RNS Number : 2508Z
Spirent Communications PLC
06 August 2024

SPIRENT COMMUNICATIONS PLC

Results for the six months ended 30 June 2024

Challenging conditions remain

Innovative new product releases and diversification strategy progress

$ million	**First half 2024**	First half 2023	Change (%)
Orderbook[1]	**284.2**	303.4	-6
Order intake[2]	**188.8**	239.4	-21
Revenue	**197.3**	223.9	-12
Gross margin (%)	**70.0**	71.9	-3
Adjusted operating profit[3]	**5.0**	11.6	-57
Adjusted profit before tax[3]	**6.8**	14.8	-54
Adjusted basic earnings per share[4] (cents)	**1.05**	2.10	-50
Reported operating (loss)/profit	**(9.3)**	1.6	-681
Reported (loss)/profit before tax	**(7.5)**	4.8	-256
Reported basic earnings per share (cents)	**(1.17)**	0.87	-234
Closing cash	**131.0**	148.2	-12

Commenting on today's announcement, Eric Updyke, Chief Executive Officer, said:

"Performance in the period has been impacted by the ongoing industry-wide slowdown, coupled with some customer hesitancy following the recently announced offer by Keysight Technologies Inc. ("Keysight"). In the second quarter we experienced delays to contract placements as customers digested the information. There have been no order cancellations.

"We have continued to focus on delivering our product roadmaps to serve our customer needs so that we can fully support them as they advance their own R&D investments and plans, which we expect to roll out as the broader sector recovers. In addition, we have focused on retaining our critical talent, which is a vital part of our people strategy at this time of transition. In the first half of the year, operating costs benefited from the restructuring and cost saving initiatives that were delivered during 2023 and early 2024.

"Our diversified portfolio of solutions and services, combined with our robust operating model, means we continue to focus on delivering innovative solutions into new customer segments, whilst also positioning our business for recovery in our more traditional segments. New logo wins for our financial services segment in particular remain very promising and many product releases in the first half are ensuring that we retain our technology leadership positions.

"Whilst at an early stage, our diversification strategy is continuing to advance and deliver results, and in the first half we secured more contract wins for Financial Services assurance, automation and test. Whilst smaller in value, they represent important progress as we develop a growing pipeline in this segment. To underpin growth into 2025, our new Positioning product (PNT X) was released in April and, in the period, we also introduced new Wi-Fi 7 products.

"We were pleased to announce the release of our new Data Centre AI Testing solution in July. In the first half, we trialled the solution with ten customers and have already had two commercial wins. The need to be able to test the performance of Ethernet network fabric in an AI data centre is mission critical for customers and will drive new business for Spirent. This innovative solution won the prestigious grand prize at the Interop Tokyo 2024.

"We expect challenging market conditions to continue in the second half of 2024, which we anticipate will be reflected in our near-term performance.

"Looking forward, beyond the current year, our confidence in 5G as an enduring growth driver remains intact. While initial 5G Standalone (SA) launches have remained sluggish due to the complexity associated with deploying and operating a cloud-native core network, acceleration is anticipated in 2025 as demand-side drivers increase, especially from enterprises for private 5G.

"Core network spending, including cloud capabilities and associated high-speed Ethernet (HSE) IP core upgrades, is also poised to increase through at least 2027 as investment cycles move beyond 5G New Radio coverage, the long tail of global service providers progressively upgrade, and 5G Advanced becomes standardised. This will enable a wealth of new capabilities for direct-to-device satellite connectivity, eXtended Reality (XR) and AI, well positioned to capitalise on through our leadership in HSE test, and core network test and assurance.

"Our market leading products and solutions will promote market opportunities as they open up."

Details of the recommended cash offer for Spirent by Keysight

On 28 March 2024, the Boards of Keysight and Spirent announced that they had reached agreement on the terms of a recommended cash offer for the entire issued ordinary share capital of Spirent (the "Transaction"). It is intended that the Transaction will be implemented by means of a scheme of arrangement under Part 26 of the Companies Act 2006 (the "Scheme"). On 25 April 2024, Spirent published a shareholder circular to convene the Court Meeting and the General Meeting, to approve the Scheme. On 22 May 2024, the resolutions proposed at the Court Meeting and General Meeting in connection with the Transaction were duly passed.

Keysight and Spirent continue to engage and work constructively with the relevant regulatory authorities in order to satisfy all necessary regulatory conditions (per Clause 3.3.1 of the Co-operation Agreement entered into between Keysight and Spirent) in relation to the Transaction as promptly as practicable (and in any event, prior to the long stop date (being 29 September 2025)). Keysight and Spirent continue to expect the Scheme to become effective during the first half of Keysight's next fiscal year, being 1 November 2024 to 30 April 2025.

Outlook

The challenging market conditions witnessed in the first half are expected to continue in the second half, and we expect this will be reflected in our near-term performance. Looking forward, our confidence in 5G as an enduring growth driver remains intact and acceleration is anticipated in 2025 as demand-side drivers increase.

Notes

1. Orderbook is an alternative performance measure as defined in the appendix on page 27.
2. Order intake represents commitments from customers in the period to purchase goods and/or services that will ultimately result in recognised revenue.
3. Adjusted operating profit is before acquired intangible asset amortisation, share-based payment and other adjusting items totalling $14.3 million (first half 2023: $10.0 million).
4. Adjusted basic earnings per share is based on adjusted earnings as set out in note 6.

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Enquiries

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About Spirent Communications plc

Spirent Communications plc (LSE: SPT) is the leading global provider of automated test and assurance solutions for networks, cybersecurity and positioning. The Company provides innovative products, services and managed solutions that address the test, assurance and automation challenges of a new generation of technologies, including 5G, SD-WAN, Cloud, autonomous vehicles and beyond. From the lab to the real world, Spirent helps companies deliver on their promise to their customers of a new generation of connected devices and technologies. Further information about Spirent Communications plc can be found at https://corporate.spirent.com/.

Spirent Communications plc Ordinary Shares are traded on the London Stock Exchange (ticker: SPT; LEI: 213800HKCUNWP1916L38). The Company operates a Level 1 American Depositary Receipt (ADR) programme with each ADR representing four Spirent Communications plc Ordinary Shares. The ADRs trade in the US over-the-counter (OTC) market under the symbol SPMYY and the CUSIP number is 84856M209. Spirent ADRs are quoted on the Pink OTC Markets electronic quotation service which can be found at https://www.otcmarkets.com/marketplaces/otc-pink.

