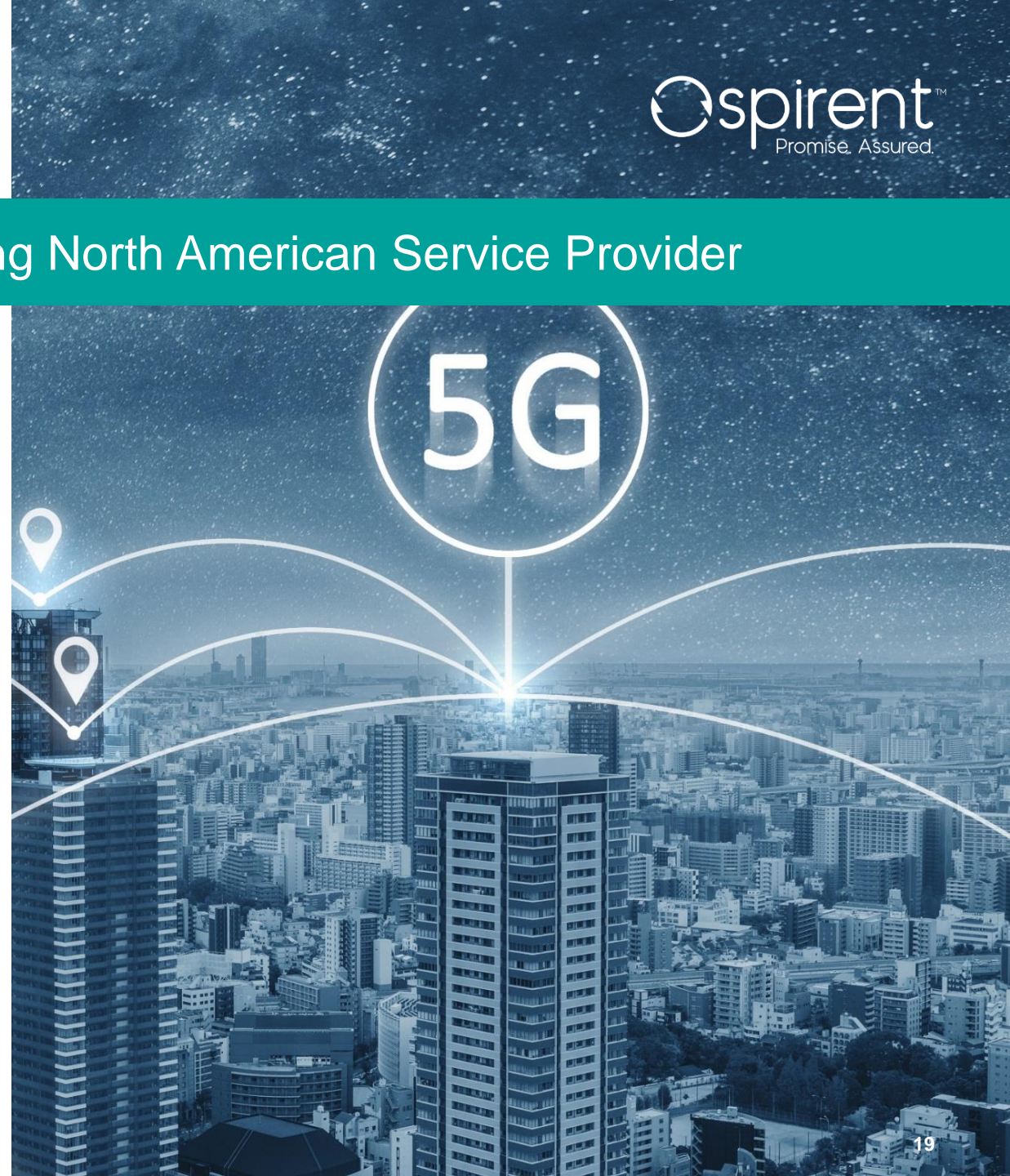
## Simplifying 5G deployment for a leading North American Service Provider

**Situation:** Customer needed to deploy 5G quickly and cope with the complexity of cloud native architecture

### **Solution:** Test-as-a-Service

Cross-portfolio solution to automate and execute 5G and cloud testing on behalf of customer

