



Pace plc

Interim results : for the period ended 30 June 2011

Pace interim results (for the period ended 30 June 2011)

- Overview
- Strategic review
- Summary financial results
- Business performance
- Conclusion
- Questions

Overview

On-track to meet revised May 2011 guidance

- Progress has been made against the operational issues announced in May
 - Inventory management has been normalised
 - Networks business has been resized and is no longer loss-making
 - Impact on component availability following the Japanese Tsunami has been largely mitigated
 - Initial corrective actions have been implemented to address the profitability issues in Pace Europe
- Revenues increased in line with expectations
- Acquisition related synergies were achieved earlier and are greater than anticipated
- Return on sales at 5.8%
- Net debt reduced to \$293.2m
- Board reaffirms \$150-170m profit* guidance for FY2011

* Profit is EBITA (after adding back amortisation of Other intangibles)

Overview (cont'd)

Business highlights

- US at an advanced stage with “next generation” products
- Growth in Latin American sales
- Progress continues to be made in new emerging markets

New Chairman

- Allan Leighton appointed as new non-executive chairman on 21 June 2011

Strategic review

- Announced last month and underway
- With focus on Pace’s strategy and opportunities for business improvements
- Aiming to conclude around the time of the Group’s Q3 IMS



Summary financial results

Reporting changes

US Dollar

- Functional and presentational currency changed to the US dollar as from 01 January 2011
- Following the acquisition and integration of 2Wire
 - c.80% of our revenue and c.95% of our CoGS now in US dollar
- Prior period financial comparators were restated in US dollar and published 01 June 2011

Segmental reporting

- In accordance with IFRS 8 and a review by the Board, Pace currently has the following reportable operating segments
 - Pace Americas SBU
 - Pace Europe SBU
 - Pace Enterprise SBU
 - Unallocated
- Details are provided in the interim results statement
- Segmentation may change in future and is subject to the outcome of the Strategic Review

Consolidated income statement

P&L \$m	Group 2010 H1	Organic 2011 H1	Acq'ns 2011 H1	Group 2011 H1	Group variance
Revenue	978.2	938.4	248.7	1,187.1	21%
Gross Margin	181.6	146.7	78.9	225.6	24%
Gross Margin %	18.6%	15.6%	31.7%	19.0%	0.4
Overheads	108.3	107.3	49.9	157.2	45%
EBITA	73.3	39.4	29.0	68.4	(6.7%)
Return on Sales %	7.5%	4.2%	11.7%	5.8%	(1.7)
Amortisation of Intangibles	(3.9)			(29.1)	
Interest	0.5			(9.9)	
Tax	(21.3)			(8.5)	
Profit After Tax	48.6			20.9	
Adjusted* EPS (cents)**	17.4c			14.2c	
Dividends per share (cents)	1.12			1.25	

Revenue

- Up 21% through acquisition
- Organic down 3.5% due to a strong prior period comparator

Gross margin

- Improvements arising from the acquisitions' product mix have been offset by the margin issues announced in the May 2011 IMS

Overheads

- Organic overheads have been tightly controlled
- Acquisition overheads reflect synergies (see later)
- Interest charge reflects debt taken on to fund 2010 acquisitions

Tax

- Effective tax rate of 29%

Dividend

- Dividend shown is that declared in respect of H1 (paid in H2)

* Adjusted is before amortisation of other intangibles ** Updated on the Correction to Interim Results released on 27 July 2011 (available at www.pace.com/IR)

Acquisitions (pro forma comparator)

<i>P&L \$m</i>	<i>Pro forma* Acq'ns 2010 H1</i>	<i>Acq'ns 2011 H1</i>	<i>variance</i>
Revenue	250.1	248.7	(0.6%)
Gross Margin	68.7	78.9	15%
Gross Margin %	27.5%	31.7%	4.2
Overheads	62.2	49.9	(20%)
EBITA	6.5	29.0	346%
Return on Sales %	2.6%	11.7%	9.1