Cautionary statement regarding forward-looking statements

This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.

Operating and financial review

Group financial performance

The industry-wide slowdown continued during 2024 especially in the telecommunications sector, where customer spending continued to be constrained. This coupled with customer hesitancy resulting from the recent announcement of the offer for the Group by Keysight. contributed to the impact of the Group's performance in the first half of the year. We continue to engage closely with our customers to understand their needs.

These factors impacted our first half order intake and revenue, as many customers continued to display caution in their investment decisions, including delayed deployments of 5G standalone (with a 5G core network), and the impact on spending in China.

The reduction in revenue from $223.9 million to $197.3 million had an adverse impact on the operating profit; though this has been partly mitigated through careful cost control and by the cost savings initiatives implemented in previous years.

Effective supply chain management and effective customer pricing resulted in a robust gross margin being maintained at 70 per cent (first half 2023: 72 per cent). Adjusted operating profit was $5.0 million in the first half of 2024 (first half 2023: $11.6 million). Reported operating loss was $9.3 million in the first half of 2024 (first half 2023: $1.6 million profit).

Other adjusting items were $8.4 million (first half 2023: $4.6 million) which comprise mainly of advisor costs of $7.1 million (first half 2023: nil) relating to the acquisition of Spirent, the remainder being restructuring and strategic evaluation costs of $0.9 million (first half 2023: $4.6 million). Adjusting items are further detailed on page 7.

The effective tax rate decreased from 14.7 per cent to 11.2 per cent mainly driven by the mix of profit generation by region.

Our approach to strong financial management and focus on our balance sheet remains in place. Cash closed at $131.0 million (first half 2023: $148.2 million).

Given the recommended cash offer from Keysight, the Board does not recommend a dividend be proposed for the first half of 2024.

Revenue

$ million	**First half 2024**	**%**	First half 2023	%
Revenue by segment				
Lifecycle Service Assurance	**85.7**	**43.4**	95.6	42.7
Networks & Security	**111.6**	**56.6**	128.3	57.3
	197.3	**100.0**	223.9	100.0
Revenue by geography				
Americas	**113.4**	**57.5**	126.4	56.5
Asia Pacific	**57.0**	**28.9**	74.2	33.1
Europe, Middle East and Africa	**26.9**	**13.6**	23.3	10.4
	197.3	**100.0**	223.9	100.0

Overall Group revenue reduced by 12 per cent, with Lifecycle Service Assurance and Networks & Security down 10 per cent and 13 per cent, respectively, compared to the same period last year. Overall Networks & Security revenue declined by $16.7 million over the first half of 2023.

Lifecycle Service Assurance revenue reduced by $9.9 million over the first half of 2023 due to the ongoing macroeconomic environment with slower-than-expected deployments of 5G Standalone.

However, the division benefited from increasing momentum around our lab and test automation solutions in both our traditional and new end-markets as customers looked to drive efficiencies, implement transformation programs, and prepare for AI.

We also saw stable demand for our Landslide core-network lab test offering and our network assurance offerings, despite the market headwinds in telecoms.

We have strong engagement with our Wi-Fi customers around new Wi-Fi 7 technology, closing important product deals with leading device and solution players in the ecosystem, and have continued to increase our focus on strategic partnerships with select global system integrators that play a leadership role in 5G and digital transformation projects for telecoms and enterprise.

Networks & Security revenue was impacted by delays to spending by network operator and network equipment manufacturer customers of our high-speed Ethernet and security test portfolio. This was driven by the current economic environment, as well as softness in China.

Notwithstanding the overall market caution, we maintained our 400G and 800G high-speed Ethernet test momentum with strategic wins at chipset vendors, network fabric vendors, and hyperscalers.

The team released its next generation test solution for Positioning, Navigation and Timing (PNT X) to help simplify the complex testing of future generations of mission-critical systems for military and commercial sectors and established a strategic relationship with dSPACE, a global leader in the automotive test industry.

We continued to see positive progress on our diversification strategy, including into new markets with wins in Financial Services with an increasing pipeline as our new offerings gather wider customer interest.

Except for EMEA, revenue was down in all regions including North America. In particular, we experienced softness in China which impacted our High-Speed Ethernet business in the main.

Gross margin

$ million	First half 2024	%	First half 2023	%
Lifecycle Service Assurance	61.7	72.0	69.5	72.7
Networks & Security	76.5	68.5	91.5	71.3
	138.2	70.0	161.0	71.9

Gross profit reduced to $138.2 million although with continued effective management of supply chain cost increases, the overall gross margin was similar to the prior period.

Operating costs

$ million	First half adjusted[1] 2024	First half reported 2024	First half adjusted[1] 2023	First half reported 2023
Product development	47.4	47.4	53.2	53.2
Selling and marketing	60.2	60.2	67.7	67.7
Administration[1]	25.6	39.9	28.5	38.5
Operating costs[1]	133.2	147.5	149.4	159.4
Lifecycle Service Assurance	55.4	55.8	71.3	72.9
Networks & Security	72.4	72.9	74.3	77.4
Corporate	5.4	18.8	3.8	9.1
Operating costs[1]	133.2	147.5	149.4	159.4

Note

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items totalling $14.3 million (first half 2023: $10.0 million).

The continued focus on financial management of our cost base, and a number of initiatives implemented in the last 12 months, resulted in adjusted operating costs savings.

The overall investment in product development decreased period-on-period from $53.2 million to $47.4 million, driven by cost-saving initiatives as we transferred activities to lower-cost regions in 2023. Shared costs which include sales, marketing and all administration functions are allocated to each segment based on a budgeted percentage of revenue methodology. The recent market challenges impacting volatility of our sales volumes by segment, has in turn created some variations to the costs being charged to each segment.

Selling and marketing costs decreased by $7.5 million, partly as a result of reduced incentivisation rewards from lower order bookings.

Operating (loss)/profit

$ million	First half 2024	Adjusted operating Margin[1,2] (%)	First half 2023	Adjusted operating Margin[1,2] (%)
Lifecycle Service Assurance	6.3	7.4	(1.8)	(1.9)
Networks & Security	4.1	3.7	17.2	13.4
Corporate	(5.4)		(3.8)	
Adjusted operating profit[1]	5.0	2.5	11.6	5.2
Adjusting items:				
Acquired intangible asset amortisation	(2.7)		(2.4)	
Share-based payment	(3.2)		(3.0)	
Other adjusting items	(8.4)		(4.6)	

Reported operating (loss)/profit	**(9.3)**	1.6

Notes

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items totalling $14.3 million (first half 2023: $10.0 million).
2. Adjusted operating profit as a percentage of revenue in the period.