**Impact:** Enables customer to automate their testing needs and continually launch new 5G services, resulting in **lower costs** and **faster time to market**



# Strategic Pillars



**Customer  
Centricity**



**Innovation  
for Growth**



**Operational  
Excellence**



# Customer Centricity

## Deepening and Expanding Customer Reach

- Driving Services and Solutions
  - Refreshed customer-driven, solutions-based selling mindset
  - Moving beyond the lab
- Diversify Customer Base
  - Key Account Management extended
  - New geographies and market segments
  - Growth in Government sales
  - Expanding into new customers

# Innovation For Growth

## Technology and Business Model

- Stay ahead on key technologies
- Innovative new business models
  - New services and solutions
  - Higher software content
  - Strategic partnerships
- Targeted M&A





## Operational Excellence

### Maintaining Financial Strength and Flexibility

- Added leadership and experience
- Sense of urgency
- Sales & Marketing improvement programme
- Visibility and predictability with orderbook growth and recurring revenue
- Growth in cash balance
- Navigating geopolitical issues



**Customer  
Centricity**

**Innovation  
for Growth**

**Operational  
Excellence**

## Outlook

- Managing risk – coronavirus update
- Strong opening orderbook, good momentum
- Well positioned; focused on building recurring revenue streams
- Steady profitable growth
- Capital Markets Day – 30 April 2020

# Q&A



# Financial Appendix



# Income Statement

| \$m                                       | 2019    | 2018    |
|---|---------|---------|
| Revenue                                   | 503.6   | 476.9   |
| Gross profit                              | 368.6   | 344.5   |
| Product development                       | (96.5)  | (96.9)  |
| Selling and marketing                     | (129.2) | (123.9) |
| Administration                            | (50.0)  | (46.6)  |
| Adjusted operating profit                 | 92.9    | 77.1    |
| Adjusting items:                          |         |         |
| Exceptional items                         | 0.5     | (13.1)  |
| Acquisition related costs                 | (0.1)   | -       |
| Acquired intangible asset amortisation    | (1.2)   | (3.7)   |
| Share-based payment                       | (3.5)   | (2.8)   |
| Operating profit                          | 88.6    | 57.5    |
| Net finance income                        | 1.0     | 1.3     |
| Gain on divestment                        | -       | 2.4     |
| Profit before tax                         | 89.6    | 61.2    |
| Tax                                       | (11.6)  | (5.4)   |
| Profit after tax                          | 78.0    | 55.8    |
| Adjusted basic earnings per share (cents) | 13.40   | 10.86   |

# Networks & Security

| \$m                           | 2019           | 2018   |
|-------------------------------|----------------|--------|
| Revenue                       | <b>319.9</b>   | 285.1  |
| Gross profit                  | <b>232.3</b>   | 205.3  |
| Gross margin                  | <b>72.6%</b>   | 72.0%  |
| Product development           | <b>(56.0)</b>  | (53.0) |
| Other expenses <sup>1</sup>   | <b>(102.4)</b> | (95.9) |
| Operating profit <sup>1</sup> | <b>73.9</b>    | 56.4   |

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



# Lifecycle Service Assurance

| \$m                           | 2019   | 2018   |
|-------------------------------|--------|--------|
| Revenue                       | 111.2  | 112.8  |
| Gross profit                  | 88.6   | 87.9   |
| Gross margin                  | 79.7%  | 77.9%  |
| Product development           | (27.6) | (29.6) |
| Other expenses <sup>1</sup>   | (42.9) | (40.9) |
| Operating profit <sup>1</sup> | 18.1   | 17.4   |

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

# Connected Devices

| \$m                           | 2019   | 2018   |
|-------------------------------|--------|--------|
| Revenue                       | 72.5   | 79.0   |
| Gross profit                  | 47.7   | 51.3   |
| Gross margin                  | 65.8%  | 64.9%  |
| Product development           | (12.9) | (14.3) |
| Other expenses <sup>1</sup>   | (25.3) | (26.5) |
| Operating profit <sup>1</sup> | 9.5    | 10.5   |

