Pace plc

Preliminary financial results for the year ended 31 December 2014

03 March 2015

Pace preliminary results (for the year ended 31 December 2014)

- Overview
- Financial results
- Strategic plan, regional performance and market dynamics update
- Outlook
- Questions

Overview

Strong performance in 2014; increased revenue and profitability with continuing strong cash flow generation

- Group revenue $2,620.0m, 6.1% increase (2013: $2,469.2m)
- Group adjusted EBITA[1] $241.1m, 24.5% increase (2013: $193.6m), operating margin[2] 9.2% (2013: 7.8%)
- Adjusted basic EPS[3] 63.6c, 43.6% increase (2013: 44.3c)
- Free cash flow[4] of $204.0m, 84.6% of adjusted EBITA
- Full year dividend of 7.00c per share, a 27.5% increase (2013: 5.49c)

Aurora Networks – strong trading performance, integration complete, expected synergies delivered ahead of plan

Continued progress made against the Strategic Plan laid out in November 2011

- 9% operating margin target achieved 1 year ahead of plan

Continued momentum and confident of making further progress in 2015 and beyond

- PayTV markets continue to perform well and demand for Pace's products and services is growing
- Pace is well positioned to capitalise on major market dynamics over the next 3 to 5 years

[1] Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangibles.
[2] Operating margin is adjusted EBITA as a percentage of revenue.
[3] Adjusted basic EPS is based on earnings before the post-tax value of exceptional costs and the amortisation of other intangibles.
[4] Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment / draw down.

Financial results summary

Consolidated income statement (FY2014)

P&L $m	*Group 2013*	***Group 2014***	*variance*
Revenue	2,469.2	**2,620.0**	6.1%
Gross margin	448.2	**532.5**	18.8%
Gross margin %	*18.2%*	**20.3%**	2.1ppt
Overheads	(254.6)	**(291.4)**	14.5%
Adjusted EBITA[1]	193.6	**241.1**	24.5%
Operating margin[2] %	*7.8%*	**9.2%**	1.4ppt
Exceptional costs	(12.2)	**(7.3)**	(40.2)%
Amortisation of other intangibles	(42.6)	**(52.9)**	24.2%
Interest	(8.0)	**(5.2)**	(35.0%)
Profit before tax	130.8	**175.7**	34.3%
Tax	(34.1)	**(27.7)**	18.8%
Profit after tax	96.7	**148.0**	53.1%
Basic EPS (cents)	31.2c	**47.4c**	51.9%
Adjusted basic EPS[3] (cents)	44.3c	**63.6c**	43.6%
Dividend per share (cents)	5.49c	**7.00c**	27.5%

Revenue
- $150.8m increase due to Aurora Networks acquisition and strong demand for STBs and Media Servers

Gross margin
- Gross margin % increased due to the contribution from Aurora

Overheads
- Underlying overheads (excluding Networks and IAS 38 adjustments) reduced by 7.4% ($19.3m)

Operating margin
- Operating margin up 1.4ppt to 9.2% - achieved Strategic Plan target of 9%
- Underlying operating margin (excluding Networks) up 0.4ppt to 8.2%

Exceptional costs
- Costs related to the integration of Aurora Networks ($5.8m) and reorganisation of the International SBU ($1.5m)

Amortisation of other intangibles
- Increased due to the Aurora Networks acquisition

Interest
- Reduced despite higher net debt due to improved financing terms

Tax
- Effective tax rate ("ETR") of 15.8% (2013: 26.1%). The ETR for 2015 is expected to be 19-21%

Earnings per share
- Strong growth due to trading, operational improvements and reduced tax rate

Dividend
- 27.5% increase reflects confidence in outlook and progressive dividend policy