Adjusted operating profit was $5.0 million (first half 2023: $11.6 million) and the reported loss was $9.3 million (first half 2023: $1.6 million profit) impacted by reduced revenue and negative operating leverage.

Acquired intangible asset amortisation

The acquired intangible asset amortisation charge of $2.7 million (first half 2023: $2.4 million) was broadly flat, and includes the amortisation of the intangible assets recognised on the acquisition of the NetScout business carve-out in September 2023.

Other adjusting items

$ million	**First half 2024**	First half 2023
Restructuring	**0.9**	4.6
Acquisition related costs	**7.5**	-
	8.4	4.6

Restructuring

$ million	**First half 2024**	First half 2023
R&D engineering plan	**-**	0.4
Finance transformation	**0.2**	-
Organisational restructure	**0.5**	4.2
Facilities downsize	**0.2**	-
	0.9	4.6

Restructuring

We concluded our R&D engineering site plan to relocate activities from North America to lower cost regions for our High-Speed Ethernet business in 2023. No further significant costs are expected in 2024.

In 2023, to embed standardised global finance processes, we moved certain accounting activities from North America to the UK, incurring $1.1 million of costs including $0.5 million consultancy. In 2024, we moved into the next phase of the initiative, incorporating the review of key global process and/or control enhancements, incurring further consultancy costs.

In 2022, the Group embarked on a strategic evaluation of its operating model. This reached substantial completion in early 2024. The half year 2023 costs relate to this initiative.

Strategic actions were taken to review the cost base and facility footprint in the second half of 2023. The 2024 amounts relate to moving, relocating and downsizing costs directly attributable to this project.

Acquisition related costs

In March 2024, Keysight announced its intention to purchase Spirent. Therefore, the costs of $7.1 million recognised for the first half of 2024 relates mainly to professional advisory charges due to this acquisition. We expect further deal related charges, the majority of which are expected to be incurred when the deal is closed.

On 8 September 2023, the Group completed the asset purchase of a small Test Lab Automation business carve-out from NetScout Inc. Retention costs of c.$0.4 million were incurred during 2024.

The total cash outflow in respect of other adjusting items is reported within cash flows from operating activities in the consolidated cash flow statement.

Finance income and costs

Finance income in the first half of 2024 was earned from bank interest of $2.0 million (first half 2023: $3.2 million) and $0.2 million (first half 2023: $0.4 million) of interest income in relation to the UK defined benefit pension plans.

Finance costs in the first half were $0.4 million (first half 2023: $0.4 million), being interest on lease liabilities.

Tax

The reported tax credit for the Group for the first half of 2024 was $0.8 million (first half 2023: tax credit $0.4 million). The adjusted tax charge, excluding the tax credit on the adjusting items of $1.6 million, was $0.8 million (first half 2023: $2.2

million), resulting in an effective tax rate of 11.2 per cent of adjusted pre-tax profit. This compared with an effective tax rate of 14.7 per cent for the first half of 2023. As expected, for the full year 2024 the effective tax rate will be in the region of 10-12 per cent.

Earnings per share

Adjusted basic earnings per share fell 50 per cent to 1.05 cents, reflecting the trading performance in the first half of 2024. There were 573.7 million weighted average shares in issue (first half 2023: 598.7 million). Reported basic (loss)/earnings per share was (1.17) cents compared with 0.87 cents for the first half of 2024. See note 6 on page 21 for the calculation of earnings per share.

Financing and cash flow

Free cash flow from operations increased by $27.0 million to $31.1 million in the first half of 2024 compared to the first half of 2023, driven by the decrease in trade receivables and a reduction in
tax paid. Cash flow from operations is detailed in note 9 on page 24. An explanation on free cash flow as an alternative performance measure can be found on page 28.

Free cash flow is set out below:

$ million	**First half 2024**	First half 2023
Cash flow from operations	**32.8**	16.2
Tax paid	**(2.7)**	(8.3)
Net cash inflow from operating activities	**30.1**	7.9
Interest received	**2.2**	3.6
Net capital expenditure	**(3.6)**	(3.3)
Capitalised development costs	**(1.9)**	-
Payment of lease liabilities, principal and interest	**(3.4)**	(4.4)
Lease payments received from finance leases	**0.2**	0.3
Acquisition related other adjusting items (*note 4*)	**7.5**	-
Free cash flow	**31.1**	4.1

Net capital expenditure of $3.6 million was flat over the same period last year and was predominantly incurred on leasehold improvements and demonstration and test equipment.

Cash and cash equivalents closed at $131.0 million at 30 June 2024, compared with $108.1 million at 31 December 2023. There continues to be no bank debt.

Balance sheet and dividend

The consolidated balance sheet is set out on page 13.

Net assets decreased by $0.9 million to $374.9 million at 30 June 2024, from $375.8 million at 31 December 2023, largely as a result of the operating performance in the period.

Overall, the decrease in total assets of $15.4 million from 31 December 2023 is mainly attributable to the decrease in trade receivables of circa $30 million, resulting from reduced revenue; offset by the increase in cash of circa $20 million. Total liabilities decreased by $14.5 million to $193.5 million at 30 June 2024, primarily due to a decrease in trade and other payables of $16.1 million.

Net assets remained flat at $374.9 million as at 30 June 2024 compared to 30 June 2023 ($371.5 million).

The decrease in total assets from 30 June 2023 is mainly attributable to the decrease in trade receivables of circa $21 million. Total liabilities decreased by $35.0 million to $193.5 million primarily due to the settlement of the liability held at 30 June 2023 in relation to the Share Buyback Programme of $35.6 million which completed on 24 August 2023 (note 12).

Cash at 30 June 2024 was $131.0 million ($148.2 million) and the Company has no bank debt.

The Board continues to regularly review the Company's balance sheet in light of current and expected trading performance and cash generation, working capital requirements and expected investments, and principal risks and uncertainties.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group for the remainder of the year are unchanged from those reported in the Annual Report 2023. The uncertainties arising from the macroeconomic backdrop and inflationary pressures are covered by existing risks and these continue to be closely monitored.

The Group's principal risks and uncertainties at 31 December 2023 were detailed on pages 55 to 60 of the Annual Report 2023 and related to the following areas: macroeconomic change; technology change; business continuity; customer dependence/customer investment plans; competition, acquisitions; and employee skill base. A copy of the Annual Report 2023 is available on the Company's website at https://corporate.spirent.com/.