Revenue

- H1 2011 reflects the impact of the pull forward of c.\$17m of ADSL shipments to AT&T into H2 2010
- Underlying revenue growth of c.6.7% after adjusting for this

Gross margin

- Pro forma H1 2010 margin for 2Wire is 26.4% (after adjusting for a reclassification of costs from cost of sales to overheads to show on a consistent basis with H1 2011).
- Other acquisitions lifted pro forma gross margin to 27.5%
- 4.2 percentage points improvement in H1 2011 reflects
 - c.2ppt relating to CoGs synergies
 - 0.9ppt favourable change in product mix
 - 1.3ppt relating to non-recurring, release of deferred revenue in 2011

Overheads

- Synergies are being achieved ahead of and in excess of the plan announced at the time of the 2Wire acquisition of \$20m

* Pro forma is an unaudited illustration of H1 2010 trading of acquisitions

Update on May IMS

<i>Margin impact \$m</i>	<i>Indicated</i>	<i>Actual 2011 H1</i>	<i>Estimate 2011 H2</i>
Inventory over-procurement	10 to 20	15	c. 4
Networks	c.5	3	c. 2
Japan Tsunami	5 to 10	1	c. 4
Pace Europe SBU performance	10 to 15	6	c. 9

- **Inventory** Inventory management has been normalised
- **Pace Networks** Re-sized and is now no longer loss-making
- **Tsunami** Impact on supply chain has been largely mitigated, however a small number of at-risk components remain
- **Pace Europe SBU** Continues to address issues related to the reduced profitability levels in Pace Europe

Balance sheet

<i>Balance sheet \$m (Group)</i>	<i>31 Dec 2010</i>	<i>30 June 2011</i>
Property, Plant & Equipment	52.7	63.6
Goodwill	338.4	344.4
Intangibles	273.7	244.1
Development expenditure	44.6	43.1
Inventories	222.7	222.2
Trade and other receivables	433.8	391.6
Trade and other payables*	(528.7)	(493.3)
Net working capital	127.8	120.5
Provisions	(86.8)	(85.4)
Deferred tax	(38.6)	(35.4)
Other (inc exceptional cost creditors)*	(24.8)	(3.9)
Net (debt) / cash	(311.1)	(293.2)
Net assets	375.9	397.8

Net debt

- Reduced by \$18m

Property, Plant & Equipment

- IT infrastructure upgrade (c\$2m)
- Investment in refurbishment of premises in UK, US and Brazil (c\$9m)

Net Working Capital

- Receivable days reduced slightly through improved collection
- Trade payables days have moved from 74 to 67 days reflecting a change in composition of suppliers payable at June 2011 compared with December 2010
- Inventories now include \$25m of components purchased to manage the exposure to the Japan Tsunami crisis
- Other stock reduced by \$25m

* 2010 exceptional cost creditors split out and included within Other

Cash flow

Cash flow \$m (Group)	2010 H1	2011 H1
EBITA	73.3	68.4
Movement in working capital	(20.2)	7.3
Capex over depreciation	(5.5)	(10.0)
Taxation	(14.8)	(17.1)
Net dev exp adjustment	(3.2)	(1.7)
Share based payments	4.7	3.3
Other	7.1	(9.1)
Free cash flow	41.4	41.1
FCF%	56%	60%
Interest (net)	0.5	(7.2)
Exceptionals from 2010	(1.6)	(10.8)
Proceeds from issue of shares	0.5	0.4
Acquisitions (net)	(10.1)	(5.6)
Change in net debt	30.7	17.9
FX movements	(8.8)	-
Opening (net debt) / cash	118.3	(311.1)
Closing (net debt) / cash	140.2	(293.2)

Capex over depreciation

- Reflects non-recurring capex spend

Exceptionals

- Exceptionals relate to 2010 acquisition and reorganisation costs (\$2.1m still to be paid)

