Making the future work

Results of Pace's strategic review

17 November 2011

The strategic review addressed ten questions

What actions should Pace take to further develop a distinctive, scalable and profitable business that is well-positioned in attractive markets?

Position

- **Q1** How attractive, today and over the next 3-5 years, are Pace's markets?
- **Q2** What are potential scenarios for how Pace's markets will evolve over the next 3-5 years?
- **Q3** What are Pace's advantages vs competitors?
- **Q4** Is Pace the most efficient manufacturer of quality STBs?

Strategy

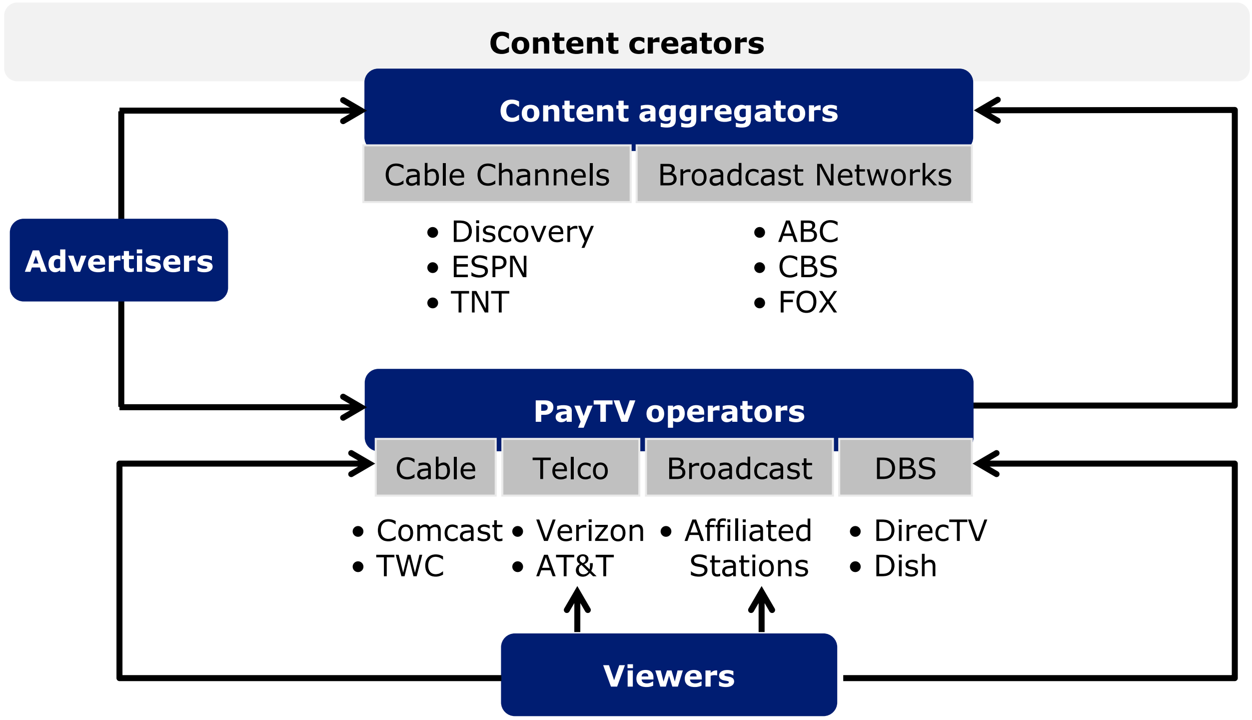
- **Q5** What are Pace's strategic options?
- **Q6** What is the preferred strategic option?
- **Q7** What is the business case for the strategy?

Implementation

- **Q8** What are the risks and opportunities to Pace's financial plan?
- **Q9** What is the action plan that will deliver the strategy?
- **Q10** What organisational improvements are required to deliver the strategy?

The payTV ecosystem is characterised by large players, with much of the value flowing through payTV operators

Example of US payTV ecosystem



Examples of money flows in 2009 and 2010

- $53bn paid by residential customers to cable operators
- Over $30bn paid by viewers to satellite providers
- $21bn paid by advertisers to cable channels

Source: Based on publicly available data

The strategic review concluded that the payTV industry will remain robust in the face of several challenges

Challenge	Evidence for and against	Findings of strategic review
Growth in OTT	• Content producers are experimenting with direct-to-consumer models (e.g. Disney Studio) or alternative channels (e.g. Netflix) • Netflix grew from 10m users in 2008 to 25m in 2011 • Despite a 35% increase in OTT usage (from 2010 to 2011), minutes of traditional TV watched remain stable (up 0.2% from 2010 to 2011) • 76% of OTT users are not satisfied with their viewing experience	• Despite growth in OTT, payTV has remained robust—consumers are using OTT in addition to their payTV, not as a replacement • Whilst 'cord shaving' is a threat, payTV operators are embracing innovative user experiences—as well as OTT—to respond • Networks in many countries lack bandwidth to deliver full payTV services over the internet
Rise of substitute service models	• Over 2m Apple TVs sold worldwide to date, supported by new ways to purchase content • Recommendation-driven service model is emerging in social network sites • Difficult for substitute service models to compete with payTV operators' rights to high-value content delivered through a managed service	• Substitute services are unlikely to supplant payTV due to limited premium content, lack of live TV, upfront box cost and unmanaged customer experience
Use of connected TVs to receive content	• Penetration of internet connected TVs predicted to increase from 6% in 2010 to 20% in 2016 • Lack of technical standards and differing interests of TV manufacturers limit payTV operators' ability and desire to distribute content through connected TVs	• A dedicated intelligent device enables the distribution of premium content within the home; impact of connected TVs will be limited to lower-value boxes
Emergence of substitute retail devices	• Google TV, Boxee Box, Roku and others offer retail boxes which provide access to online content • Google TV hardware manufacturer labelled launch a "a big mistake" due to limited sales	• Substitute retail devices unlikely to provide sufficient premium content to win over consumers from a managed payTV service
Value of device moves to cloud	• Operators are pushing services into the cloud (e.g. Comcast Xfinity) with large investment in IP equipment and software • Many operator networks can only deliver a limited user experience via the cloud—demanding that intelligence remains in the home	• In-home devices will remain critical because of high transition costs to fully cloud-based services in many countries • Regardless of growth in the cloud, an in-home device will still be required to ensure quality of service across multiple devices