Condensed consolidated income statement

		First half 2024			First half 2023		
$ million	Notes	Adjusted	Adjusting items[1]	Reported	Adjusted	Adjusting items[1]	Reported
Revenue	3	**197.3**	**-**	**197.3**	223.9	-	223.9
Cost of sales		**(59.1)**	**-**	**(59.1)**	(62.9)	-	(62.9)
Gross profit		**138.2**	**-**	**138.2**	161.0	-	161.0
Product development	3	**(47.4)**	**-**	**(47.4)**	(53.2)	-	(53.2)
Selling and marketing		**(60.2)**	**-**	**(60.2)**	(67.7)	-	(67.7)
Administration		**(25.6)**	**(14.3)**	**(39.9)**	(28.5)	(10.0)	(38.5)
Operating profit/(loss)		**5.0**	**(14.3)**	**(9.3)**	11.6	(10.0)	1.6
Adjusting items:							
Acquired intangible asset amortisation		**-**	**(2.7)**	**(2.7)**	-	(2.4)	(2.4)
Share-based payment		**-**	**(3.2)**	**(3.2)**	-	(3.0)	(3.0)
Other adjusting items	4	**-**	**(8.4)**	**(8.4)**	-	(4.6)	(4.6)
			(14.3)	**(14.3)**	-	(10.0)	(10.0)
Finance income		**2.2**	**-**	**2.2**	3.6	-	3.6
Finance costs		**(0.4)**	**-**	**(0.4)**	(0.4)	-	(0.4)
Profit/(loss) before tax		**6.8**	**(14.3)**	**(7.5)**	14.8	(10.0)	4.8
Tax	5	**(0.8)**	**1.6**	**0.8**	(2.2)	2.6	0.4
Profit/(loss) for the period attributable to owners of the parent Company		**6.0**	**(12.7)**	**(6.7)**	12.6	(7.4)	5.2
Earnings per share (cents)	6						
Basic		**1.05**		**(1.17)**	2.10		0.87
Diluted		**1.04**		**(1.17)**	2.10		0.87

Note

1. Adjusting items comprise amortisation of acquired intangible assets, share-based payment, other adjusting items, tax on adjusting items and any over/under provision in respect of prior year tax.

The performance of the Group is assessed using a variety of non-GAAP alternative performance measures which are presented to provide additional financial information that is regularly reviewed by management. Adjusting items are identified and excluded by virtue of their size, nature or incidence as they do not reflect management's evaluation of the underlying trading performance of the Group. The alternative performance measures are presented in the appendix. The reported GAAP measures give the complete measure of financial performance.

Condensed consolidated statement of comprehensive income

$ million	Note	First half 2024	First half 2023
(Loss)/Profit for the period attributable to owners of the parent Company		**(6.7)**	5.2
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
– Exchange differences on retranslation of foreign operations		**(1.1)**	2.5
– Re-measurement of the net defined benefit pension asset	8	**3.0**	(0.3)
		1.9	2.2
Items that will not subsequently be reclassified to profit or loss:			
– Re-measurement of the net defined benefit pension asset	8	**-**	(0.4)
		-	(0.4)
Other comprehensive income		**1.9**	1.8
Total comprehensive (loss)/income for the period attributable to owners of the parent Company		**(4.8)**	7.0

Condensed consolidated balance sheet

$ million	Note	**30 June 2024**	30 June 2023	Audited 31 December 2023
Assets				
Non-current assets				
Intangible assets		**204.1**	199.9	206.6
Property, plant and equipment		**15.0**	18.6	15.8
Right-of-use assets		**16.7**	19.4	17.2
Trade and other receivables		**1.1**	6.5	5.0
Assets recognised from costs to obtain a contract		**1.3**	0.3	0.3
Defined benefit pension plan surplus	8	**10.2**	10.0	8.4
Deferred tax asset		**46.5**	37.0	43.2
		294.9	291.7	296.5
Current assets				
Inventories		**40.3**	41.8	43.5
Trade and other receivables		**99.1**	114.9	133.7
Assets recognised from costs to obtain a contract		**0.3**	0.9	1.0
Current tax asset		**2.8**	2.5	1.0
Cash and cash equivalents		**131.0**	148.2	108.1
		273.5	308.3	287.3
Total assets		**568.4**	600.0	583.8
Liabilities				
Current liabilities				
Trade and other payables		**(49.8)**	(50.3)	(65.9)
Contract liabilities		**(86.8)**	(84.7)	(66.6)
Lease liabilities		**(8.2)**	(6.7)	(10.7)
Other financial liabilities	12	**-**	(35.6)	-
Current tax liability		**(1.0)**	(3.7)	(0.8)
Provisions		**(4.6)**	(5.9)	(5.0)
		(150.4)	(186.9)	(149.0)
Non-current liabilities				
Trade and other payables		**(0.2)**	(0.2)	(0.2)
Contract liabilities		**(18.4)**	(14.6)	(33.7)
Lease liabilities		**(11.5)**	(15.0)	(10.7)
Deferred tax liability		**-**	-	-
Defined benefit pension plan deficit	8	**(10.6)**	(9.1)	(11.4)
Provisions		**(2.4)**	(2.7)	(3.0)
		(43.1)	(41.6)	(59.0)
Total liabilities		**(193.5)**	(228.5)	(208.0)
Net assets		**374.9**	371.5	375.8
Capital and reserves				
Share capital		**24.4**	25.1	24.6
Share premium account		**25.5**	25.6	25.7
Capital redemption reserve		**18.1**	17.3	18.2
Other reserves		**18.0**	18.0	17.5
Translation reserve		**4.4**	5.1	5.5
Retained earnings		**284.5**	280.4	284.3
Total equity attributable to owners of the parent Company		**374.9**	371.5	375.8

Condensed consolidated statement of changes in equity

		Attributable to the equity holders of the parent Company						
$ million	Notes	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total equity
At 1 January 2023 (audited)		24.7	24.4	16.0	20.9	2.6	376.6	465.2
Profit for the period		-	-	-	-	-	5.2	5.2
Other comprehensive income		-	-	-	-	2.5	(0.7)	1.8
Total comprehensive income		-	-	-	-	2.5	4.5	7.0
Share-based payment[1]		-	-	-	-	-	2.3	2.3