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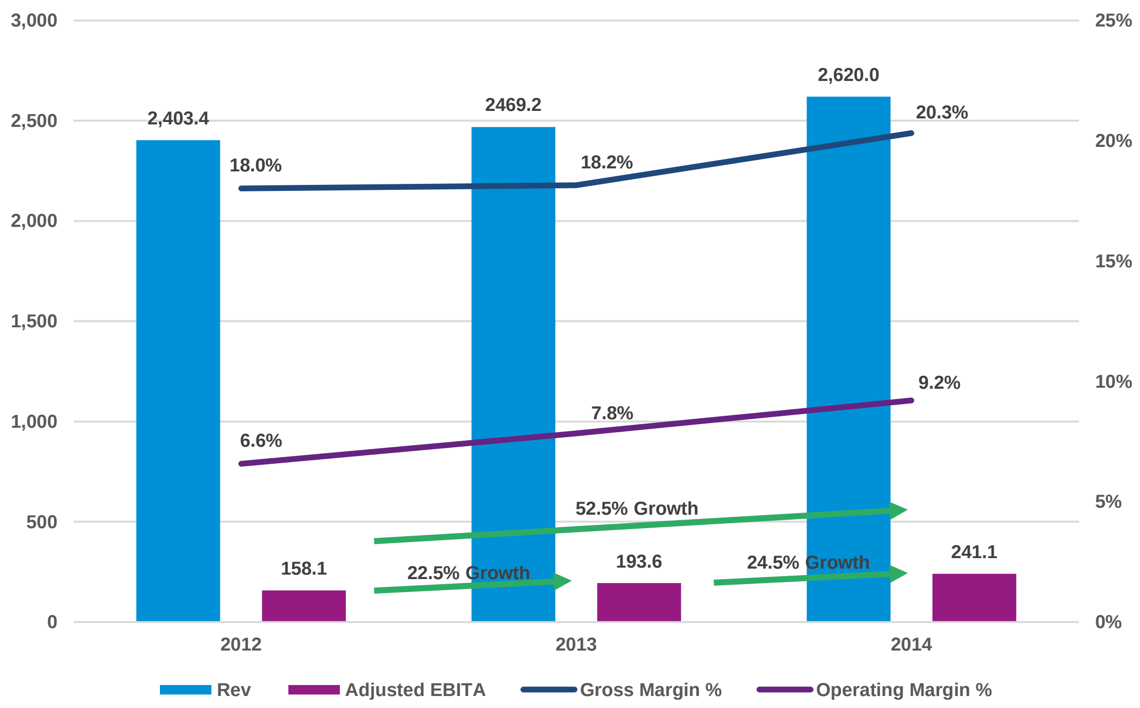
Income statement evolution over the last three years



Revenue

- Steady growth over 3 years
- Record H2 in 2014 due to product launches with key customers following weaker H1 2014

Gross margin

- Increased GM % due to improved supply chain efficiency and mix of revenue
- 2014 improvement due to contribution from Aurora

Adjusted EBITA[1]

- Increased EBITA due to increased top-line, improved gross margins and lower overheads

Operating margin[2]

- Continued improvement due to trading mix and increased operational efficiency

$83.0m increase in adjusted EBITA in 2 years

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[2] Operating margin is adjusted EBITA as a percentage of revenue.

Balance sheet (FY2014)

Balance sheet $m (Group)	*31 Dec 2013*	*31 Dec 2014*
Property, Plant & Equipment	60.0	63.2
Goodwill	342.6	471.1
Intangibles	123.1	208.2
Development expenditure	64.4	85.0
Inventories	156.8	168.0
Trade and other receivables	468.7	909.1
Trade and other payables	(567.1)	(934.6)
Net working capital	58.4	142.5
Current and deferred tax	(42.3)	(77.7)
Provisions	(92.2)	(132.1)
Net (debt) / cash	33.0	(93.1)
Net assets	547.0	667.1

Property, Plant & Equipment, Goodwill and Intangibles

- Increase reflects the acquisition of Aurora Networks

Development expenditure

- Increased development activity for product launches in 2014 and 2015, combined with initial capitalisation within Networks

Net Working Capital

- Increased inventories reflects the acquisition of Aurora Networks
- Debtor days increased by 6 days to 66 days due to customer mix
- Increase in payables driven by phasing of activity. Payment terms for key suppliers now aligned; creditor days flat at 90 days