Acquisitions

- Deferred considerations (Bewan: \$2.0m and Philips: \$3.6m)
- \$16.0m still to be paid for Latens earn out (due 2012) and \$0.7m for Bewan (H2 2011)

Debt Repayment

- First scheduled repayment of term loan made in H1 2011*

*not shown in the cash flow as the cash outflow mirrors the equivalent reduction in debt balance



Business Performance

Introduction

Market

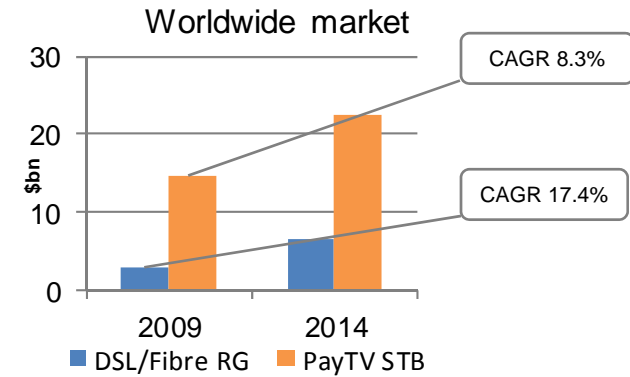
- IMS Research forecasts continued growth in the global market for both payTV STBs and residential gateways
- Demand for payTV services continues unabated, despite emergence of internet delivered video services
- PayTV accelerating innovation

Technology

- Migration from traditional STB to “Smartbox” has begun
- Working closely with industry leading service providers

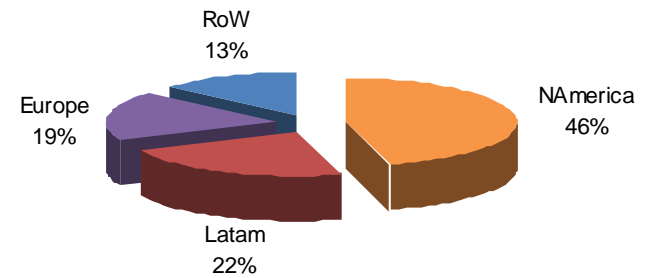
Devices

- Shipped 14.7m devices : 80% STB, 20% RG
- Comprising c.180 different products
- Number 1 in STB and top 3 in residential gateways



Courtesy of IMS Research

Pace global revenue 2011 H1



Acquisitions

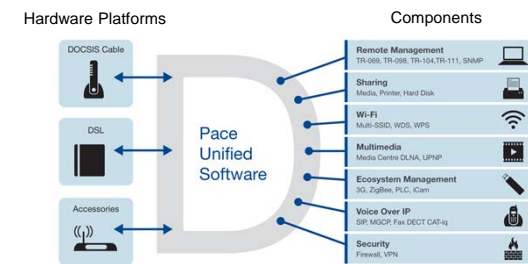
2Wire

- Acquired in October 2010
- A leading provider of advanced residential gateways and telco grade software & services for the telco market
- Pace integration: America Telco, America Services, International Gateways



Bewan

- Acquired in April 2010
- Residential gateways and complimentary connected devices
- Pace integration: International Gateways



Latens

- Acquired in November 2010
- PayTV software specialist – middleware, cardless conditional access (softCA) & systems integration skills
- Pace integration: self-contained



North America

Market trend

- Most technologically advanced market – whole home STB & triple-play gateways
- Characterised by strong competing service providers driving growth in premium services
- Emergence of the “Smartbox” – the home entertainment server / gateway
- Significant transition from ADSL to VDSL residential gateways
 - Potentially doubling capacity and enabling more services into the home

North American sales

- Organic down 6.7% due to the change in customer requirement, previously disclosed
- Acquisitions flat as ADSL product was pulled forward from H1.2011 into H2.2010
- Pace is unique in supplying all three of Comcast, DirecTV and AT&T