Tax charge on share incentives		-	-	-	-	-	(1.0)	(1.0)
Equity dividends	7	-	-	-	-	-	(31.1)	(31.1)
Share repurchase[2]	11	(0.7)	-	0.7	-	-	(70.9)	(70.9)
Exchange adjustment		1.1	1.2	0.6	(2.9)	-	-	-
At 30 June 2023		25.1	25.6	17.3	18.0	5.1	280.4	371.5
At 1 January 2024 (audited)		**24.6**	**25.7**	**18.2**	**17.5**	**5.5**	**284.3**	**375.8**
Loss for the period		-	-	-	-	-	**(6.7)**	**(6.7)**
Other comprehensive income		-	-	-	-	**(1.1)**	**3.0**	**1.9**
Total comprehensive loss		-	-	-	-	**(1.1)**	**(3.7)**	**(4.8)**
Share-based payment[1]		-	-	-	-	-	**2.6**	**2.6**
Tax charge on share incentives		-	-	-	-	-	**1.3**	**1.3**
Equity dividends	7	-	-	-	-	-	-	-
Exchange adjustment		**(0.2)**	**(0.2)**	**(0.1)**	**0.5**	-	-	-
At 30 June 2024		**24.4**	**25.5**	**18.1**	**18.0**	**4.4**	**284.5**	**374.9**

Notes

1. There were no costs in administration expenses in the income statement in respect of deferred shares for Executive Directors' Annual Incentive (first half 2023: nil).
2. Share Buyback Programme reflects transactional costs of Tranche 1 ($35.3 million) plus liability for Tranche 2 of $35.6 million inclusive of 0.5 per cent stamp duty and legal fees.

Condensed consolidated cash flow statement

$ million	Notes	**First half 2024**	First half 2023
Cash flows from operating activities			
Cash flow from operations	9	**32.8**	16.2
Tax paid		**(2.7)**	(8.3)
Net cash inflow from operating activities		**30.1**	7.9
Cash flows from investing activities			
Interest received		**2.2**	3.6
Capital development costs		**(1.9)**	-
Purchase of property, plant and equipment		**(3.6)**	(3.6)
Proceeds from sale of property, plant and equipment		**-**	0.3
Lease payments received from finance leases		**0.2**	0.3
Net cash (used)/generated in investing activities		**(3.1)**	0.6
Cash flows from financing activities			
Lease liability principal repayments		**(3.0)**	(4.0)
Lease liability interest paid		**(0.4)**	(0.4)
Dividend paid	7	**-**	(31.1)
Share repurchase	12	**-**	(35.3)
Net cash used in financing activities		**(3.4)**	(70.8)
Net increase/(decrease) in cash and cash equivalents		**23.6**	(62.3)
Cash and cash equivalents at the beginning of the period		**108.1**	209.6
Effect of foreign exchange rate changes		**(0.7)**	0.9
Cash and cash equivalents at the end of the period		**131.0**	148.2

Notes to the half year condensed consolidated financial statements

1 General information

The half year condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. The statutory accounts for the year ended 31 December 2023 were approved by the Board of Directors on 5 March 2024 and have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

In compliance with DTR 4.2.9(2), the half year condensed consolidated financial statements have not been reviewed by the Group's auditor.

The half year condensed consolidated financial statements for the period ended 30 June 2024 were approved by the Directors on 6 August 2024.

2 Accounting policies

The accounting policies adopted and methods of computation used are consistent with those applied in the consolidated financial statements for the year ended 31 December 2023. The annual financial statements of the Group are prepared in accordance with United Kingdom adopted International Financial Reporting Standards (IFRS).

Basis of preparation

The half year condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board and endorsed by and adopted for use in the United Kingdom. This condensed set of half year financial statements has also been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

Critical accounting estimates and judgements

The preparation of the half year condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half year condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2023.

The Group is required to perform an impairment review on goodwill annually and where there are indicators of impairment. The Group has an annual impairment testing date of 30 November. At 30 June 2024, management have reviewed goodwill for indicators of impairment and have considered the trading performance, the Group's principal risks and uncertainties and the other assumptions used in the value in use calculations. Management have also considered sensitivities in respect of potential downside scenarios. There are no indicators of impairment at any of the cash generating units.

2 Accounting policies continued

Going concern

In adopting the going concern basis for preparing the condensed consolidated financial statements, the Directors have considered the Group's principal risks and uncertainties as set out on page 10.

The Directors have also considered sensitivities in respect of potential downside scenarios, including stress testing the latest cash flow projections that cover a period of at least 12 months from the date of approval of these condensed consolidated financial statements. In these scenarios, the Group has more than sufficient headroom in its available resources.

At 30 June 2024, the Group had cash balances of $131.0 million and external debt only in relation to its lease liabilities.

The Directors have reviewed the detailed financial projections for the period ending 31 December 2024, as well as the business plan and cash flows for the six months ending 30 June 2025. The Directors have also considered the period to the end of 2027 which forms part of the Group's longer term viability assessment. In addition, they have considered the principal risks faced by the Group, and the sensitivity analysis and the Group's significant financial headroom, and are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and for a period of at least 12 months from the date of approval of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the condensed consolidated financial statements.

New standards and interpretations

There have been no new standards or amendments to existing standards effective from 1 January 2024 that are applicable to the Group or that has had any material impact on the financial statements and related notes as at 30 June 2024.

The Directors do not anticipate that the adoption of any of the new standards and interpretations issued by the IASB and IFRIC with an effective date for the Group after the date of these interim financial statements will have a material impact on the Group's interim financial statements in the period of initial application.

3 **Operating segments**

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure.

The Group's reportable operating segments are Lifecycle Service Assurance and Networks & Security. The Group evaluates adjusted operating profit before acquired intangible asset amortisation, share-based payment and other adjusting items. Finance income and finance costs are not allocated to the reportable segments. Corporate is not an operating segment and costs are separately reported and not allocated to the reportable segments. Information on segment assets and segment liabilities is not regularly provided to the Group's Chief Executive Officer and is therefore not disclosed below. There is no aggregation of operating segments.

The Group disaggregates revenue from contracts with customers by nature of products and services and primary geographical markets, as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors.