Tax

- Increase reflects deferred tax liabilities on acquired intangibles

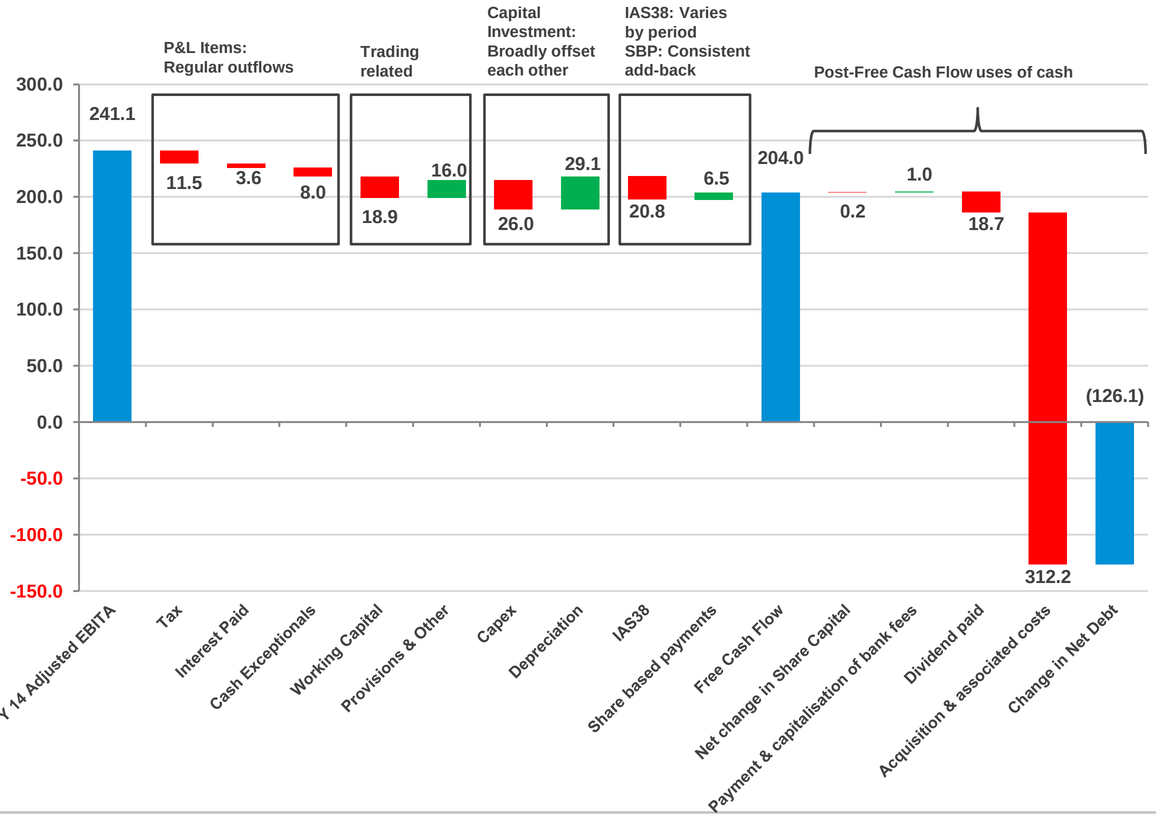
Provisions

- Increase due to Aurora Networks acquisition related provisions and for royalties, future warranty claims and exceptional costs

Net debt

- $279.2m pro forma net debt following acquisition of Aurora Networks, $186.1m (66.7%) reduction in period

Cash flow (FY2014)



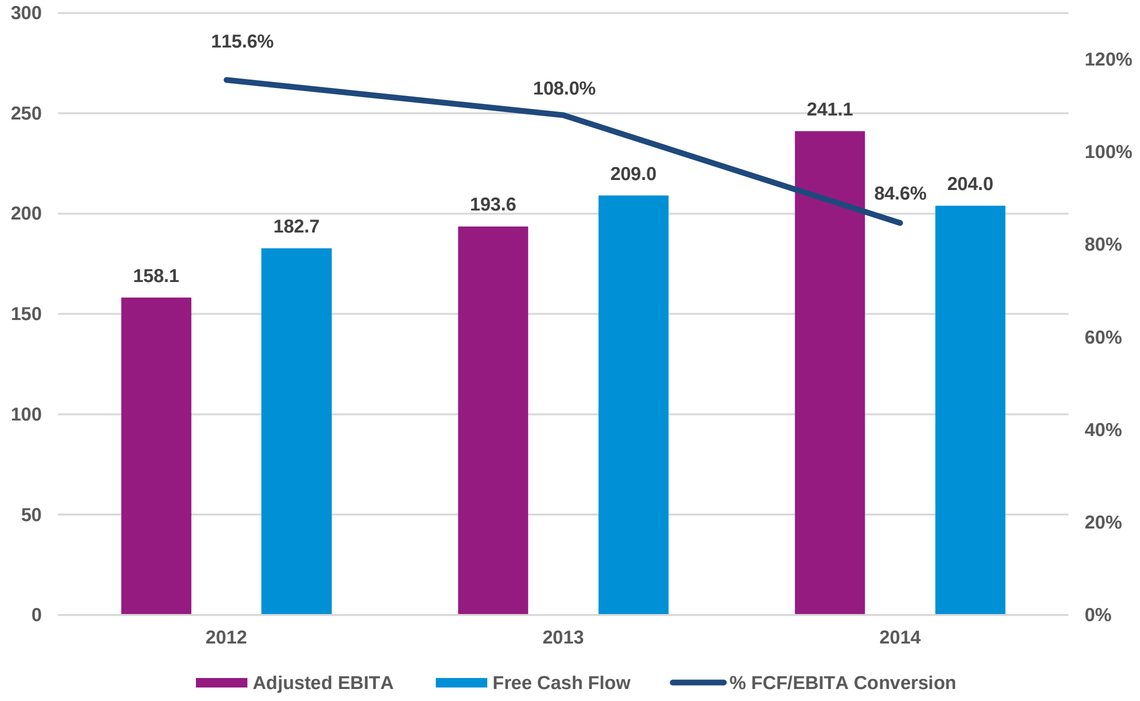
Free cash flow[1]