Source: Based on publicly available data

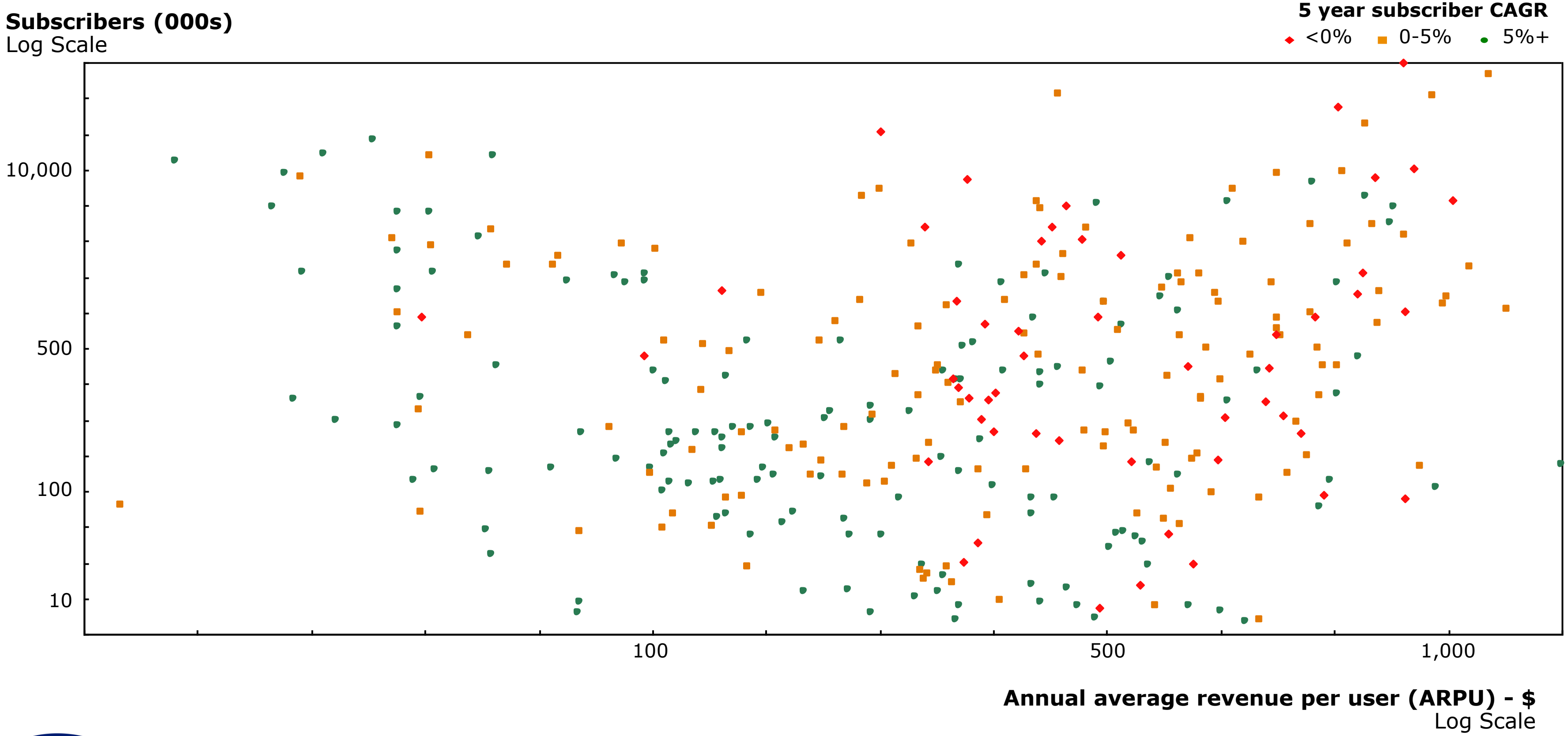
These challenges are driving payTV operators to focus on delivering an innovative user experience

