

SPIRENT COMMUNICATIONS PLC 2022 FULL YEAR RESULTS

MARCH 2023

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.

ANOTHER YEAR OF STRONG EXECUTION

- Enduring markets drivers intact
- Customers remain committed to 5G plans
- Record orderbook
- Strong financial and operational platform



CURRENT MARKET CONDITIONS

- Macro impacts lead to some customer spending delays
- Our pipeline remains strong
- No loss of market share – continue to win against competition
- Won key strategic deals through Q4



FINANCIAL RESULTS

PAULA BELL

CHIEF FINANCIAL & OPERATIONS OFFICER

2022 STRONG DELIVERY

\$288.1m

Orderbook

↗ 7%

\$607.5m

Revenue

↗ 5%

\$129.5m

Operating profit¹

↗ 9%

18.86c

EPS^{1,2}

↗ 14%

\$103.8m

Free cash flow

↗ 13%

7.57c

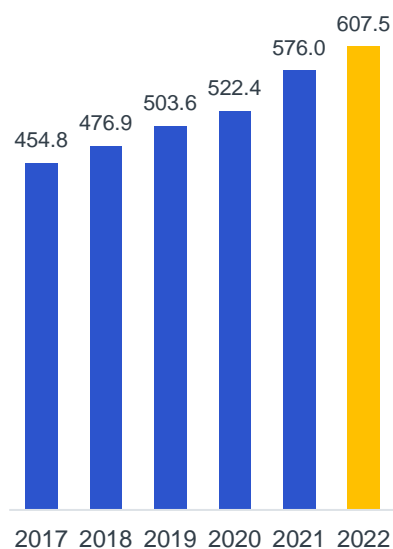
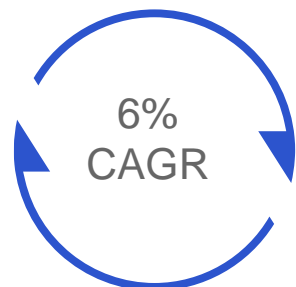
Dividend

↗ 12%

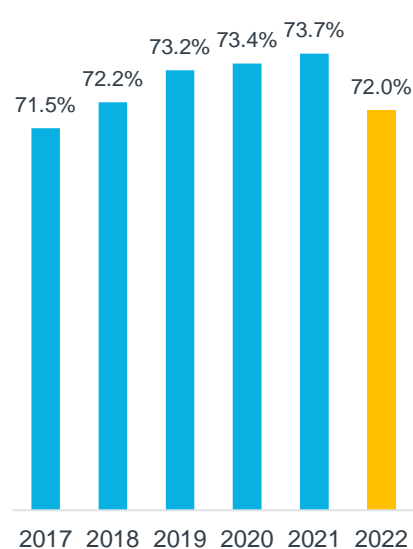
↗ 24% in Sterling

GROWTH PERFORMANCE TREND

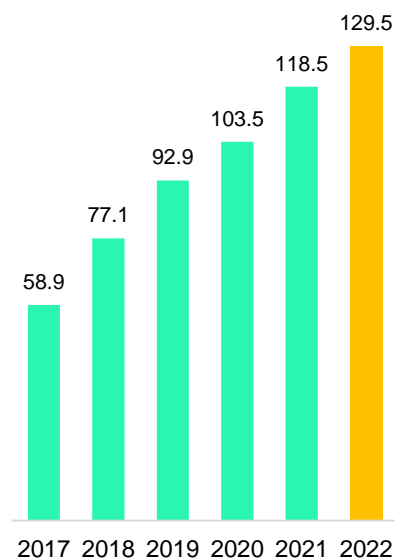
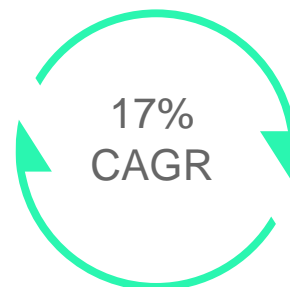
Revenue (\$m)



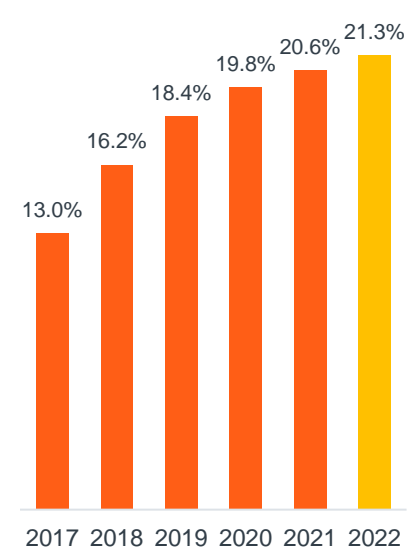
Gross margin (%)



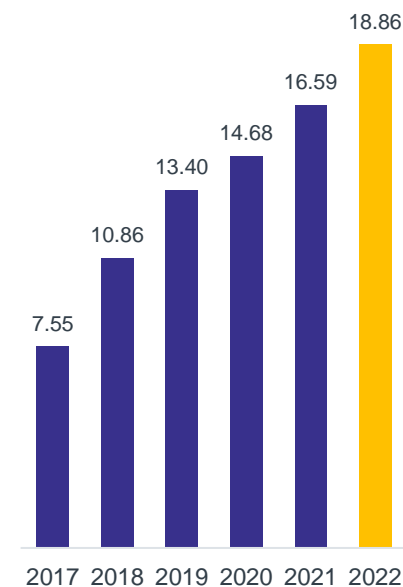
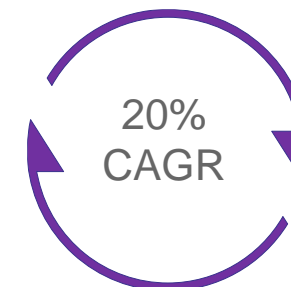
Adjusted operating profit¹ (\$m)



Operating margin¹ (%)



Adjusted basic EPS^{1,2} (cents)



1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.
2. Before tax on items in note 1 and over/under provisions in respect of prior year tax.

FINANCIAL SUMMARY

\$m	2022	2021
Orderbook	288.1	269.8
Order intake	625.7	637.0
Revenue	607.5	576.0
Gross profit	437.1	424.7
Gross margin	72.0%	73.7%
Operating costs ¹	(307.6)	(306.2)
Operating profit ¹	129.5	118.5
Operating margin ¹	21.3%	20.6%
Profit before tax	114.6	103.6
Effective tax rate ²	12.9%	14.4%
EPS ^{1,3} (cents)	18.86	16.59
Cash	209.6	174.8
Dividend per share (cents)	7.57	6.76

- Orderbook up 7%, up 39% since December 2020
- Book to bill 103
- Sustained revenue growth, up 5.5%
- Gross margin pressure from supply chain cost increases
- Opex – inflation mitigated whilst focused R&D and sales investment on high growth areas
- Operating profit up 9%
- ETR outlook unchanged c15%
- EPS up 14%
- Dividend up 12%, 24% in Sterling