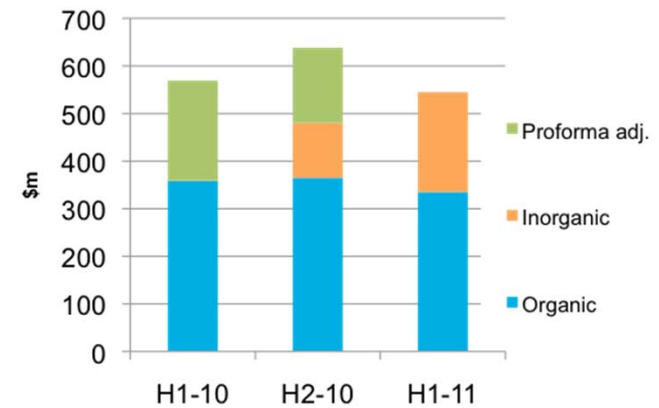
Acquisitions

- Integration has gone well - synergies achieved ahead of time and greater than anticipated
- Strong customer endorsement

Organic product mix

- DTA shipments continue and are significant
- HD shipments at 36% (47% H1 2010)
- PVR shipments at 3% (17% H1 2010) impacted by the change in customer requirement
- Expected to improve as “Smartbox” starts to displace the regular DVR

Pace - North American revenue



Operators innovating with Pace products & services



Comcast

- 22.7 million video subscribers (Q1.2011)
- Xfinity field trial launched
 - with Pace, Intel & Facebook
- Hybrid : multi-tuner Tru2way / Docsis 3.0 IP
- Live, on-demand, recorded, interactive, ...
- Advanced EPG incorporating social networking & multi-screen



- 19.4 million North American subscribers (Q1.2011)
- HMC (Home Media Center) field trial launched
- Whole home payTV media server
- Thin client STBs



- 3.4 million U-verse video subscribers (Q2.2011)
- 15.5% of wireline customer base
- Triple play VDSL residential gateway
- Customer care & supporting tools
- Opportunity with STB

Smartbox

Triple-play

Latin America

Market trend

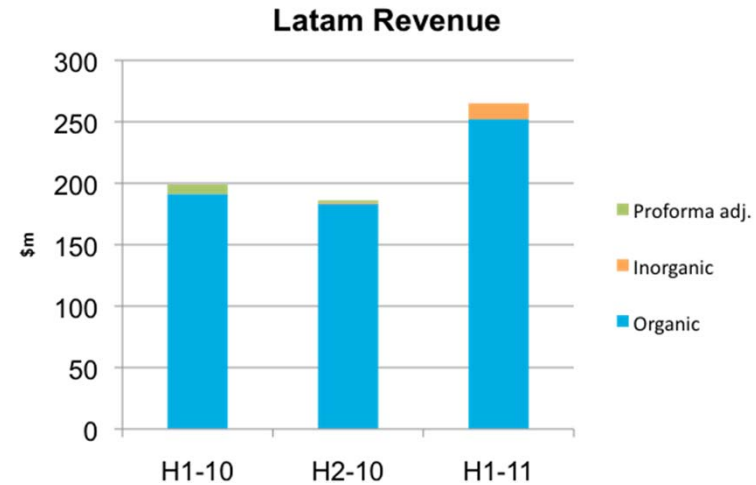
- Strong subscriber growth and conversion to digital
- A market with a strong appetite for HD products, heavily influenced by the US
- Post World Cup – HD & PVR continues strongly

Latam sales

- Up 32% organic, in-line with and factored into our expectations
- Growing as our customers grow
- Across both cable & satellite
- Strong market share

Organic product mix

- SD remains a relevant product category
- HD shipments at 23% (24% H1 2010)
- PVR shipments at 21% (24% H1 2010)
- HDPVR at 89% of HD shipments (50% H1 2010)



Pace is the market leader on many different platforms



Net Services (Brazil)