3 **Operating segments** continued

$ million	Lifecycle Service Assurance	Networks & Security	Corporate	Total
First half 2024				
Revenue				
Nature of products and services				
Sale of hardware and software	**31.7**	**76.5**	**-**	**108.2**
Maintenance and support services	**54.0**	**35.1**	**-**	**89.1**
	85.7	**111.6**	**-**	**197.3**
Primary geographical markets				
Americas	**59.5**	**53.9**	**-**	**113.4**
Asia Pacific	**16.4**	**40.6**	**-**	**57.0**
Europe, Middle East and Africa	**9.8**	**17.1**	**-**	**26.9**
	85.7	**111.6**	**-**	**197.3**
Profit before tax				
Adjusted operating profit/(loss)	**6.3**	**4.1**	**(5.4)**	**5.0**
Other adjusting items *note 4*	**(0.4)**	**(0.5)**	**(7.5)**	**(8.4)**
Total reportable segment profit/(loss)	**5.9**	**3.6**	**(12.9)**	**(3.4)**
Unallocated amounts:				
– Acquired intangible asset amortisation				**(2.7)**
– Share-based payment				**(3.2)**
Operating loss				**(9.3)**
Finance income				**2.2**
Finance costs				**(0.4)**
Loss before tax				**(7.5)**
Other information				
Product development	**22.0**	**25.4**	**-**	**47.4**
Depreciation of property, plant and equipment	**1.9**	**2.5**	**-**	**4.4**
Depreciation of right-of-use assets	**1.4**	**1.6**	**0.2**	**3.2**

3 **Operating segments** continued

$ million	Lifecycle Service Assurance	Networks & Security	Corporate	Total
First half 2023				
Revenue				
Nature of products and services				
Sale of hardware and software	38.6	94.4	-	133.0
Maintenance and support services	57.0	33.9	-	90.9
	95.6	128.3	-	223.9
Primary geographical markets				
Americas	63.0	63.4	-	126.4
Asia Pacific	24.8	49.4	-	74.2
Europe, Middle East and Africa	7.8	15.5	-	23.3
	95.6	128.3	-	223.9

Profit before tax				
Adjusted operating (loss)/profit	(1.8)	17.2	(3.8)	11.6
Other adjusting items *note 4*	(1.6)	(3.1)	0.1	(4.6)
Total reportable segment (loss)/profit	(3.4)	14.1	(3.7)	7.0
Unallocated amounts:				
– Acquired intangible asset amortisation				(2.4)
– Share-based payment				(3.0)
Operating profit				1.6
Finance income				3.6
Finance costs				(0.4)
Profit before tax				4.8
Other information				
Product development	27.2	26.0	-	53.2
Intangible asset amortisation - other	0.1	-	-	0.1
Depreciation of property, plant and equipment	2.3	3.1	-	5.4
Depreciation of right-of-use assets	1.7	1.8	0.1	3.6

Inter-segment revenue is eliminated in the above periods. All of the Group's revenue arose from contracts with customers.

Generally, revenue from the sale of hardware and software is recognised at a point in time and revenue from maintenance and support services is recognised over time.

Europe, Middle East and Africa includes United Kingdom revenue of $5.7 million (first half 2023: $3.8 million).

Americas includes United States revenue of $106.0 million (first half 2023: $116.0 million).

Asia Pacific includes China revenue of $27.4 million (first half 2023: $36.7 million).

Revenues are attributed to regions and countries based on customer location.

No one customer accounted for 10 per cent or more of total Group revenue in either the first half of 2024 or 2023.

The Group's activities are seasonal and are typically weighted towards the second half of the year.

4 Other adjusting items

$ million	**First half 2024**	First half 2023
Strategic restructuring initiatives	**0.9**	4.6
Acquisition related costs	**7.5**	-
Total charge in the income statement	**8.4**	4.6

Restructuring

$ million	**First half 2024**	First half 2023
R&D engineering plan	**-**	0.4
Finance transformation	**0.2**	-
Organisational restructure	**0.5**	4.2
Facilities downsize	**0.2**	-
Total charge in the income statement	**0.9**	4.6

Restructuring
We concluded our R&D engineering site plan to relocate activities from North America to lower cost regions for our High-Speed Ethernet business in 2023. No further significant costs expected in 2024.

In 2023, to embed standardised global finance processes, we moved certain accounting activities from North America to the UK, incurring $1.1 million of costs including $0.5 million consultancy. In 2024, we moved into the next phase of the initiative, incorporating the review of key global process and/or control enhancements, incurring further consultancy costs.

In 2022, the Group embarked on a strategic evaluation of its operating model. This reached substantial completion in early 2024. The half year 2023 costs relate to this initiative.

Strategic actions were taken to review the cost base and facility footprint in the second half of 2023. The 2024 amounts relate to moving, relocating and downsizing costs directly attributable to this project.

Acquisition related costs

In March 2024, Keysight announced its intention to purchase Spirent. Therefore, the costs of $7.1 million recognised for the first half of 2024 relates mainly to professional advisory charges due to this acquisition. We expect further deal related charges, the majority of which are expected to be incurred when the deal is closed.

On 8 September 2023, the Group completed the asset purchase of a small Test Lab Automation business carve-out from NetScout Inc. Retention costs of c.$0.4 million were incurred during 2024.

5 Tax

$ million	**First half 2024**	First half 2023
Current income tax		
UK tax	**0.7**	2.5
Foreign tax	**0.9**	2.5
Total current income tax charge	**1.6**	5.0
Deferred tax		
Recognition of deferred tax assets	**-**	-
Reversal of temporary differences	**(2.4)**	(5.4)
Total deferred tax	**(2.4)**	(5.4)
Tax credit in the income statement	**(0.8)**	(0.4)

The effective tax rate for the first half of 2024 is 11.2 per cent (first half 2023: 14.7 per cent), being the current period tax charge, excluding tax on adjusting items, as a percentage of adjusted profit before tax.

6 Earnings per share

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the six months to 30 June. Where dilution would improve the loss on earnings per share reported, the table only includes the figure for basic earnings per share, being the lowest result.