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

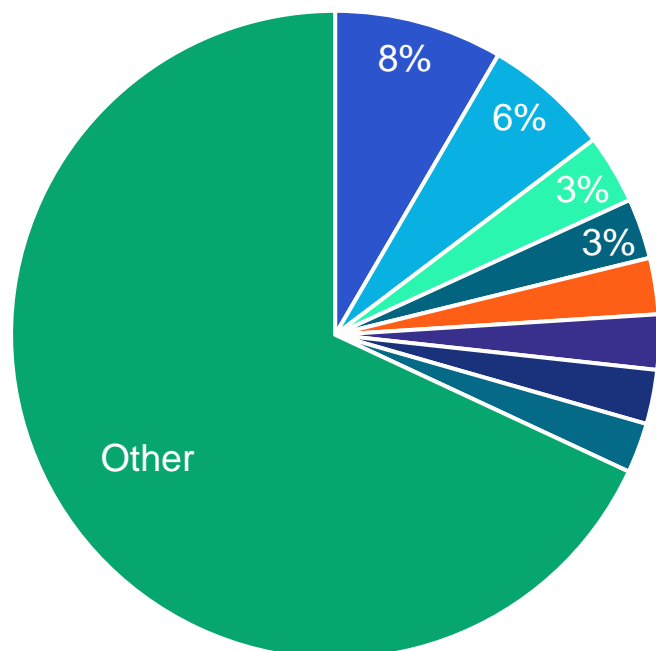
- Strong revenue growth in high-speed Ethernet with some engineering resource transfer to lower cost regions
- Robust Group operating margin maintained

	Revenue		Operating profit ¹		Operating margin ¹	
\$m	2022	2021	2022	2021	2022	2021
Lifecycle Service Assurance	264.5	261.6	51.0	63.1	19%	24%
Networks & Security	343.0	314.4	86.8	63.5	25%	20%
Corporate	-	-	(8.3)	(8.1)	-	-
Group total	607.5	576.0	129.5	118.5	21%	21%

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

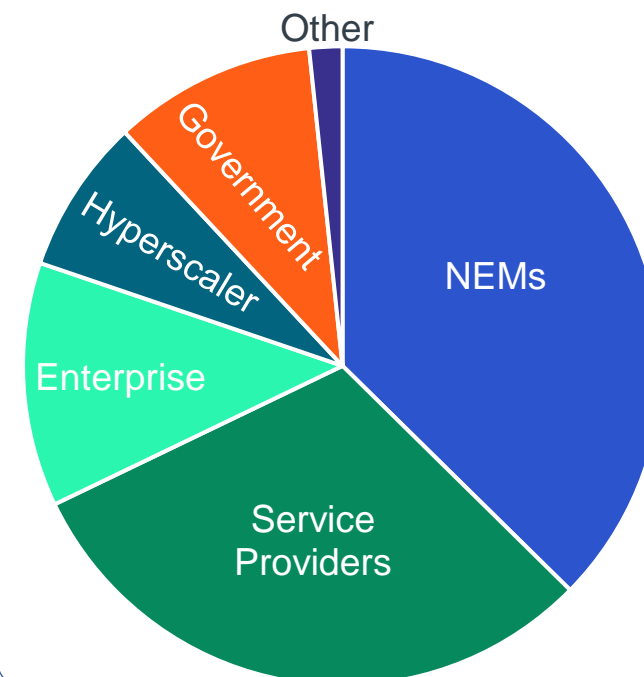
STRATEGY DELIVERING GREATER VISIBILITY

CUSTOMER DIVERSIFICATION



- Strong customer diversification
- Top 10 customers = 36%
- Sales in live network up 15%
- Services up 13%
- More multi-year deals

CUSTOMER CATEGORY



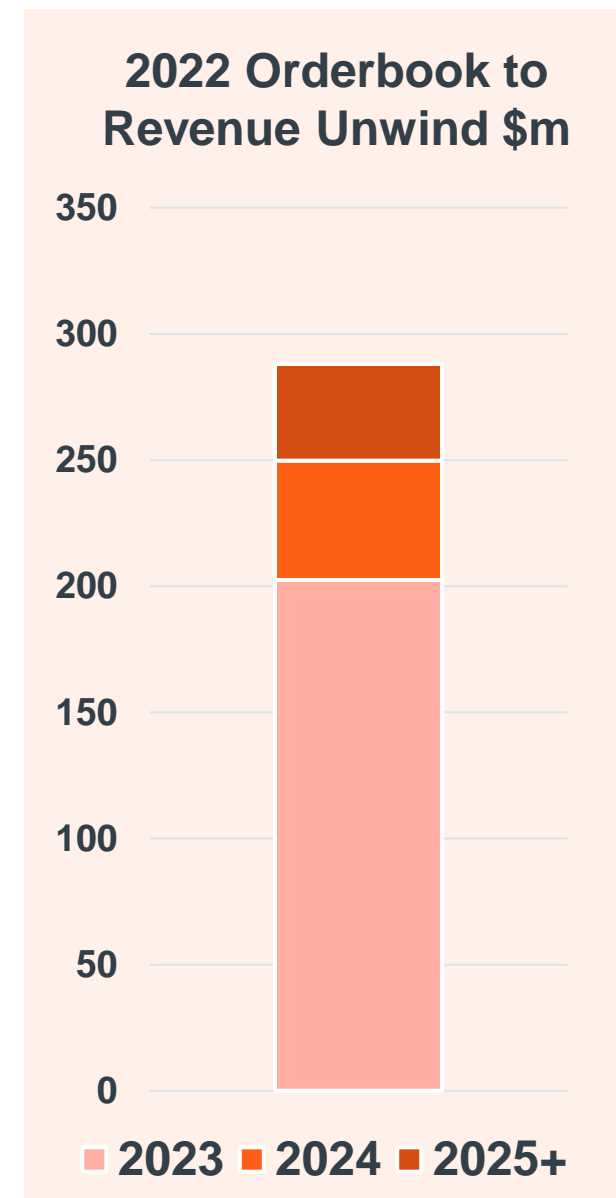
DRIVING BIGGER SOLUTIONS = BIGGER DEALS



RECORD ORDERBOOK



2022 Orderbook to Revenue Unwind



EFFECTIVE COST FOCUS

\$m	2022	2021
Product development	111.3	113.3
Selling and marketing	138.9	140.7
Administration	57.6	51.4
Sub total ¹	307.8	305.4
FX (gain)/loss	(0.2)	0.8
Total operating costs¹	307.6	306.2

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

- Inflation in 2022 fully mitigated
- Successful implementation of engineering site strategy
- Administration includes investment into support functions and infrastructure:
 - IT for new services business
 - Standardising global processes
 - Increasing compliance
- 2023 initiatives include further efficiency opportunity with some organisational redesign

PENSION RISK REMOVED

Pension – main scheme

- Main staff plan scheme is fully funded
- Full 'Buy-in' secured covering all 1,353 members
- Defined Benefit Obligation value at year end of \$166.4m now insured
- Future exposure to investment, returns, interest and inflation risks removed
- Future contributions and funding not required