- 4.2m video subscribers (Q4.2010)
- Cable HD PVR & SD zapper



Cablevision (Argentina)

- 3.4m subscribers (Q1.2011), 622k digital
- Cable HD STB with Docsis



DirecTV (Latam)

- 6.2m subscribers (Q1.2011)
- Satellite HDPVR, SDPVR, SD zapper
 - DirecTV PanAmericana
 - Sky Brazil
 - Sky Mexico

Europe

Market trend

- Predominantly conversion to HD with the addition of hybrid
- Home networking increasingly important to advanced customers
- A fragmented and highly customer specific territory

European sales

- Organic revenue down 35% in line and already factored into expectations
- Due to our exit from retail and a decrease in low margin sales in Italy

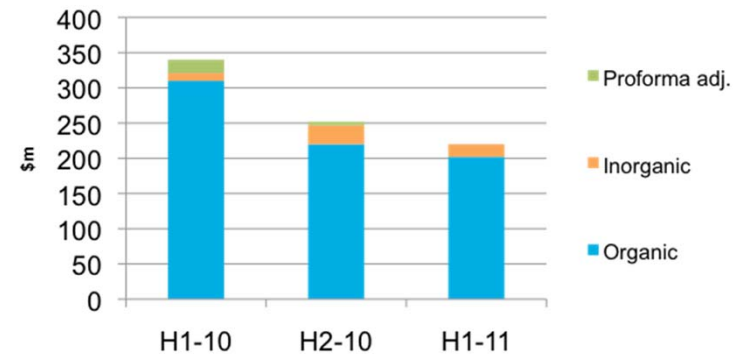
Acquisitions' success

- Northern European operator using Pace STB, Pace residential gateway and Pace's suite of associated software
- Added a Western European tier 1 cable operator deploying Latens (Pace) soft-conditional access system
- European telco has selected Pace's new residential gateway software

Organic product mix

- PVR increasingly shipped with a separated HDD
- HD shipments at 94% (91% H1 2010)
- PVR & PVR capable shipments at 55% (34% H1 2010)

Pace - European Revenue



Operators requiring innovation as Pace broadens its capabilities



CANAL+

- ~11m subscribers
- HD PVR capable hybrid STB
- Wifi home networking



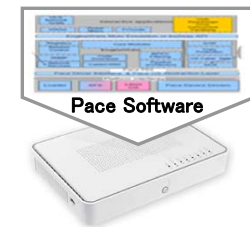
Northern European operator

- Pace hybrid HD STB
- Pace residential gateway
- Pace software suite



Western European cable operator

- Selects Latens (Pace) cardless conditional access system for use on their STBs



European telco

- Selects Pace unified software stack for use on their residential gateways

HD & hybrid

New Pace technologies

RoW*

Market trend

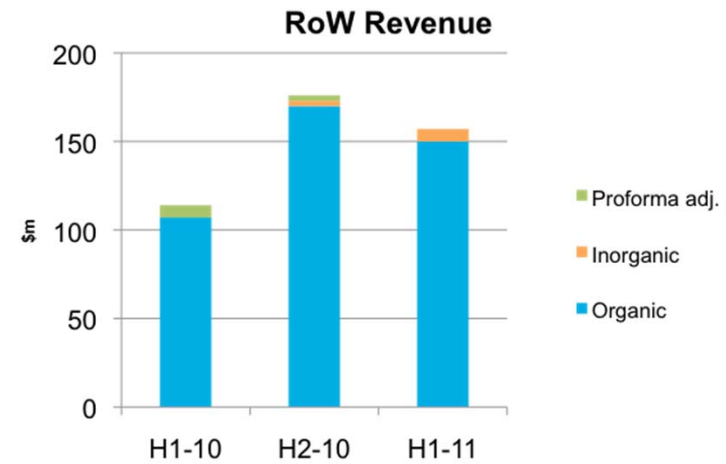
- RoW growth is predominantly driven by conversion to digital
- Including new emerging markets such as India
- As well as markets not addressed by Pace, such as China

