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)

P&L $m	*Pro forma* Acq'ns 2010 H1*	***Acq'ns 2011 H1***	*variance*
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

Margin impact $m	*Indicated*	***Actual 2011 H1***	*Estimate 2011 H2*
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

Balance sheet $m (Group)	*31 Dec 2010*	***30 June 2011***
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

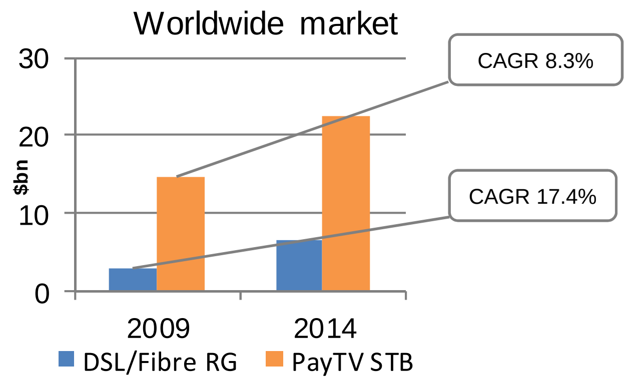
- IMS Research forecasts continued growth in the global market for both payTV STBs and residential gateways
- Demand for payTV services continues unabated, despite emergence of internet delivered video services
- PayTV accelerating innovation

Technology

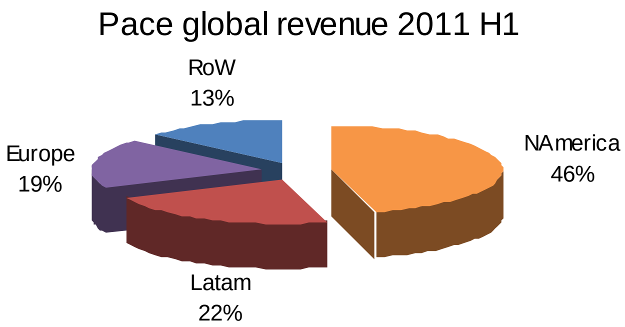
- Migration from traditional STB to "Smartbox" has begun
- Working closely with industry leading service providers

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



Acquisitions

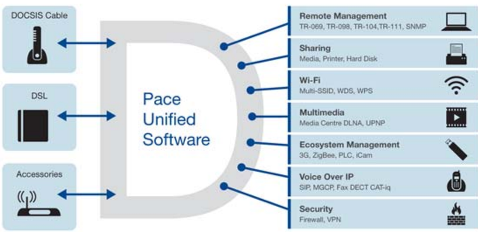
2Wire

- 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

Customer Care

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

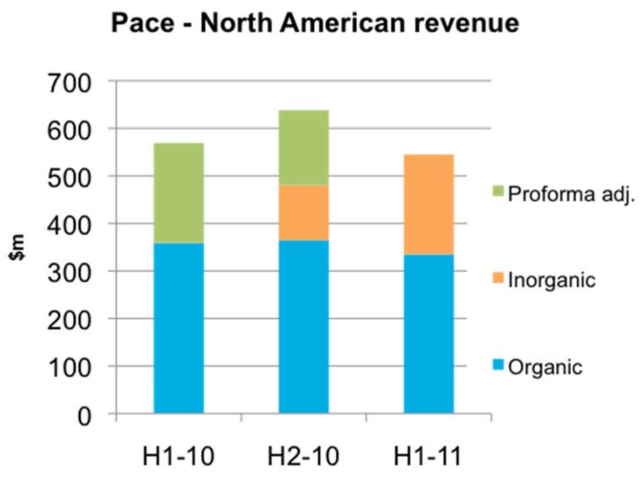
- Organic down 6.7% due to the change in customer requirement, previously disclosed
- Acquisitions flat as ADSL product was pulled forward from H1.2011 into H2.2010
- Pace is unique in supplying all three of Comcast, DirecTV and AT&T