Focus	Description	Evidence
In advanced markets: delivery of a best-in-class user experience	• Challenges faced by operators (e.g. OTT, substitute services) drive increased innovation • In addition, high competitive intensity among service providers (e.g. cable, satellite, IPTV) and changes in consumer demand further motivate innovation amongst payTV operators • Together, these drivers lead to a focus on user experience, in order to grow subscribers, reduce churn and increase ARPU	• Comcast, Virgin, Canal+, Sky Go offer user experiences with anywhere, anytime, social and multi-room features • Several of Pace's customers highlight customer experience as an important driver in choosing technology suppliers • At IBC 2011, a key theme was multiscreen, multi-device delivery of a sophisticated, integrated user experience
In emerging markets: delivery of the optimal experience given cost and infrastructure constraints	• Operators are rapidly growing subscriber bases, but today face relatively low margins and are seeking ways to increase ARPU • Despite cost pressures, operators are looking to differentiate on user experience, to win competition for subscribers	• Significant growth in all emerging regions with shift to HD as services evolve (e.g. South America) • Customer conversations in emerging markets such as India highlight the importance of user experience—at the same time, cost remains a key driver of customer choice

- In advanced markets, value will shift to suppliers of technology solutions who can partner with payTV operators to deliver a best-in-class user experience
- In emerging markets, value will shift to suppliers of technology solutions who can deliver effectively given cost and infrastructure constraints
- These trends encourage integrated offerings that provide flexibility for operators and a differentiated user experience, whilst maintaining low cost

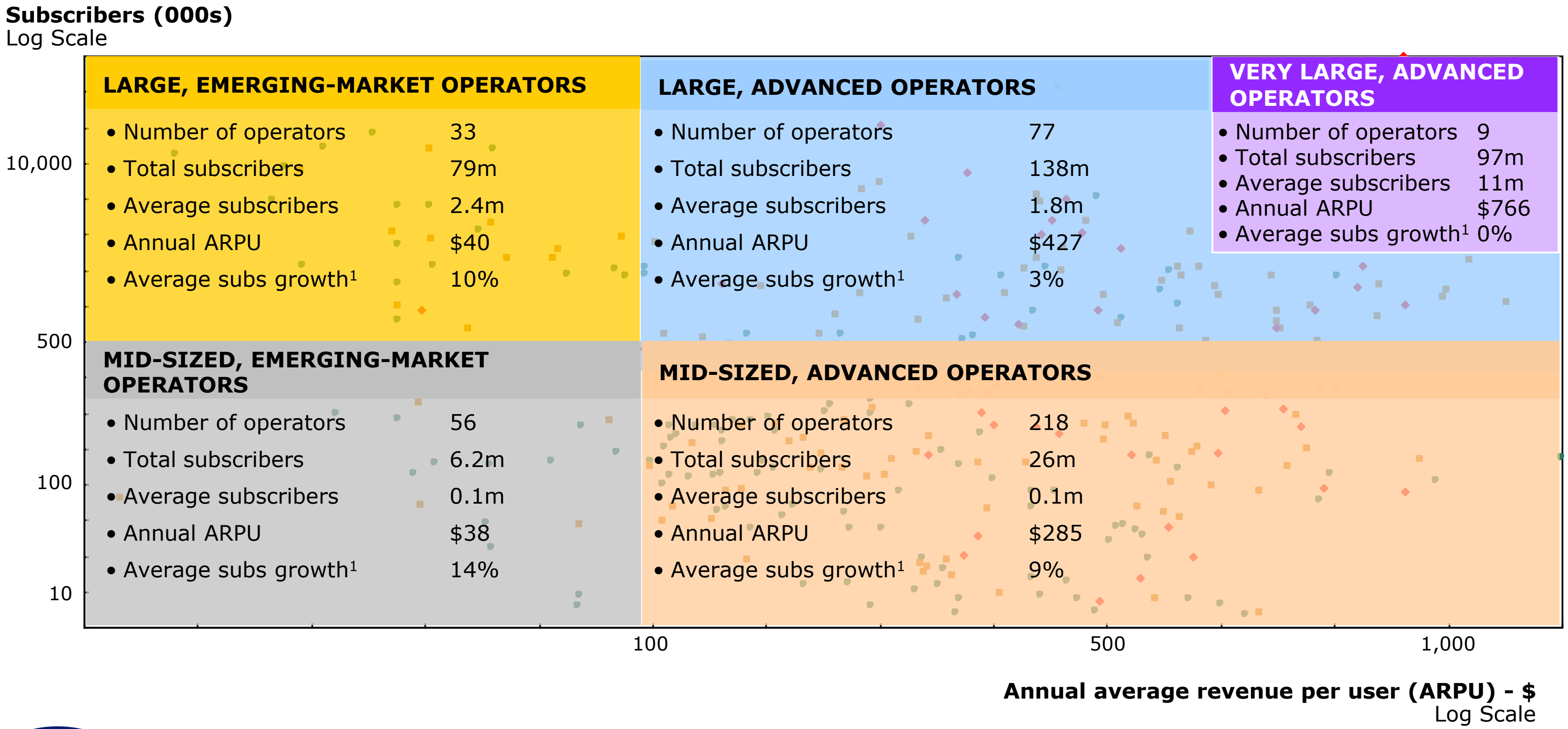
Source: Based on publicly available data and customer conversations

To understand the impact of these trends on the market, the strategic review analysed around 400 operators…



Source: Based on publicly available data; excludes specific countries which are not addressable by Pace (e.g. China, Japan, Taiwan, South Korea)

…and classified them into five different segments…



1 Forecast average annual subscriber growth (2010-2015)

Source: Based on publicly available data; excludes specific countries which are not addressable by Pace (e.g. China, Japan, Taiwan, South Korea)