STRONG CASH CONVERSION

\$m	2022	2021
Operating profit¹	129.5	118.5
Other adjusting items (non-acquisition)	(2.8)	(1.2)
Depreciation and amortisation	18.9	21.3
Net lease repayments and interest	(9.0)	(9.5)
Working capital movement	(2.2)	(12.0)
Capex	(8.2)	(9.8)
Pension funding	(0.9)	(6.4)
Tax paid	(22.8)	(10.0)
Bank interest/other	1.3	1.0
Free cash flow	103.8	91.9
Other adjusting items (acquisition)	(0.8)	(3.3)
Dividends	(39.9)	(84.1)
Acquisitions	-	(51.3)
Employee share purchases	(22.9)	(15.1)
Foreign exchange	(4.5)	0.1
One-off employer contributions to UK pension scheme	(0.9)	(4.6)
Closing cash	209.6	174.8

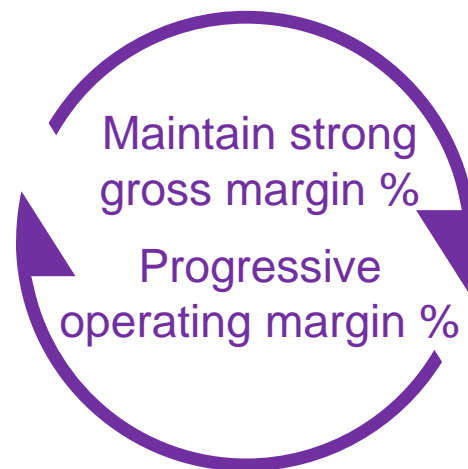
1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.

- Debtor days remained consistent with prior year
- Tax payments accelerated due to new US R&D Capitalization rules coming into effect
- 91% cash conversion
- Strong balance sheet – affording M&A firepower

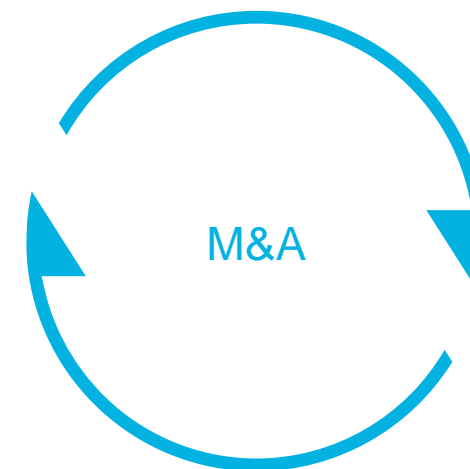
MEDIUM TERM TARGETS – UNCHANGED & INTACT



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



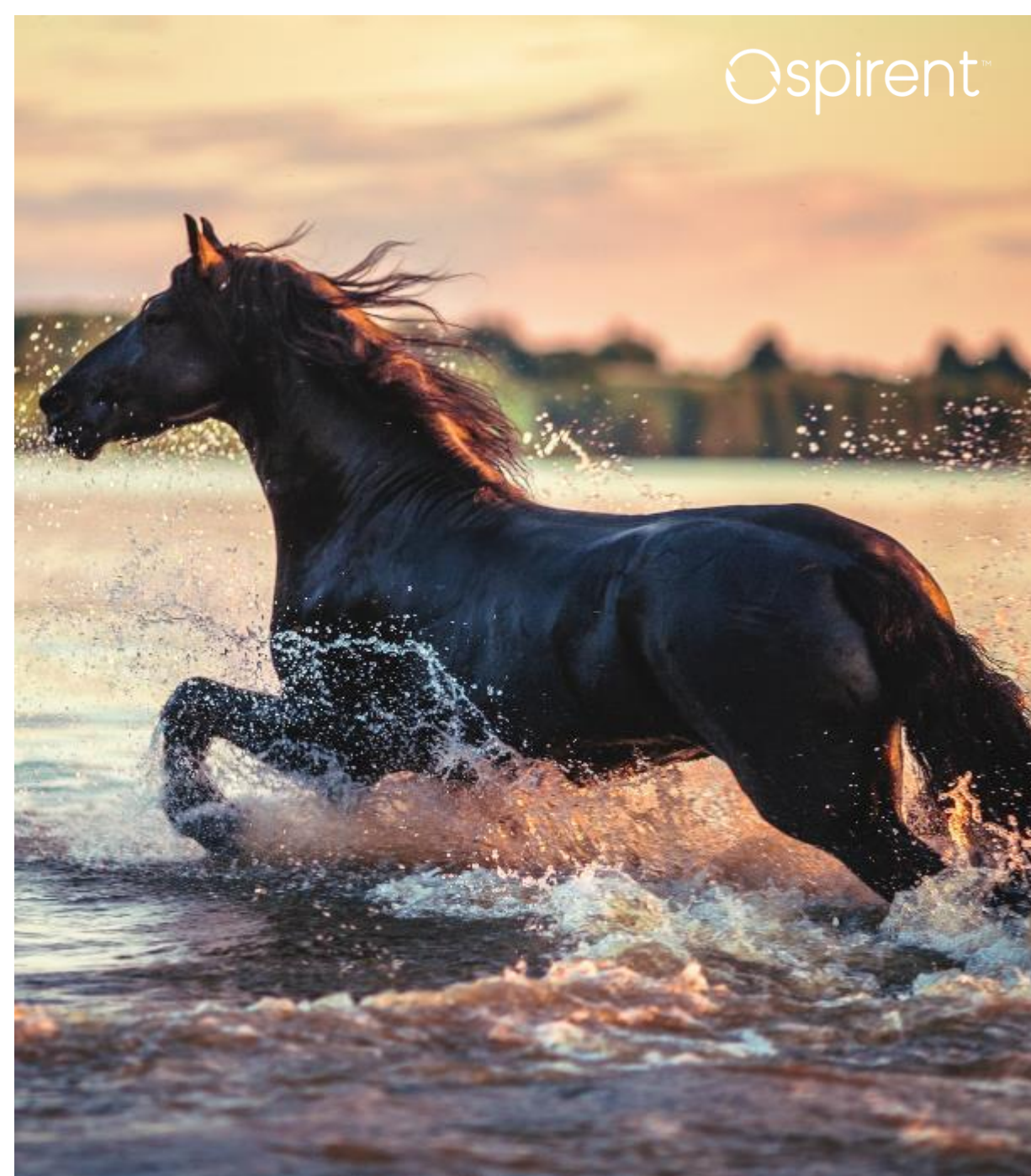
- Potential for operational leverage and/or increased product development investment



- Accelerate strategy
- Drive faster growth and leverage

RESILIENT FINANCIAL PLATFORM

- Record orderbook
- Investing to meet customer cost challenges
- Strong cost focus:
 - Lower cost resource regions
 - Facilities site strategy – reducing footprint
 - Organisation efficiency opportunities
- Strong cash conversion and balance sheet
- Widely observed near-term customer budget reviews