RoW sales

- Organic sales up 40% in line with and factored into our expectations
- Driven by selective customer wins
- Entered into Indian emerging market with an HD PVR for TataSky

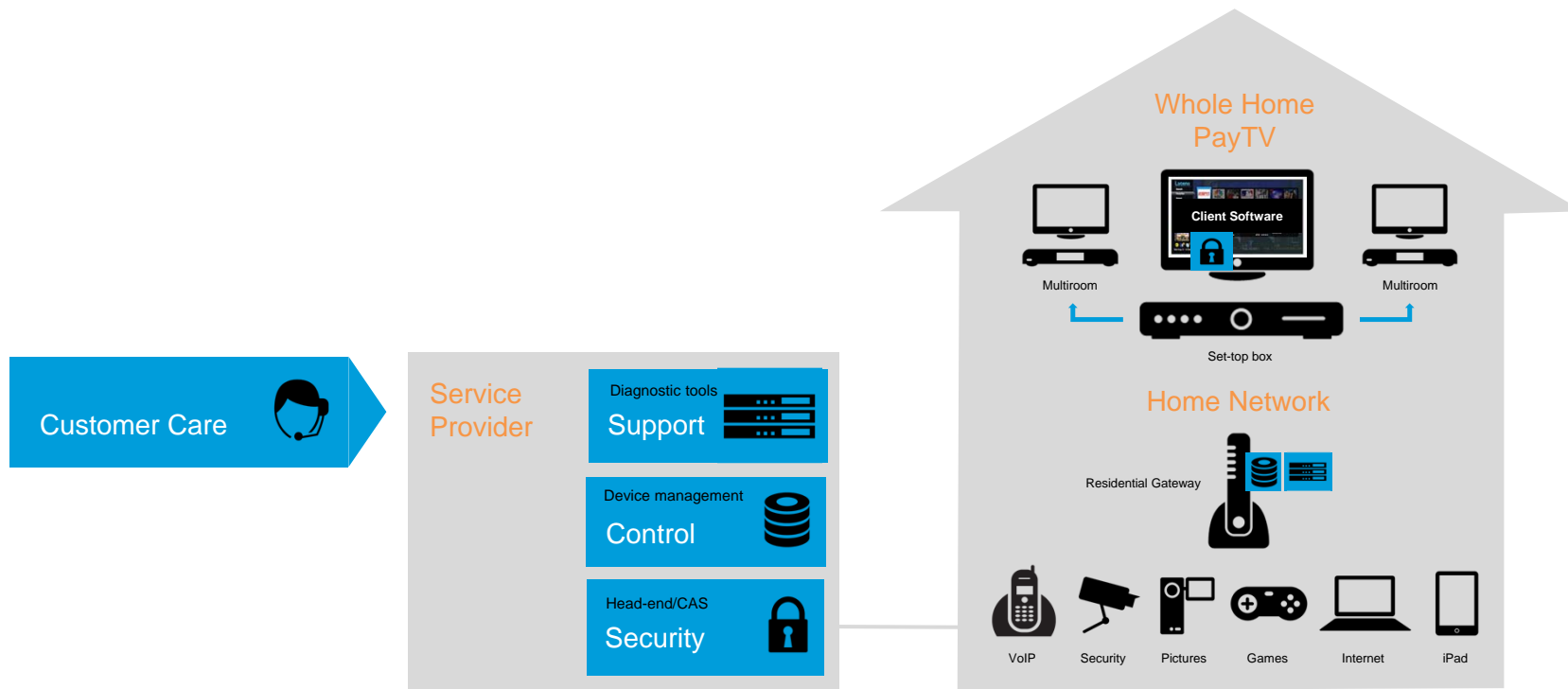
Organic product mix

- HD shipments at 72% (64% H1 2010)
- PVR shipments at 63% (45% H1 2010)