…each with distinct needs

LARGE, EMERGING-MARKET OPERATORS

- Require low-cost solutions that work with legacy networks
- Require quick-to-market, scalable platforms to handle rapid growth

LARGE, ADVANCED OPERATORS

- Seek new sources of growth and differentiation via new services, following example of very large operators
- Require complex hardware that both enables new services and is compatible with legacy networks, at lowest total cost

VERY LARGE, ADVANCED OPERATORS

- Seek to provide customers with multi-screen, multi-device experiences delivered via a compelling user interface
- Require complex hardware to support innovation in user experience
- Require partners who understand challenges of scale and legacy networks and who can work with proprietary software platforms

MID-SIZED, EMERGING-MARKET OPERATORS

- Require least-cost solutions
- Seek solutions which demand minimal technical integration effort

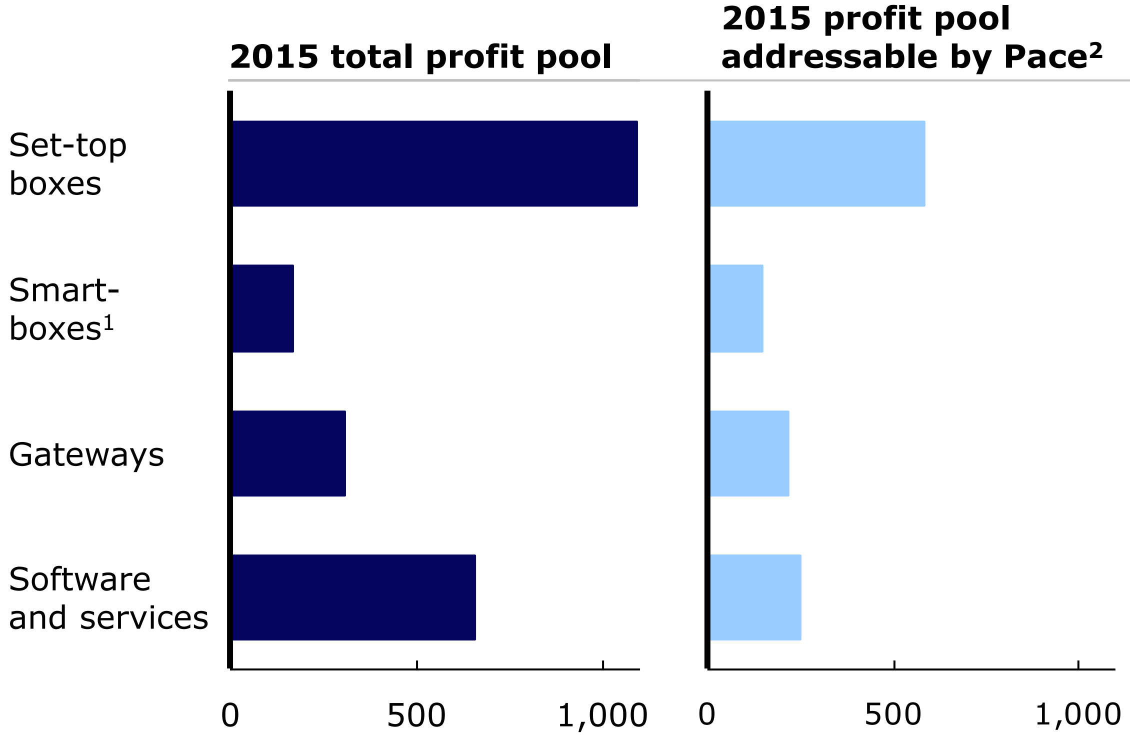
MID-SIZED, ADVANCED OPERATORS

- Require innovative solutions which enable differentiation from large incumbent operators
- Require low-cost and flexible end-to-end solutions which do not require large in-house technical teams to develop and maintain
- Seek strategic partners but are often overlooked by largest software vendors

Pace

The markets for meeting the needs of payTV operators are large, growing and profitable

Operating profit, US$ Millions



	Operating profit margin[3]	2011-15 CAGR[3]
Set-top boxes	5-7%	4%
Smart-boxes[1]	6-8%	100%+
Gateways	4-9%	6%
Software and services	15-25%	4%

1 Within Pace, Smartboxes are defined as converged hybrids and multi-room solutions, including server/clients

2 Includes profit pools where Pace current and planned capability positions us to compete; also excludes specific countries (e.g. China, Japan) and vertically integrated operators

3 Based on total profit pool

Following this market analysis, the strategic review concluded that growing a broader platform is the right strategy for Pace

After considering several options, the strategic review concluded that Pace should grow a broader platform within payTV, considering

- Robustness of payTV industry
- Drive of operators to innovate
- Customer needs and Pace capabilities
- Size and profitability of markets

Sustainably grow shareholder value

Gain scale in set-top box and gateway hardware markets

Given Pace's leading position, incremental scale does not create further strategic advantages—however, there may be opportunities for synergies and so acquisitions should be considered on a one-off basis

Reposition within Pace's current value chain

Step out into other hardware markets

Other hardware markets (e.g. telemetry, health care, consumer electronics) require new capabilities, are difficult to enter and do not offer sufficient advantages vs payTV hardware markets

Preferred option

Grow a broader platform across hardware, software and services

A broader platform is the most attractive and viable path forward—accelerating Pace into profitable markets where it has products that meet important customer needs

Specialise in a particular part of the value chain (e.g. software, services)