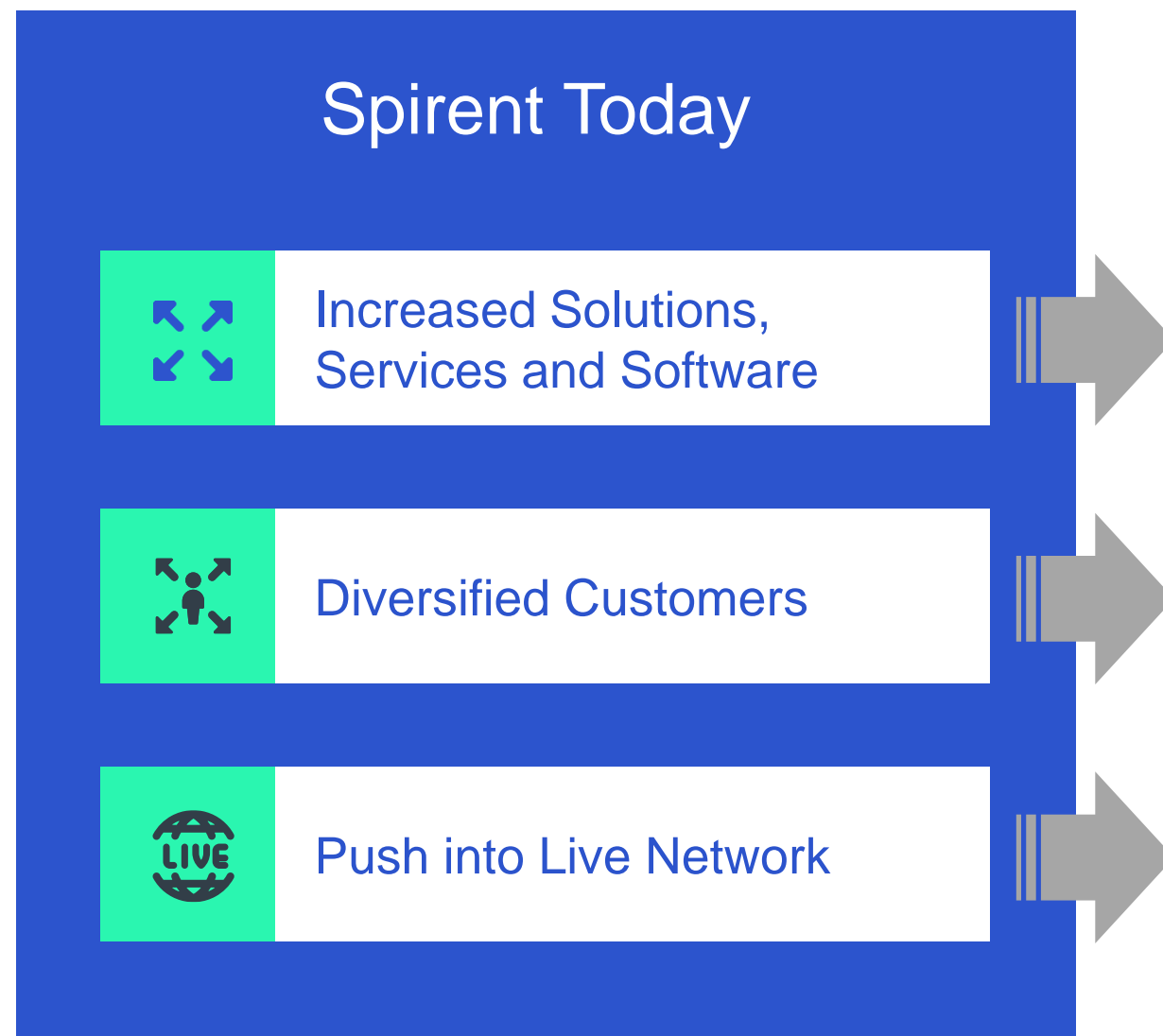
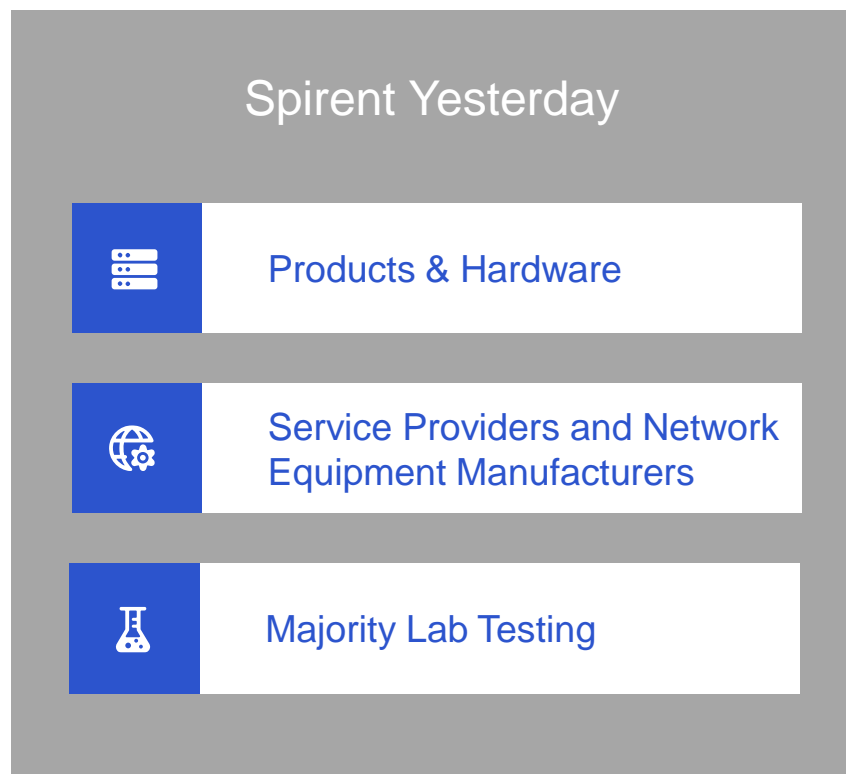


SUSTAINED DELIVERY ON OUR STRATEGY

ERIC UPDYKE

CHIEF EXECUTIVE OFFICER

OUR WINNING STRATEGY



OUR ENDURING MARKET DRIVERS REMAIN IN PLACE

5G



Work from
Anywhere



Emergence of
the Metaverse



Expansion of
Hyperscalers



Location
Awareness as
a Key Enabler



MACROECONOMIC IMPACT ON OUR CUSTOMERS

- Budgets still mostly intact - focus on customer experience, churn reduction and cost efficiency
- All investments subject to greater scrutiny at more senior levels
- Need for strong ROI justification and flexible commercials
- Customers feedback on Spirent's strengths
 - Innovative products and solutions
 - Viewed as a Partner – clear differentiator
 - Agnostic and trusted across technologies
- Spirent decisively responding