- 84.6% free cash flow to adjusted EBITA generation
- Cash inflow from working capital realignment within Networks post acquisition

$186.1m reduction in period (66.7%) following the acquisition of Aurora (pro forma net debt of $279.2m)

Notes: Cash movement in working capital and provisions excludes re-translation of items denominated in foreign currencies.
[1] Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment / draw down.

Cash flow evolution over the last three years



Free cash flow[1]

- Strong cash flow model in place – $595.7m aggregate free cash flow over last 3 years - 100.5% free cash flow / adjusted EBITA[2] conversion
- FY2014 supported by Networks working capital contribution
- Transitioned to a more normalised ongoing FCF/EBITA conversion in H2 2014 (70-80%)

≈ $600m of free cash flow generated in 3 year period

[1] Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment / draw down.
[2] Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangibles.

Strategic plan, regional performance and market dynamics update

Strategic plan update

1 Continue to transform core economics

- Application of Pace efficiency and effectiveness principles to the Networks business enabled targeted synergies to be achieved ahead of plan
- Underlying opex[1] reduced by $19.3m (7.4%) whilst continuing to invest in growth opportunities
- 84.6% adjusted EBITA to FCF conversion; strong cash conversion from net income and working capital benefits at Aurora
- Net debt reduction of $186.1m (66.7%) of pro forma net debt of $279.2m at point of Aurora acquisition

2 Maintain PayTV hardware leadership

Set-top boxes

#1 in 2013 for STBs[2]

Media Servers

#1 in 2013 for Media Servers[3]

Gateways

#1 in 2013 for VDSL GWs[4]

3 Widening out

Elements Software

Deployed to over 9.3m devices (34.8% growth)

ECO Service Mngt & Care

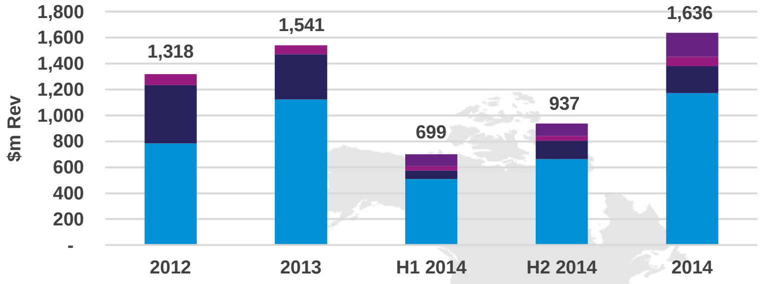
Over 34m devices managed (14.1% growth)and 6m calls handled p.a.

Aurora Networks

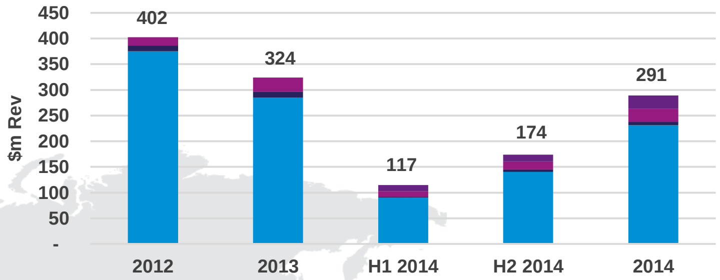
Over 250k optical nodes deployed, more than 100m homes passed

[1] Operating expenses excluding Networks costs and IAS 38 accounting.
[2] By volume (2013): IHS Set-Top Box Market Monitor Q1/Q2 2014.
[3] By volume (2013): IHS Set-Top Box Market Monitor Q1/Q2 2014.
[4] By value (2013): Infonetics Broadband CPE and Subscribers Report 4Q 2013.