Specialisation would not effectively utilise Pace's extensive relationship with leading payTV operators nor its ability to deliver integrated solutions that combine hardware and software

To grow a broader platform, Pace's strategy will deliver on 3 objectives

Grow a broader platform across hardware, software and services

3-year strategic intent

1. Transform Core Economics

- Significantly improve efficiency of our core business through:
  - Commercial Excellence
  - End-to-End Design Transformation
  - Supply chain (SC) Fast-Forward
  - Opex efficiency savings

2. Build on our position as world leader in payTV hardware

- Build on our position as a world leading payTV hardware company, across:
  - Set-top box solutions
  - Smartbox solutions
  - Gateway solutions

3. Widen out into software, services and integrated solutions

- Widen out into software, services and integrated solutions, focusing on
  - Next generation content security
  - Integrated solutions
  - Proactive customer care

5-year strategic intent

- Build on software and service platforms to become a leading provider of user experience and customer management solutions
- Leverage leading-edge position across hardware and software to drive next wave of innovation

Several shifts are required for Pace to Transform Core Economics

	From	To
Commercial Excellence *Transforming Pace's procurement function*	• **Inconsistent market-based baseline and stretch targets** for individual categories • **Inconsistent execution** of category strategies • **Incomplete performance measurement system**	• **Accurate targets** that identify baseline expectations in each category • **Improved execution of strategies**: analytic rigour, improved capability and category managers that lead a two-way dialogue with engineers • **Credible performance measurement** to understand savings and cost avoidance gains
End-to-End Design Transformation *Transforming Pace's design function*	• **Design process insufficiently focused on cost reduction**, with opportunity to increase dedicated time, tools and resource • **Inconsistent application of best practice design processes** across business units, with limited cross-functional working or information sharing	• A **new way of designing hardware** that improves speed to market AND reduces product cost: improved tools, processes and cross-functional teams proactively applied • **New way of working sustained by:** – **A product cost optimisation mindset** – **Improved capabilities** from 'train the trainer' capability building – **Appropriate incentives**
SC[1] Fast-Forward *Transforming Pace's supply chain*	• **Limited optimisation of production locations and costs** within manufacturing footprint	• **A consolidated, competitive manufacturing base** that Pace **regularly optimises** using total cost models
Opex efficiency savings	• **Separate design teams** assembled through a series of acquisitions • **Partial decentralisation**, with role of corporate centre not clearly defined	• **Coordinated design teams** focused on platform designs where possible and customisation where customer needs require • A **lean corporate centre** with clearly defined roles, supporting a largely local model