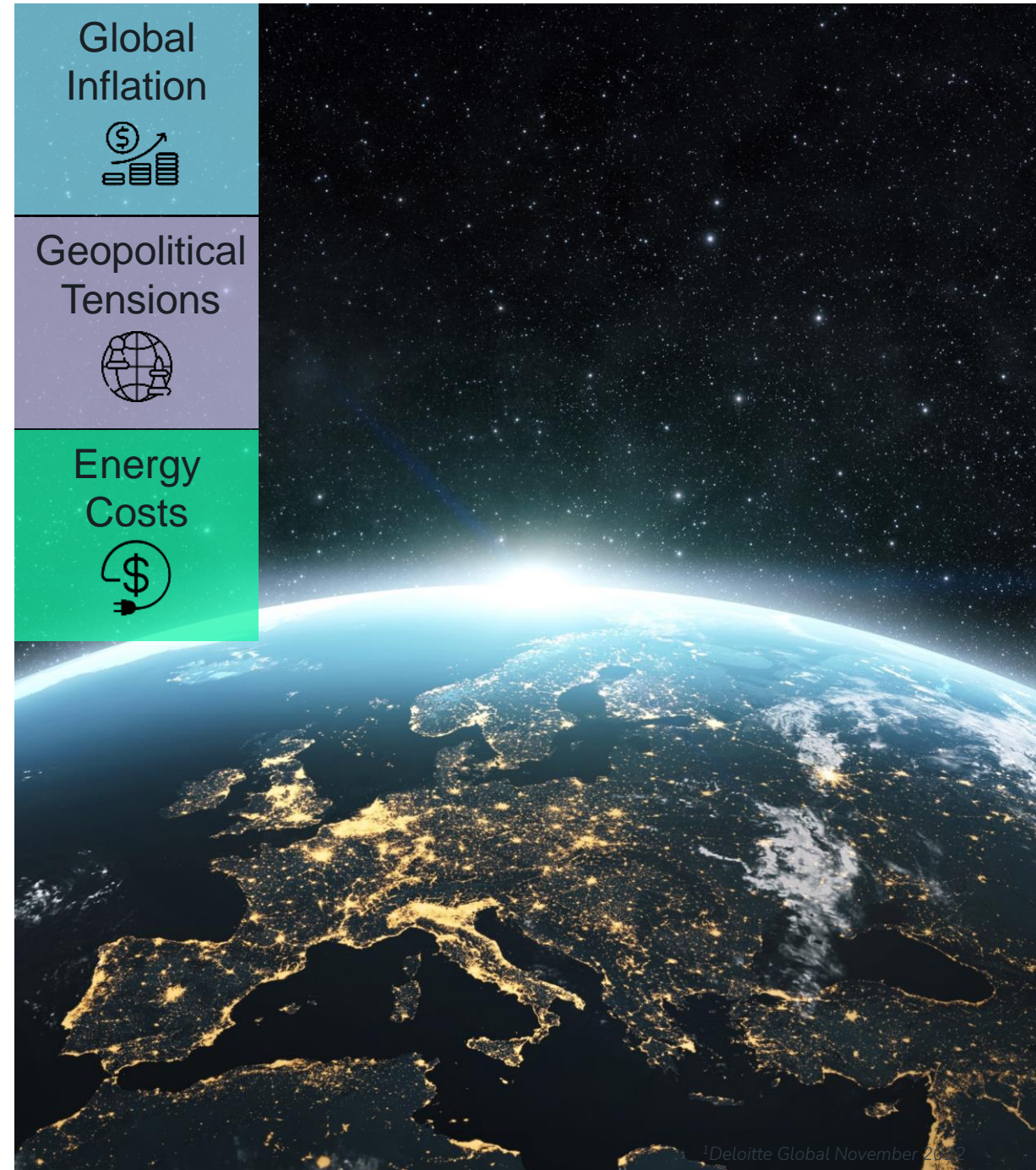
Global
Inflation



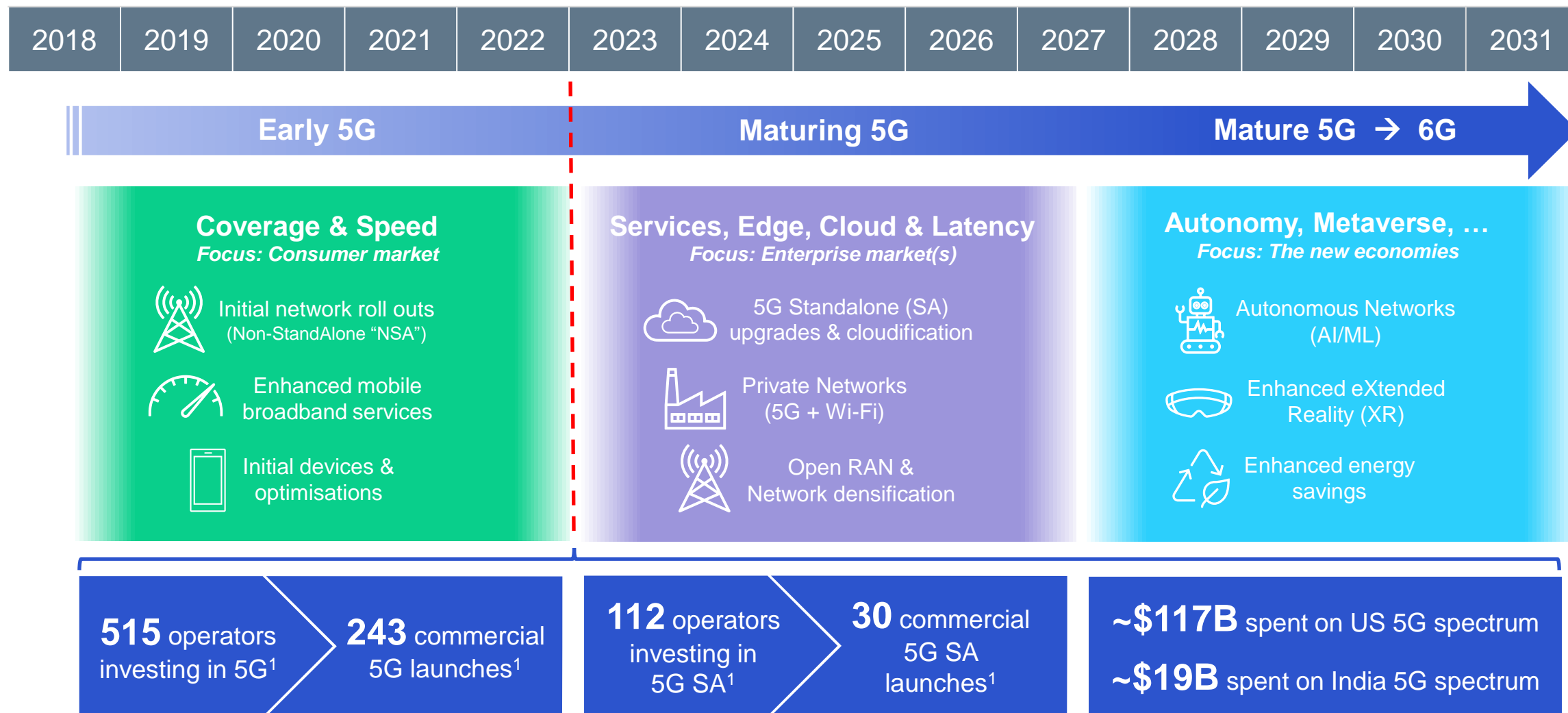
Geopolitical
Tensions



Energy
Costs

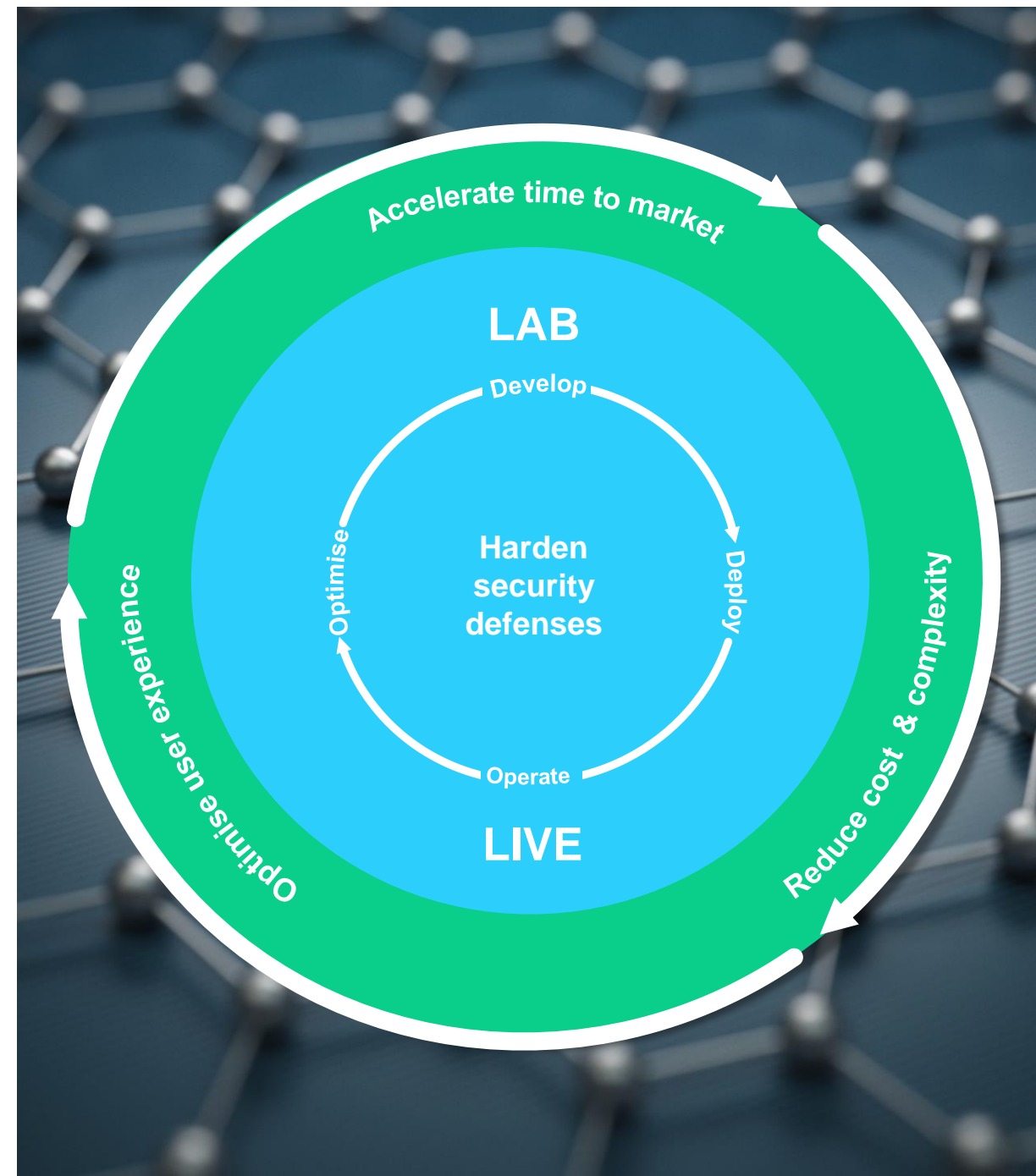


5G - THE ENDURING DRIVER




5G - OPPORTUNITY FOR SPIRENT ACROSS THE LIFECYCLE

- Virtualized, cloud-based architecture, orchestration and automation challenges
- Continuous integration, delivery and test (CI/CD/CT) model
- Typical buying centres change throughout the lifecycle:

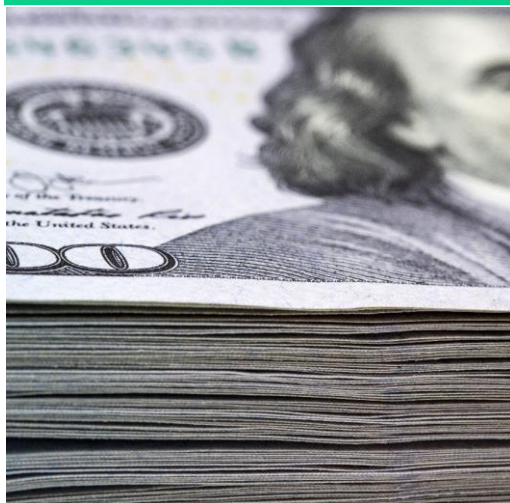


2022 WIN STORIES

Tier 1 Indian CSP	NTT DoCoMo O-RAN Testing	Tier 1 European CSP	Tier 1 Equipment Manufacturer