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

# IFRS 16 Impact

- The Group adopted IFRS 16 'Leases' on 1 January 2019
- \$1.8m increase to operating profit (rent removed \$9.3m, depreciation increased \$7.5m)
- Immaterial impact to PBT (after increased interest costs \$1.7m)
- The following balances were added to the Group's balance sheet at 1 January 2019:
  - \$30.9m of property; and
  - \$36.7m of corresponding lease liabilities
- No requirement to restate comparatives

# Foreign Currency

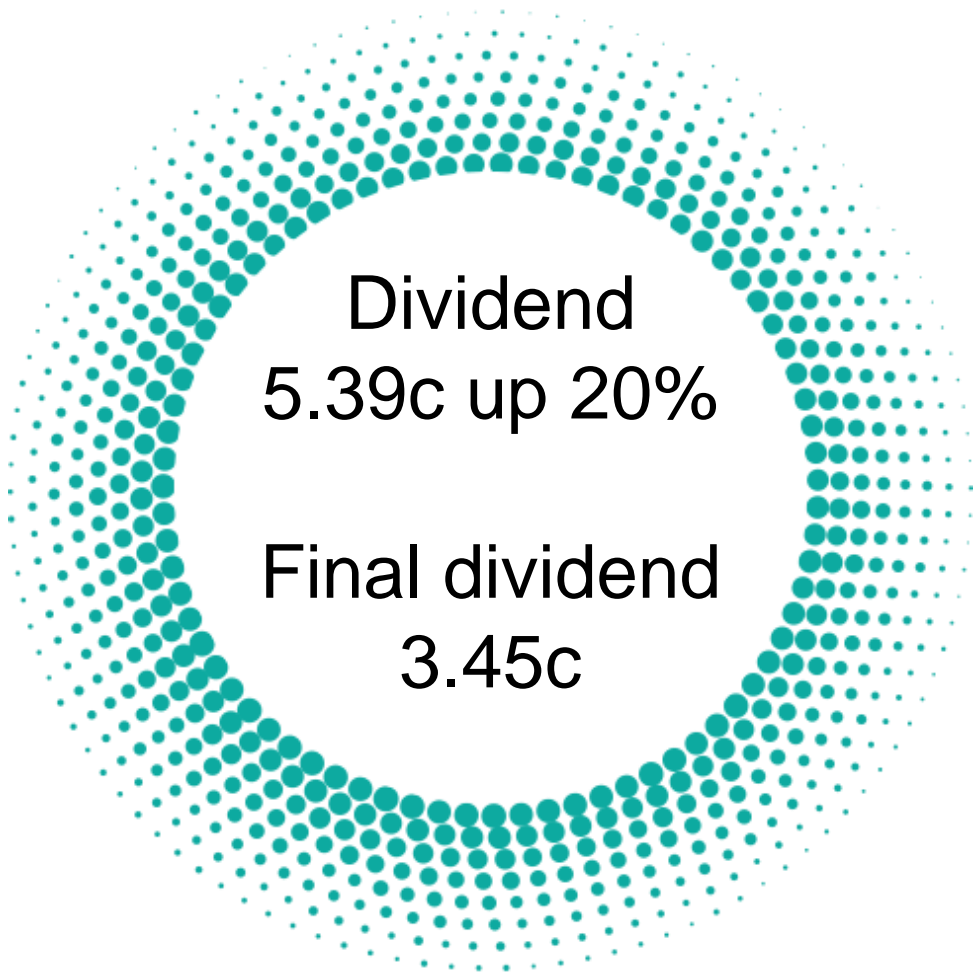
- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD: GBP exchange rate for 2019 of 1.28 compared to 1.33 in 2018, the closing rate at 31 December 2019 was 1.32 vs 1.27 at 31 December 2018
- FX loss of \$0.6m charged to the income statement in 2019 (2018 \$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

## Dividend Policy

- Progressive dividend as business delivers growth
- Earnings cover ratio of 2 to 2.5 times

## Balance Sheet & Capital Allocation Policy

- Maintain a cash positive balance sheet to manage
  - Technology cyclical risk
  - Working capital requirements
  - Small inorganic investments
- Allow flexibility for larger inorganic investments may use modest level of debt
- Return excess cash to shareholders



Dividend  
5.39c up 20%

Final dividend  
3.45c



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