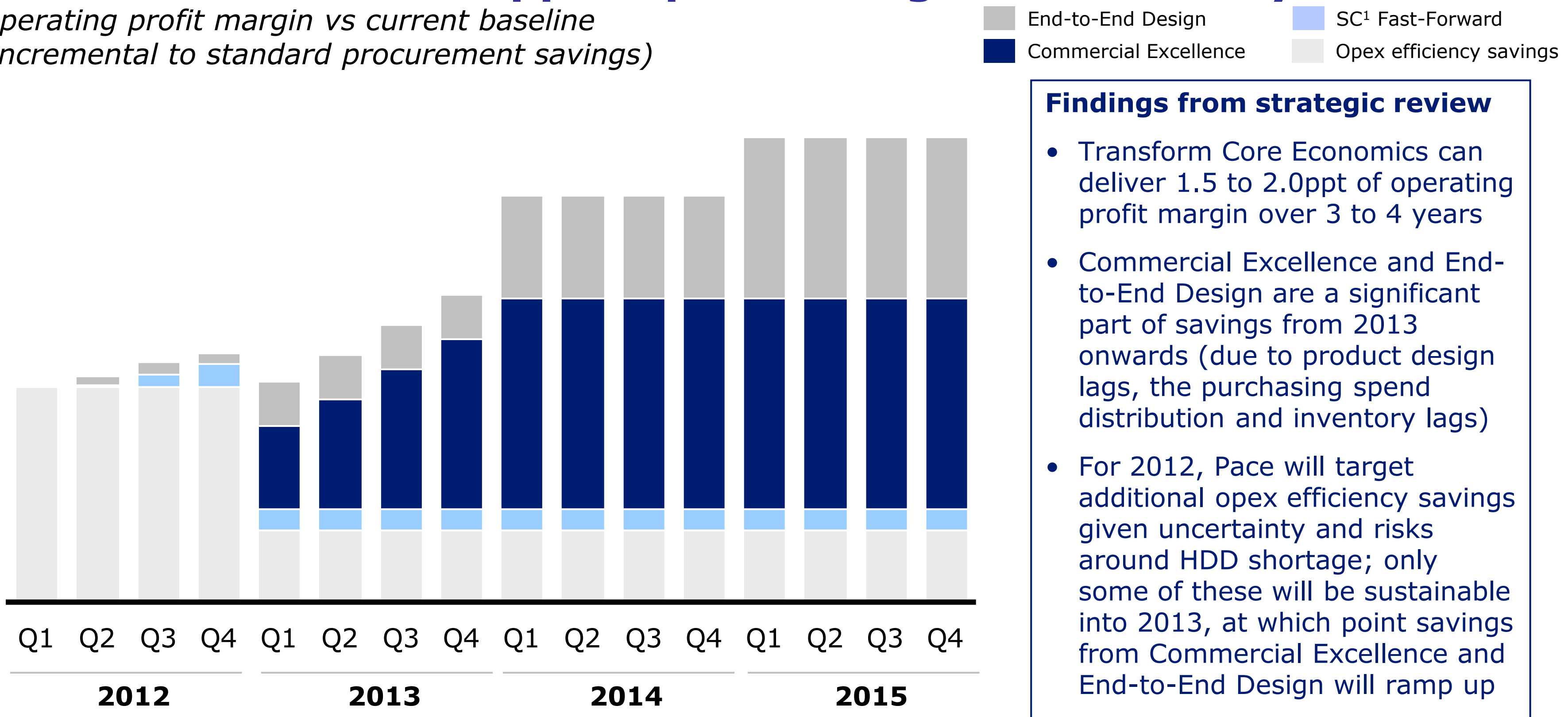
A new way of working

- In order to Transform Core Economics, **Pace needs to develop, implement and sustain a new way of working** across the procurement, design and supply chain processes
- A **project-based approach will develop and implement the transformation**, acting as a catalyst for change
- Individual projects will each have four objectives:
  - Set **targets**
  - Deliver **savings**
  - **Revise processes** and **build improved tools**
  - Develop individuals who **sustain the new way of working**

1 Supply chain

The programme to Transform Core Economics targets an incremental 1.5 to 2.0ppt of profit margin over 3 to 4 years

Operating profit margin vs current baseline (incremental to standard procurement savings)



Findings from strategic review

- Transform Core Economics can deliver 1.5 to 2.0ppt of operating profit margin over 3 to 4 years
- Commercial Excellence and End-to-End Design are a significant part of savings from 2013 onwards (due to product design lags, the purchasing spend distribution and inventory lags)
- For 2012, Pace will target additional opex efficiency savings given uncertainty and risks around HDD shortage; only some of these will be sustainable into 2013, at which point savings from Commercial Excellence and End-to-End Design will ramp up

1 Supply chain

Pace will build on our position as a world leader in set-top boxes and gateways to avoid commoditisation of our hardware margins

	Actions	Why Pace can win
Set-top box solutions	• Continue to work closely with leading payTV customers and industry partners to deliver fit-for-purpose solutions • Continue to innovate with new solutions for new markets	• Significant scale and reach—top 3 in set-top boxes, with over 20m units shipped in 2011 • Deep relationships with leading payTV operators
Smartbox solutions	• Maintain leadership in Smartboxes as industry segment grows • Draw on combined set-top box and gateway expertise to be at the forefront of hybrid solutions	• World-leading design of complex hardware • Already deployed at 2 customers • Close relationships with the payTV operators that will drive innovation towards Smartboxes
Gateway solutions	• Retain market leading position in North America • Develop International business utilising hardware and gateway software capabilities • Leverage global scale in gateways to reduce development costs	• Significant scale and reach—top 3 in gateways, with over 5m units shipped in 2011 • Deep relationships with leading operators and early IPTV innovators

Maintain margins in spite of commodi-tisation of mature hardware platforms

Pace

Widening out into software, services and integrated solutions targets an incremental 0.5 to 1ppt of profit margin over 3 to 4 years

	Actions	Why Pace can win
Next generation content security	• Build on leading position as industry adopts software content security • Pre-integrate content security with select Pace devices	• Pace software-based content security already deployed at mid-sized advanced and emerging-market operators • Solution is highly secure, low cost, highly flexible and easy to upgrade
Integrated solutions *Pace hardware and software in one solution*	• Develop middleware and user interface proposition • Win customers with package of hardware, software and integration services • Pre-integrate to win on speed to market and total cost	• Pace has scarce capability to deliver a fully integrated offer, with expertise in hardware, software and systems integration • Flexibility from software and integrated solutions reduces time to market and integration costs for operators
Proactive customer care	• Expand customer management software and services to new operators • Develop customer management software platforms that can be scaled rapidly	• Already deployed across millions of end customers • Proven reduction in total cost from Pace customer care software and services (e.g. fewer truck rolls, fewer unnecessary product returns)

Incremental 0.5 to 1ppt of operating profit margin over 3 to 4 years

Pace

Pace will grow our broader platform of software and services by delivering on specific operator needs in each segment

LARGE, EMERGING-MARKET OPERATORS

Maintain
- Set-top box solutions, where supported by the economics

Grow
- Next generation content security
- Basic integrated solutions

LARGE, ADVANCED OPERATORS

Maintain
- Set-top box solutions

Grow
- Smartbox solutions (by maintaining share as market grows)
- Gateways solutions
- Integrated solutions (to select customers)
- Proactive customer care software and services

VERY LARGE, ADVANCED OPERATORS

Maintain
- Set-top box solutions
- Gateway solutions
- Proactive customer care software and services

Grow
- Smartbox solutions (by maintaining share as market grows)

MID-SIZED, EMERGING-MARKET OPERATORS

Grow
- Off-the-shelf, pre-packaged solution where supported by the economics

MID-SIZED, ADVANCED OPERATORS

Grow
- Next generation content security
- Advanced integrated solutions

Pace

To deliver on this strategy, Pace is already undertaking organisational improvements