Supporting 5G transformation with TaaS for 5G SA core, cloud infrastructure and security	Enabling DoCoMo's 5G Open RAN Ecosystem (OREC) testbed with world-leading emulation capability	Providing turnkey managed solutions to help accelerate its 5G SA cloud-native evolution	Securing 800G test spend and major security solution win
			

THE O-RAN OPPORTUNITY

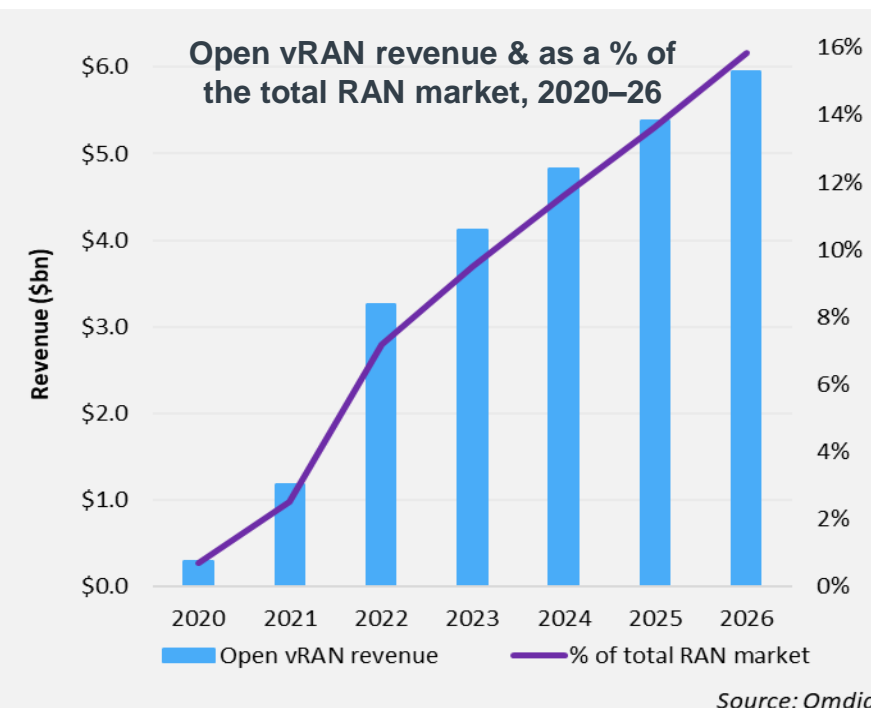
Budgets Under Pressure



Multi-vendor Interoperability



Performance & Robustness



Spirent's suite of integrated, automated test solutions provide the most comprehensive O-RAN test and validation available