$ million	**First half 2024**	First half 2023
(Loss)/profit for the period attributable to owners of the parent Company	**(6.7)**	5.2
Number million		
Weighted average number of Ordinary Shares in issue - basic	**573.7**	598.7
Dilutive potential of employee share incentives	**4.2**	1.5
Weighted average number of Ordinary Shares in issue - diluted	**577.9**	600.2
Cents		
(Loss)/Earnings per share		
Basic	**(1.17)**	0.87
Diluted	**(1.17)**	0.87

6 Earnings per share continued

Adjusted

The Group is disclosing adjusted earnings per share for continuing operations attributable to owners of the parent Company in order to provide a measure to enable period-on-period comparisons to be made of its performance. The following items are excluded from adjusted earnings:

- acquired intangible asset amortisation;

- share-based payment;
- other adjusting items; and
- tax effect on the above items

A reconciliation is provided below:

	First half 2024		First half 2023	
	$ million	**EPS cents**	$ million	EPS cents
(Loss)/profit for the period attributable to owners of the parent Company	**(6.7)**	**(1.17)**	5.2	0.87
Acquired intangible asset amortisation	**2.7**		2.4	
Share-based payment	**3.2**		3.0	
Other adjusting items *note 4*	**8.4**		4.6	
Tax effect on the above items	**(1.6)**		(2.6)	
Adjusted basic	**6.0**	**1.05**	12.6	2.10
Adjusted diluted		**1.04**		2.10

7 Dividends paid and proposed

	First half 2024		First half 2023	
	Cents per Ordinary Share	**$ million**	Cents per Ordinary Share	$ million
Amounts recognised as distributions to equity in the period				
Final dividend paid for previous year	-	-	4.94	31.1
Amounts approved by the Directors (not recognised as a liability at the balance sheet date)	-	-	2.76	16.5

No dividend was proposed at 31 December 2023 and The Board does not recommend a dividend for the first half of 2024.

Dividends are declared or proposed in US Dollars and will be paid in Pound Sterling at the exchange rate prevailing when the dividend is declared or proposed.

8 Defined benefit pension plans

The Group operates two funded defined benefit pension plans in the United Kingdom which are closed to new entrants.

In order to protect the balance sheet from further risk of market movements affecting the valuation of pension liabilities, in October 2022, the Trustees, with the Company's support, purchased a bulk annuity insurance policy from specialist UK insurer Pension Insurance Corporation (PIC), in respect of the largest plan, the Staff Plan. The premium was met from the plan's assets and sufficient assets remain to meet the plan's ongoing costs. This pension buy-in secures an insurance asset from PIC that matches the remaining pension liabilities of the Staff Plan, such that the Company no longer bears any investment, inflation, longevity or other demographic risks.

Following the purchase of the bulk annuity insurance policy, the Group does not expect to make any further cash contributions to this plan.

There is also a liability for an unfunded plan in the United Kingdom and a deferred compensation plan in the United States.

The assets and liabilities on the balance sheet are as follows:

$ million	**First half 2024**	First half 2023	Year 2023
Schemes in net asset position			
UK defined benefit pension plan - Staff Plan	**13.6**	15.3	12.9
UK defined benefit pension plan - Cash Plan	**-**	-	-

	13.6	15.3	12.9
Withholding tax payable	**(3.4)**	(5.3)	(4.5)
Surplus in the plan	**10.2**	10.0	8.4
Schemes in net liability position			
UK defined benefit pension plan - Cash Plan	**(0.3)**	(0.8)	(1.7)
UK unfunded plan	**(0.5)**	(0.5)	(0.5)
US deferred compensation plan	**(9.8)**	(7.8)	(9.2)
Deficit in the plan	**(10.6)**	(9.1)	(11.4)
Net pension plan (deficit)/surplus on the balance sheet	**(0.4)**	0.9	(3.0)

The assets and liabilities in the funded defined benefit pension plans were as follows:

$ million	**First half 2024**	First half 2023	Year 2023
Fair value of defined benefit pension plans' assets	**188.9**	190.0	197.0
Present value of defined benefit pension plans' obligations	**(175.6)**	(175.5)	(185.8)
Surplus in the plans	**13.3**	14.5	11.2
Withholding tax payable	**(3.4)**	(5.3)	(4.5)
Net UK funded defined benefit pension plan surplus on the balance sheet	**9.9**	9.2	6.7

8 Defined benefit pension plans continued

The key financial assumptions in respect of the funded plans are as follows:

%	**First half 2024**	First half 2023	Year 2023
Inflation - RPI	**3.3**	3.4	3.1
Inflation - CPI (pre-2030)	**RPI less 1.0% pa**	RPI less 1.0% pa	RPI less 1.0% pa
Inflation - CPI (post-2030)	**RPI less 0.1% pa**	RPI less 0.1% pa	RPI less 0.1% pa
Rate of increase in pensionable salaries	**CPI**	CPI	CPI
Rate of increase for pensions in payment			
– Pre 2001 service	**3.7**	3.8	3.6
– 2001 to 5 April 2005 service	**3.1**	3.2	3.0
– Post 5 April 2005 service	**2.1**	2.1	2.1
Rate of increase in deferred pensions	**CPI**	CPI	CPI
Rate used to discount plan liabilities	**5.2**	5.3	4.5

Finance income of $0.3 million (first half 2023: $0.4 million) has been recognised. As at 30 June there are $0.5 million fees relating to the defined benefit pensions that are due to be re-imbursed to the Group in the second half of 2024 (first half 2023: $0.9 million). These fees are recorded in Other Comprehensive Income on page 12.

The Group also operates a deferred compensation plan for employees in the United States. The plan has elements of a defined benefit pension retirement obligation and therefore is required to be valued in accordance with IAS 19 'Employee Benefits'. At 30 June 2024, the deferred compensation deficit amounted to $9.8 million (31 December 2023: $9.2 million). There were no changes to the re-measurement at 30 June 2024 (31 December 2023: $0.6 million).

9 Reconciliation of (loss)/profit before tax to cash generated from operations

$ million	**First half 2024**	First half 2023
(Loss)/profit before tax	**(7.5)**	4.8
Adjustments for:		
Finance income	**(2.2)**	(3.6)
Finance costs	**0.4**	0.4
Intangible asset amortisation	**2.7**	2.5
Depreciation of property, plant and equipment	**4.4**	5.4
Depreciation of right-of-use assets	**3.2**	3.6
Share-based payment	**3.2**	3.0
Changes in working capital:		
Increase/(decrease) in inventories	**3.2**	(1.7)
Decrease in receivables	**37.5**	45.9
Decrease in payables	**(16.8)**	(44.8)
Increase in contract liabilities	**5.3**	0.6
(Decrease)/increase in provisions	**(1.0)**	0.2
Defined benefit pension plan employer contributions net of plan admin expenses	**0.2**	(0.7)

expenses	**0.2**	(0.7)
Deferred compensation plan	**0.6**	0.9
Non-cash movements	**(0.4)**	(0.3)
Cash flow from operations	**32.8**	16.2

10 Fair value

The Directors consider that the carrying amounts of the financial instruments included within trade and other receivables, trade and other payables and contractual provisions approximates their fair value.