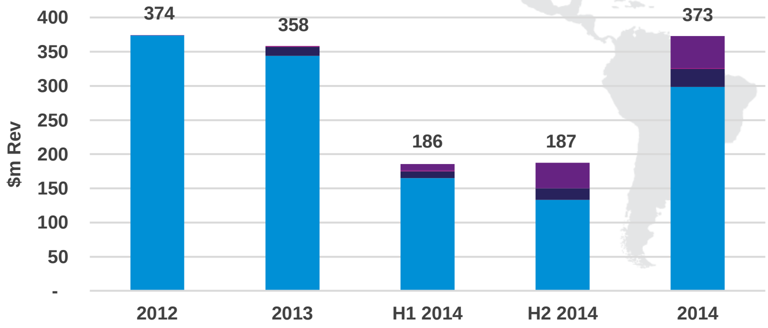
Regional performance



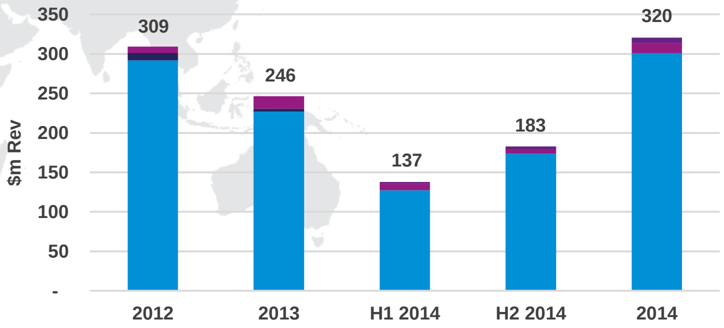
North America



Europe



Latin America



Rest of World[1]

STB & Media Server | Gateways | Software & Services | Networks

[1] Rest of the World is Asia Pacific , Middle East & Africa

Aurora Networks – one year in

- Integration completed ahead of plan
  - Focused Networks SBU leveraging the scale and expertise of the Group
  - Significant progress made to ramp up the supply chain to meet growing demand
  - Committed target run-rate synergies of $8m per annum achieved ahead of plan
- Trading above expectations
  - $264.6m revenue, $47.4m adjusted EBITA, 17.9% operating margin, strong cash flow
  - Underlying demand for network products is strong
- Built on track record of innovation with a number of technology and product launches
  - DOCSIS 3.1 compatibility across product range
  - Fifth generation Universal Digital Return solution
  - UniPHY Converged Services Platform
  - Distributed Broadband Access Architecture (“DBAA”)
- Enabled Pace to widen out into network infrastructure and build deeper, more embedded relationships with our customers
- Further progress anticipated in 2015 and beyond

PayTV market dynamics update

Operator dynamics		Consumer dynamics			
Operator consolidation	Subscriber growth beyond mature markets	Whole home and Media Servers becoming the norm	Rapidly evolving advanced user experiences	Bandwidth, bandwidth and more bandwidth	Supporting the increasingly complex connected home

These dynamics are driving increased investment by operators to deliver the best networks, the best user experiences and the best service experience to their customers

Pace is strongly positioned to capitalise on these major industry dynamics over the next 3-5 years

Outlook

Outlook for 2015

- Considerable progress has been made in delivering on our strategy in 2014 and there remains further opportunity in 2015 to build on this success to develop and improve the performance of the Company

- The Board is confident that the Group will make further progress in 2015:
    - Revenues for 2015 expected to be c. $2.75bn, c. 5% growth
    - Adjusted EBITA[1] for 2015 is expected to be c. $255m, c. 6% growth
    - Strong cash flow will continue, and Pace expects to generate in the range of $185m to $195m of free cash flow[2]

- Pace is well positioned to capitalise on major market trends over the next 3 to 5 years

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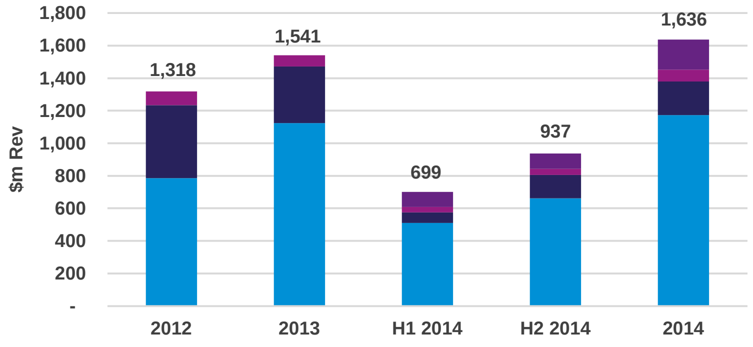
Appendix