LIFECYCLE SERVICE ASSURANCE HIGHLIGHTS

- Double-digit revenue growth in “live” services and assurance solutions
- Some order softness in Q4, mainly in lab, as a result of customer decision-making delays
- New Vantage (next-gen 5G service assurance) and O-RAN test/validation solutions released
- Built on octoScope acquisition to expand Wi-Fi test market leadership
- Key wins for our LaaS and TaaS services offerings in America, EMEA and APAC



NETWORKS & SECURITY HIGHLIGHTS

- Strong growth in high-speed Ethernet test - network upgrades, customer base expansion
- Expanded leadership in 800G high-speed Ethernet test
- New high-performance application security solutions and security services took share
- Cloud resiliency and impairment strategy progress - wins at tier one mobile operators
- Positioning strength in space, automotive and chipsets; some US Government softness



GROWING WITH SERVICES

Adding value across the customer lifecycle

- Double-digit revenue growth in every segment of Services - Professional / Managed / Support
- Services driving larger average deal sizes
- Strong growth in our live device certification and network benchmarking business
- Optimised our organisation, tool and processes to enable us to scale services globally
- Multiple key strategic wins outside North America



OPERATIONAL EXCELLENCE

Sustainability - FuturePositive

- ✓ Achieved Carbon Neutral Status for Scope 1, 2 and some Scope 3 emissions
- ✓ 100% electricity from renewable sources
- ✓ Improving efficiency of our lab usage
- ✓ Continuing site consolidation to reduce footprint
- ✓ Enabling sustainability in our customers equipment, labs and networks



FUTURE+
POSITIVE

OPERATIONAL EXCELLENCE

People & Effectiveness

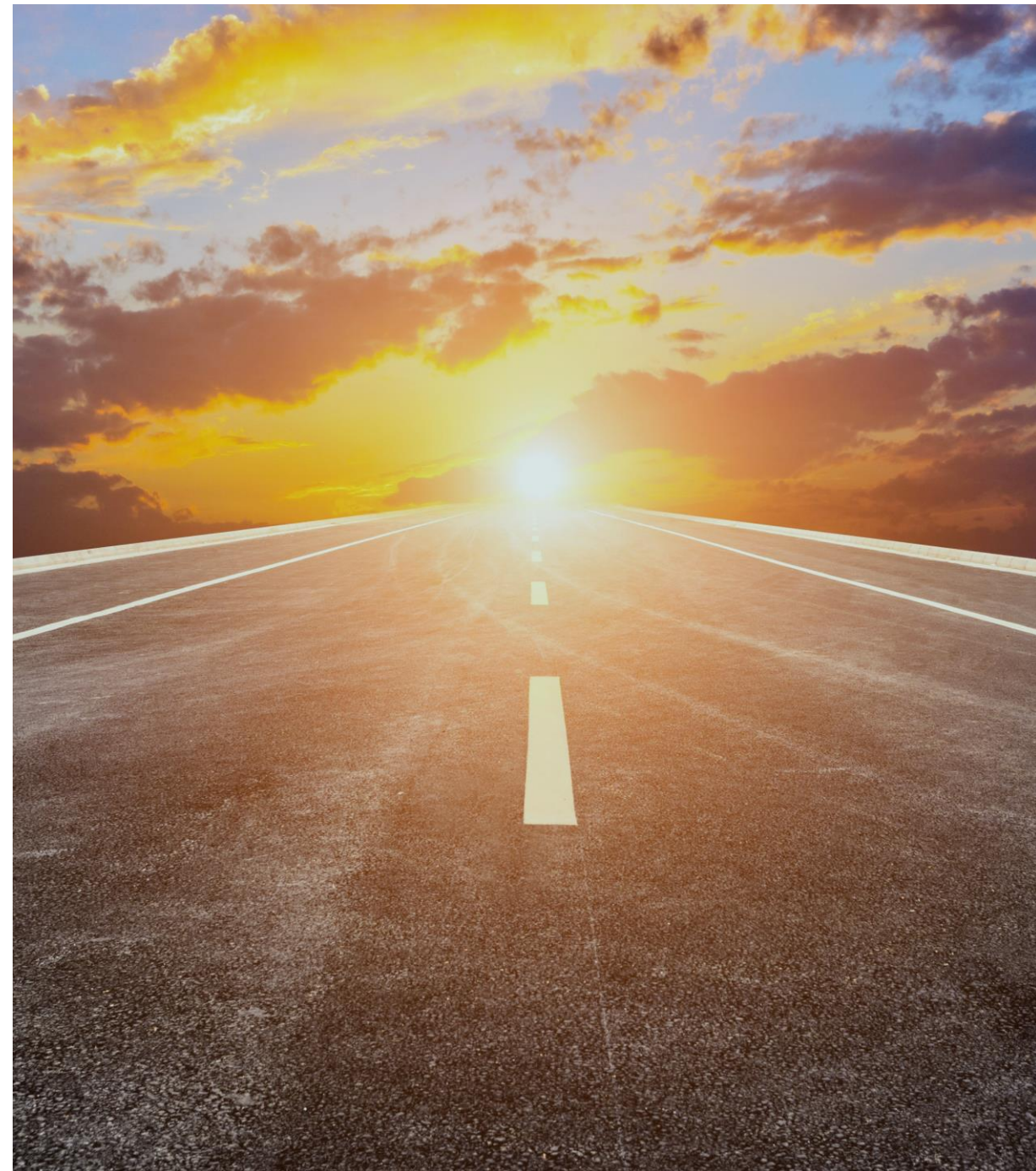
- Our employees completed over 1,500 hours of DE&I training - new metrics to monitor our initiatives
- Strong value proposition resulted in superior employee retention
- Enhancing our go-to-market with more key accounts and inside sales development
- Adding new CIP role – standardising tools, systems, processes
- Optimising organisational alignment and resource management to scale services



SUMMARY AND OUTLOOK

Delivering on our strategy

- Our strategy is working, despite the near-term environment
- Very attractive long-term market trends
- Live network assurance demand grows
- Focused investment in attractive growth opportunities, both organic and inorganic
- Challenging H1 likely to lead to FY revenue decline
- Medium term prospects remain strong