11 Employee Share Ownership Trust

During the first half of 2024 and 2023, no shares were purchased or placed into the Employee Share Ownership Trust (ESOT) and 3.5 million shares were transferred from the ESOT to satisfy options exercised under the Spirent employee share plans (first half 2023: 2.5 million transferred). At 30 June 2024, the ESOT held 2.9 million Ordinary Shares (31 December 2023: 6.4 million Ordinary Shares).

12 Share Buyback Programme

On 3 April 2023, the Company commenced a Share Buyback Programme of $71.6 million (£56.0 million) which was successfully completed on 24 August 2023. These 33 million shares, representing circa 5.4 per cent of the Company's issued share capital, have been cancelled as at 31 December 2023.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the IASB and endorsed and adopted by the United Kingdom.

The half year management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2023 Annual Report.

The Directors of Spirent Communications plc are listed below and are unchanged from the Spirent Communications plc Annual Report at 31 December 2023.

Sir William Thomas
Eric Updyke
Paula Bell
Jonathan Silver
Gary Bullard
Margaret Buggie
Wendy Koh
Edgar Masri

By order of the Board of Spirent Communications plc.

E A Updyke

Chief Executive Officer

6 August 2024

<u>Appendix</u>

Alternative Performance Measures

The performance of the Group is assessed using a variety of alternative performance measures (APMs) which are presented to provide users with additional financial information that is regularly reviewed by management. The APMs presented are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

In management's view, the APMs reflect the underlying performance of the Group and provide an alternative basis for evaluating how the Group is managed and measured on a day-to-day basis. Such APMs are non-GAAP measures and should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The APMs and key performance indicators are aligned to the Group's strategy and collectively are used to measure the performance of the Group and form the basis of the metrics for Director and management remuneration. The Group's key performance indicators are presented within the Strategic Report of its 2023 Annual Report.

Order intake

Order intake represents commitments from customers to purchase goods and/or services from Spirent during the period that will ultimately result in recognised revenue. Where there can reasonably be changes to the scope or duration of an order, the Group exercises judgement on the amount of the order that is booked.

Order intake is a measure of operating performance used by management to assess whether future activity levels are increasing or slowing and therefore how effective we have been in the execution of our strategy. Order intake is a key performance indicator used to measure Group, operating segment and regional performance for internal reporting purposes.

Orderbook

Orderbook comprises the value of all unsatisfied orders from customers and provides an indication of the amount of revenue that has been secured and will be recognised in future periods. Orderbook represents the transaction price allocated to wholly and partially unsatisfied performance obligations, including amounts held in contract liabilities at the period end. There is no comparable IFRS measure.

Book to bill

Book to bill is the ratio of orders booked to revenue recognised in the period and is a measure of the visibility of future revenues at current levels of activity. Book to bill is a key performance indicator used to measure Group and operating segment performance for internal reporting purposes.

Adjusted operating profit

Adjusted operating profit is reported operating profit excluding amortisation of acquired intangible assets, share-based payment and other adjusting items. Management uses adjusted operating profit, in conjunction with other GAAP and non-GAAP financial measures, to evaluate the overall operating performance of the Group as well as each of the operating segments and believes that this measure is relevant to understanding the Group's financial performance, as specific items (adjusting items) are identified and excluded by virtue of their size, nature or incidence, as they do not reflect the underlying trading performance of the Group and therefore can lead to period-on-period fluctuations that can make it difficult to assess financial performance.

Specifically, items are excluded from adjusted operating profit if they are acquisition related in nature, including acquired intangible asset amortisation which is dependent on being able to identify intangible assets and assessing their useful economic lives, or if their exclusion allows for more meaningful comparisons with peer companies such as share-based payment which can fluctuate from period to period. The exclusion of adjusting items from adjusted operating profit is consistent from period to period.

Adjusted operating profit is also used in setting Director and management remuneration targets and in discussions with the investment analyst community.

Adjusted operating margin

Adjusted operating margin

Adjusted operating margin is adjusted operating profit as a percentage of revenue. It is a measure of the Group's overall profitability and how successful we are in executing on our overall strategy, and demonstrates our ability to improve margin through efficient operations and cost management, whilst being mindful of the need to invest for the future.

Effective tax rate

Effective tax rate is the adjusted tax charge, before tax on adjusting items, expressed as a percentage of adjusted profit before tax. The adjusted tax charge is the reported tax charge excluding the tax effect on adjusting items and adjustments made to provisions in respect of prior year tax.

Adjusted basic earnings per share

Adjusted basic earnings per share (EPS) is adjusted earnings attributable to owners of the parent Company divided by the weighted average number of Ordinary Shares outstanding during the year. Adjusted earnings is reported profit before tax excluding amortisation of acquired intangible assets, share-based payment, other adjusting items, tax on adjusting items and over/under provisions in respect of prior year tax.

Adjusted basic EPS is a measure of how successful we are in executing on our strategy and ultimately delivering increased value for shareholders. Adjusted basic EPS is also used in setting Director and management remuneration targets and in discussions with the investment analyst community. The Group sets out the calculation of adjusted basic EPS in note 6 of Notes to the consolidated financial statements.

Product development spend as a percentage of revenue

Product development as a percentage of revenue in the period. It is a measure of how much the Group is investing to support further organic growth initiatives in line with the strategic objectives, whilst driving improved productivity and effectiveness.

Free cash flow

Free cash flow is cash flow generated from operations, less tax and net capital expenditure, lease liability principal repayments and lease liability interest paid, add interest received and lease payments received from finance leases, excluding acquisition related other adjusting items and one-off employer contributions to the UK pension scheme.

Free cash flow is a measure of the quality of the Group's earnings and reflects the ability to convert profits into cash and ultimately to generate funds for future investment. It gives us financial strength and flexibility and the ability to pay sustainable dividends to our shareholders. Free cash flow is an important indicator of overall operating performance as it reflects the cash generated from operations after capital expenditure, financing and tax which are significant ongoing cash flows associated with investing in the business and financing operations.

Free cash flow excludes corporate level cash flows that are independent of ongoing trading operations such as dividends, acquisitions and disposals and share repurchases and therefore is not a measure of the funds that are available for distribution to shareholders.

A reconciliation of cash generated from operations, the closest equivalent GAAP measure, to free cash flow is provided within the Financial review on page 24.

Free cash flow conversion

Free cash flow conversion is the ratio of free cash flow to adjusted earnings, presented as a percentage.

Free cash flow conversion is a measure used in conjunction with free cash flow to assess the Group's ability to convert profit into cash and ultimately to generate funds for future investment.

END

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