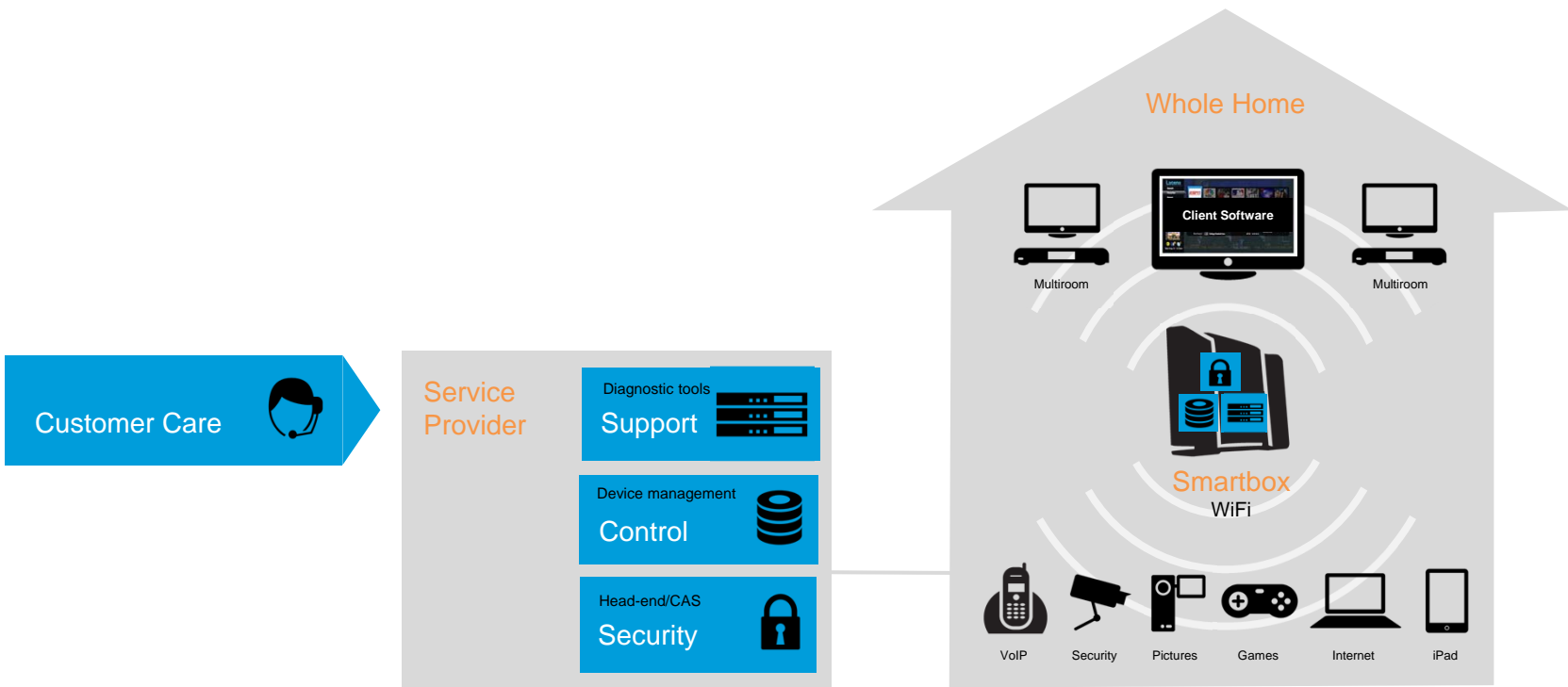


* Pace RoW is APAC + MEA

Pace – making it all work



Pace – making it all work





Conclusion

Conclusion

- Progress has been made against the operational issues announced in May
- Acquisition synergies have been delivered ahead of expectations
- On track to meet May 2011 revised full year financial target of \$150-170m EBITA



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