Regional performance – North America and Latin America

North America

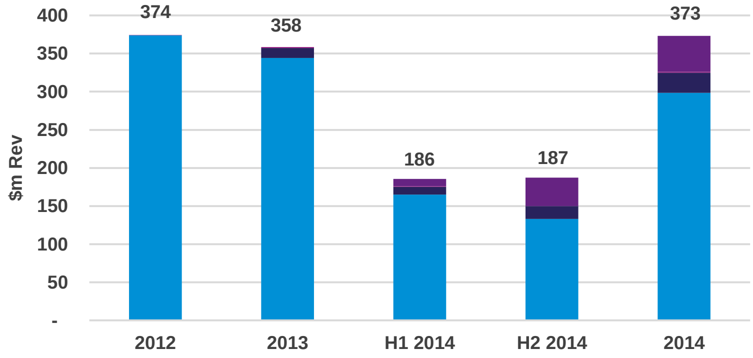
- Increased revenue due to Networks and STB & Media Servers
- Launch of new products with key customers enabled strong revenue growth in H2 2014



STB & Media Server mix (by Vol)	2012	2013	2014
Media Server	14%	28%	23%
Client	19%	36%	18%
HDPVR	2%	3%	15%
HD	24%	24%	35%
DTA	41%	9%	9%

Latin America

- Increased revenue due to Networks
- Serving 8 of the top 10 operators in the region
- First shipments of Media Servers in the region in 2014



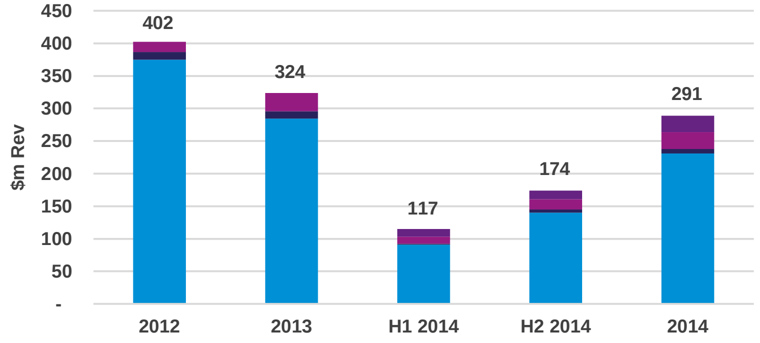
STB & Media Server mix (by Vol)	2012	2013	2014
Media Server	0%	0%	2%
HDPVR	13%	12%	26%
HD	49%	48%	38%
SD	38%	40%	34%

STB & Media Server   Gateways   Software & Services   Networks

Regional performance – Europe and RoW

Europe

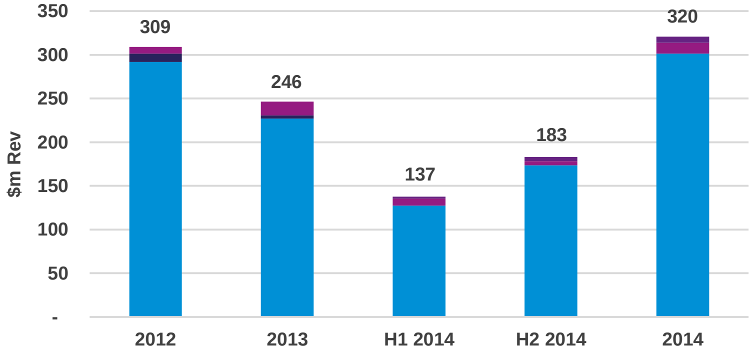
- Recovery in H2 2014 (48.7% revenue growth) due to launches with new and existing customers
- Previous revenue decline due to low win rate of new products in 2011



STB & Media Server mix (by Vol)	2012	2013	2014
Media Server	0%	3%	5%
HDPVR	40%	34%	35%
HD	59%	62%	60%
SD including SDPVR	1%	1%	0%

RoW

- Revenue growth of 30.1% due to product launches in H2 2013 and H1 2014
- First shipments of Media Servers in the region



STB & Media Server mix (by Vol)	2012	2013	2014
Media Server	0%	0%	14%
HDPVR	51%	64%	58%
HD	31%	18%	17%
SD including SDPVR	18%	18%	11%

STB & Media Server
Gateways
Software & Services
Networks