	From	To
Match sales delivery model to widen out strategy	• Sales teams focused on specific products, with little cross-sell • Account managers relatively inexperienced in new products • Lean sales teams without significant time for new business development	• Sales teams that maximise range of products at customers, with specific sales teams as an exception • Technically savvy account managers supplemented by designated product specialists • Business development managers focused on key target operator segments
Design organisation to build shared assets economically	• Customer-specific product development managed locally • Informal/ad-hoc approach to managing shared resources and service delivery	• Critical global assets (e.g. software platforms) managed centrally • Clear processes for managing shared resources and service delivery across business units
Ensure maximum value added by corporate centre	• Insufficient clarity on role of corporate centre • Little need to prioritise or manage resources across business units	• Lean corporate centre, with clear service proposition and measurement of delivery • Roles, processes and decision-making that allow prioritisation of shared resources based on overall Pace need

Pace

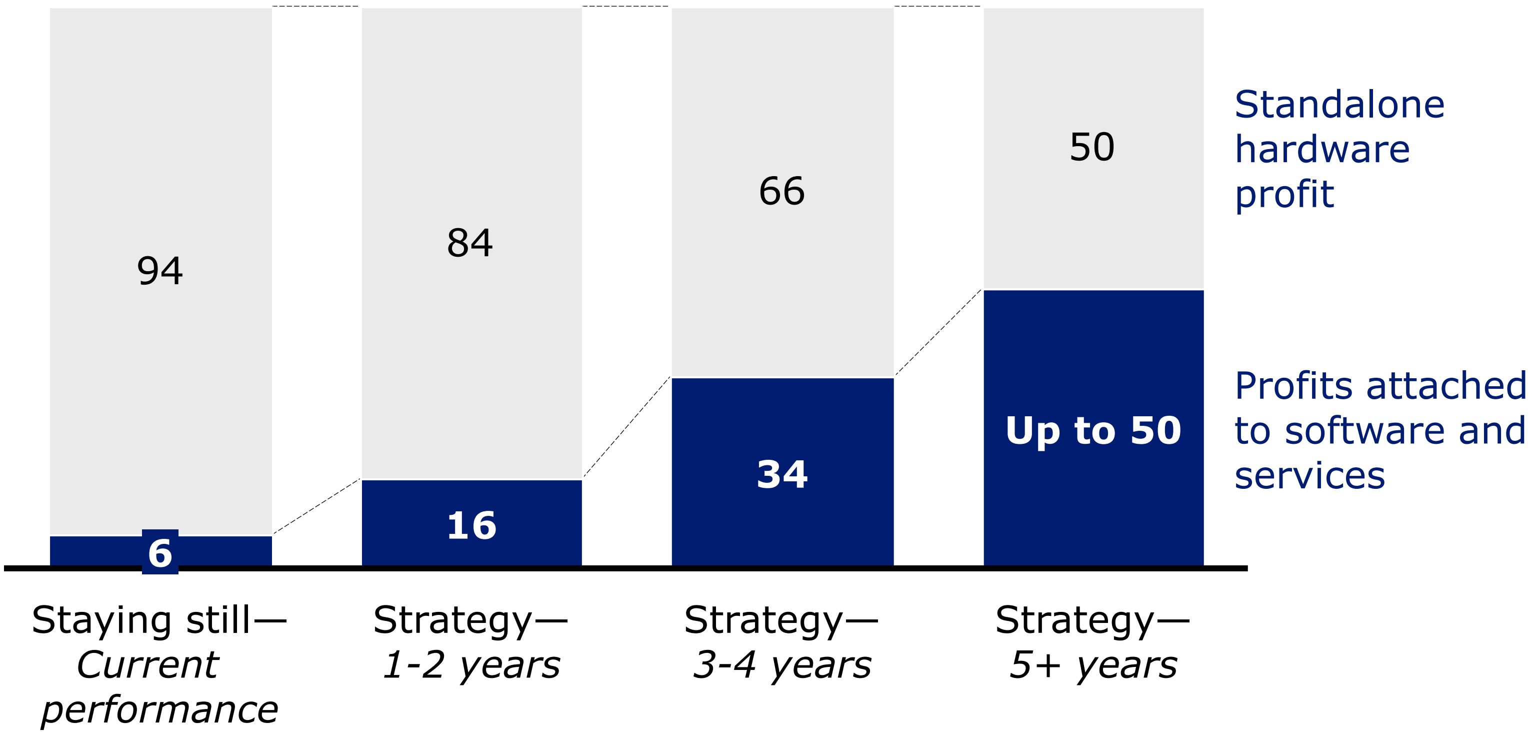
In our expected market scenario, Pace's strategy targets up to 9% profit in the medium term—and 9% plus in the long term

Operating profit margin

Pace strategy execution	Market scenario: **Low** Hardware margins erode more quickly than expected	**Expected** Hardware margins evolve as expected	**High** Hardware margins experience less erosion than expected
Staying still Pace maintains current performance	5%	6%	7%
Strategy—1-2 years Pace delivers first wave of core efficiency savings and begins to widen out	6 to 6.5%	7 to 7.5%	8 to 8.5%
Strategy—3-4 years Pace delivers further savings and benefits from widening out	7 to 8%	8 to 9%	9 to 10%
Strategy—5+ years Pace completes widening out journey	8% plus	9% plus	10% plus

Pace's strategy will deliver "sticky profits" from integrated solutions as well as standalone software

Operating profit as a percentage of total



Pace

The offer to deliver this strategy is already in place
building on our leading position in set-top boxes and gateways …