QUESTIONS

APPENDIX

INCOME STATEMENT

\$m	2022	2021
Revenue	607.5	576.0
Gross profit	437.1	424.7
Operating costs	(307.6)	(306.2)
Adjusted operating profit	129.5	118.5
Adjusting items:		
Acquired intangible asset amortisation	(4.7)	(4.2)
Share-based payment	(8.5)	(5.6)
Other adjusting items	(3.6)	(4.5)
Operating profit	112.7	104.2
Net finance income/(cost)	1.9	(0.6)
Profit before tax	114.6	103.6
Tax	(14.7)	(14.4)
Profit after tax	99.9	89.2
Adjusted basic earnings per share (cents)	18.86	16.59

LIFECYCLE SERVICE ASSURANCE – INVESTING FOR 5G ROLL-OUTS

\$m	2022	2021
Revenue	264.5	261.6
Gross profit	198.0	199.0
Gross margin	74.9%	76.1%
Product development	(56.6)	(54.3)
Other expenses ¹	(90.4)	(81.6)
Operating profit¹	51.0	63.1

1. Before other adjusting items of \$0.9 million charged in 2022 (2021: \$0.6 million).

- Q4 2022 customer delays to 2023 revenue
- Demand for assurance to support 5G roll outs intact
- R&D investment maintained to drive much needed customer assurance programmes
- Good growth in Wi-Fi – successful 2021 acquisition octoScope

NETWORKS & SECURITY – STRONG GROWTH & COST MANAGEMENT

\$m	2022	2021
Revenue	343.0	314.4
Gross profit	239.1	225.7
Gross margin	69.7%	71.8%
Product development	(54.7)	(59.0)
Other expenses ¹	(97.6)	(103.2)
Operating profit¹	86.8	63.5

1. Before other adjusting items of \$2.1 million charged in 2022 (2021: \$1.4 million).

- Sales of all port speeds were strong
- Supply chain cost pressure offset by strong opex management
- Engineering facility strategy delivered product development savings

OTHER ADJUSTING ITEMS

\$m	2022	2021
R&D engineering plan	(1.5)	(1.2)
Direct acquisition transaction costs	(0.6)	(1.9)
Acquisition related performance payments	0.1	(0.6)
Acquisition integration costs	(0.3)	(0.8)
Strategic evaluation	(1.3)	-
Total charge	(3.6)	(4.5)

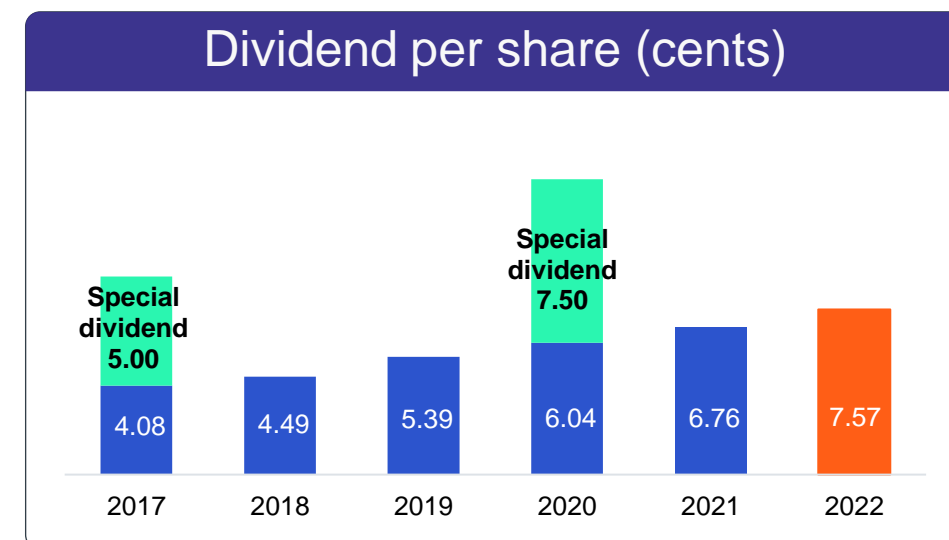
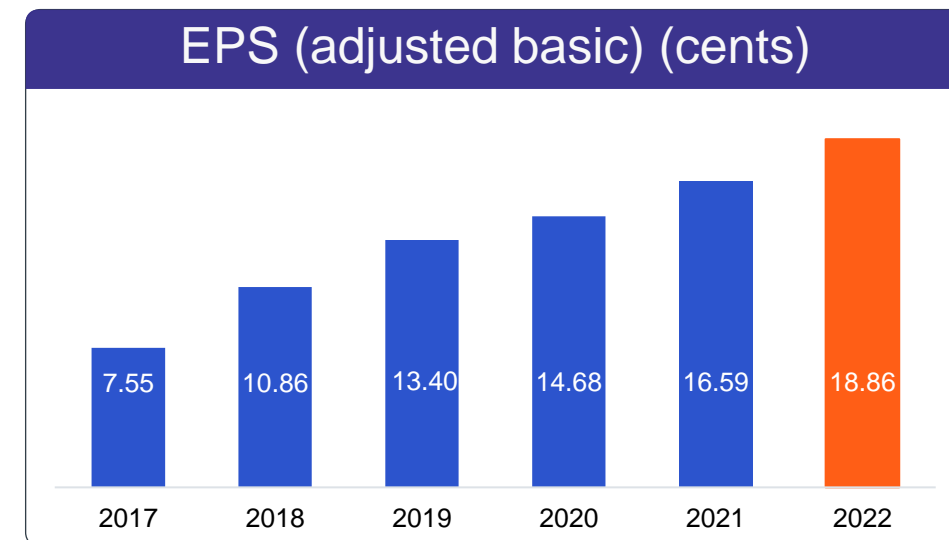
- R&D site strategy delivered labour cost efficiencies as we set up in Romania and further built presence in India
- Group wide efficiency programme whilst investing in skillset and systems to support growth

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 2022 of 1.24 compared to 1.37 in 2021, the closing rate at 31 December 2022 was 1.21 vs 1.35 at 31 December 2021.
- FX gain of \$0.2m credited to the income statement in 2022 (2021: \$0.8m loss charged) in relation to:
 - Transaction exposure in UK operations from US Dollar sales; and
 - Retranslation of cash balances held in non-domicile currency

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, 24% in Sterling



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&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				
Lifecycle Service Assurance 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
Networks & Security 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"> Global leader in Test and Assurance More than 1,200 customers served each year across more than 50 countries 	<ul style="list-style-type: none"> Trusted partner to the world's most innovative telecommunications and networking companies Embedded in the supply chains of our customers Addressing our customers' largest, most complex challenges with solutions and services 	<ul style="list-style-type: none"> Strong secular growth trends in our chosen sectors 5G represents a very large and enduring opportunity Exciting emerging high-growth technologies from the metaverse to IoT, device proliferation and Cloud
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"> We operate in markets underpinned by non-discretionary and committed spending decisions by companies who deliver critical connectivity solutions for their own customers 	<ul style="list-style-type: none"> Proven track record of sustainable value creation Reliable and highly visible recurring revenue growth Strong cash generation High returns on capital 	<ul style="list-style-type: none"> Focused on growing the business organically and through highly-selective, earnings-accretive acquisitions



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