Superior hardware

- World-leading hardware design
- Deep customer engagement and follow-through

The Pace offer

… with software that puts operators in control of the payTV experience …

Superior hardware

- World-leading hardware design
- Deep customer engagement and follow-through

Software that puts operators in control

- Lower cost
- More flexible and customisable
- Powerful UI
- Cloud solution for multiple devices

The Pace offer

… to grow our proactive customer care business …

Superior hardware

- World-leading hardware design
- Deep customer engagement and follow-through

Software that puts operators in control

- Lower cost
- More flexible and customisable
- Powerful UI
- Cloud solution for multiple devices

Proactive customer care

Improving consumer experience

Improving customer efficiency

- Intelligent remote device management
- Expert professional services

The Pace offer

… and reduce cost and complexity with software-based content security

Superior hardware

- World-leading hardware design
- Deep customer engagement and follow-through

Software that puts operators in control

- Lower cost
- More flexible and customisable
- Powerful UI
- Cloud solution for multiple devices

Proactive customer care

Improving consumer experience

Improving customer efficiency

- Intelligent remote device management
- Expert professional services

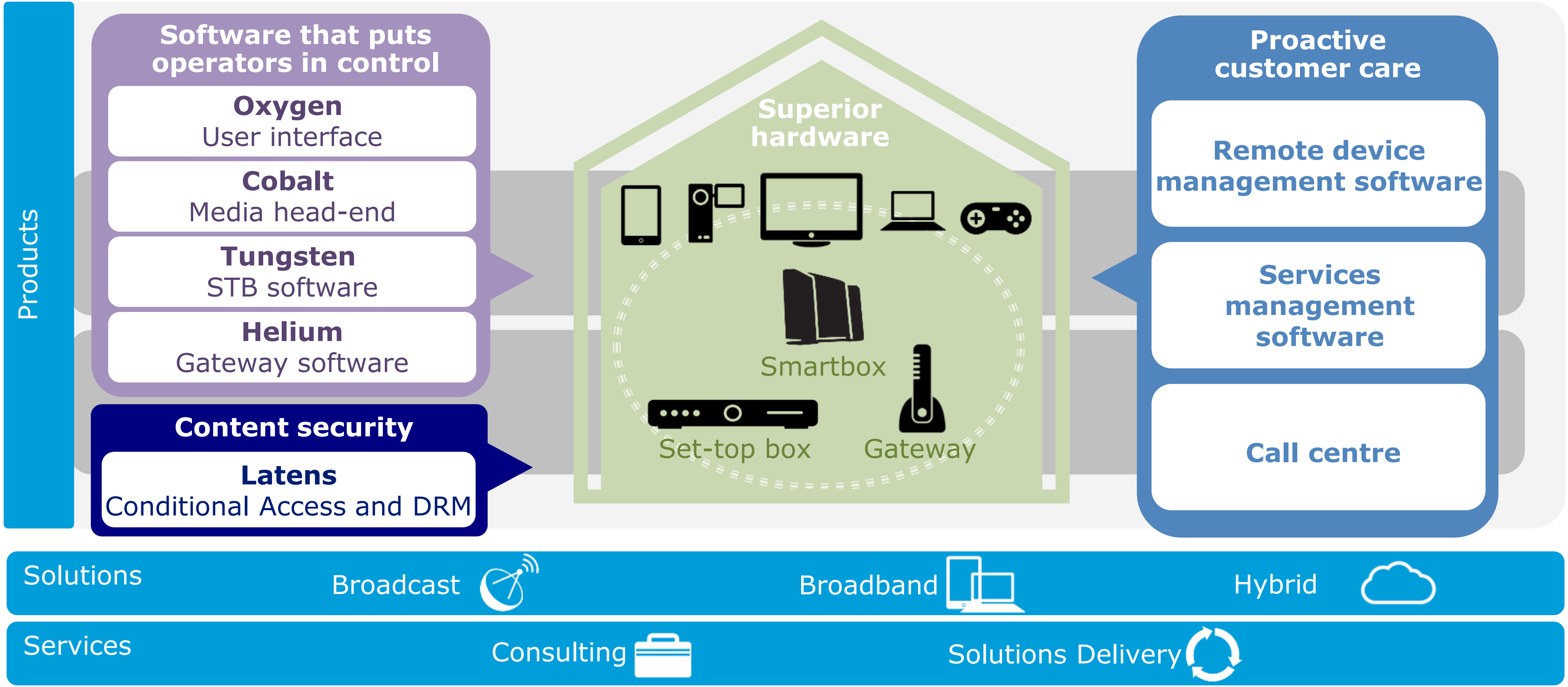
Content security

Security

Any device, anywhere

- Highly secure
- Low cost
- Highly flexible
- Easy to upgrade
- Works across multiple devices

The Pace offer
Making the future work



Pace

Conclusions — Making the future work

The strategic review has taken an extensive and thorough look at Pace, our markets and potential opportunities. The review showed that Pace has many core strengths but at the same time has significant opportunities for improvement. Its key findings are:

- Pace’s payTV customers have robust businesses but need to innovate to maintain their position in an increasingly competitive market
- Pace has the products and capabilities to meet our customer needs for innovation
- Through delivering these products, Pace will change the shape of our business and improve the quality of our earnings
- Pace has a clear implementation plan to deliver our strategy, which targets up to 9% operating profit margin in the medium term