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



Operators innovating with Pace products & services

Customer Care

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

DIRECTV

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

at&t

- 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

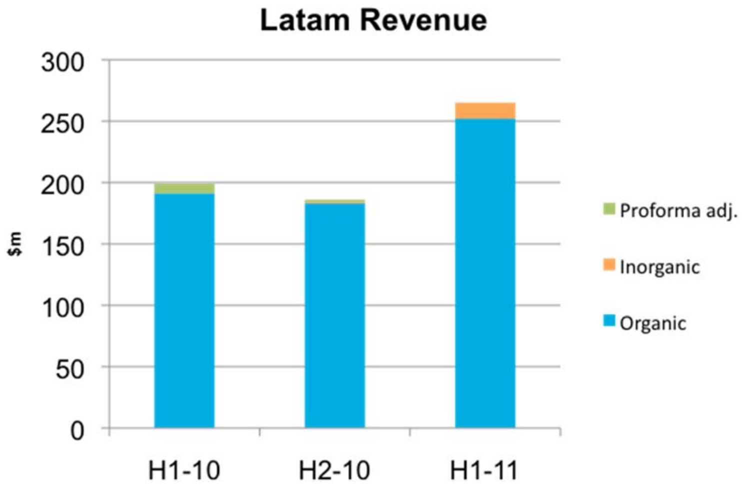
- Strong subscriber growth and conversion to digital
- A market with a strong appetite for HD products, heavily influenced by the US
- Post World Cup – HD & PVR continues strongly

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 Servicos (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

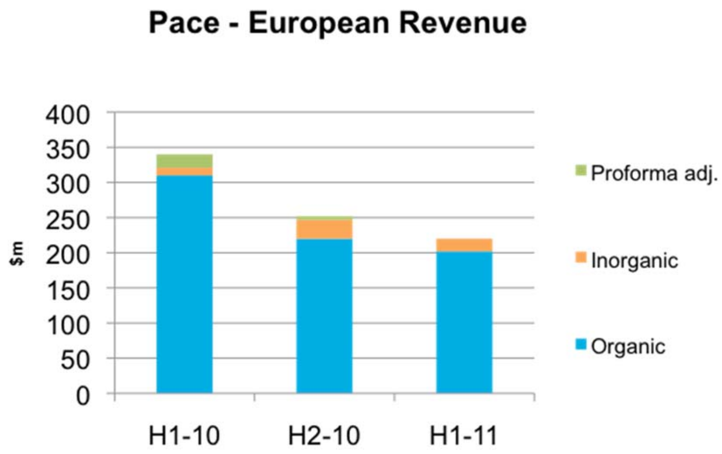
- Organic revenue down 35% in line and already factored into expectations
- Due to our exit from retail and a decrease in low margin sales in Italy

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)



Operators requiring innovation as Pace broadens its capabilities

CANAL+

~11m subscribers

• HD PVR capable hybrid STB

• Wifi home networking

Northern European operator

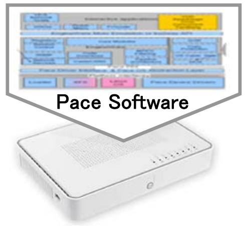
• Pace hybrid HD STB

• 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

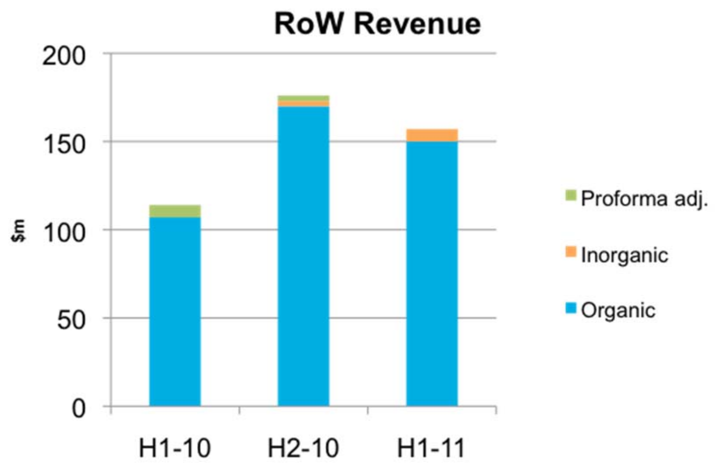
- RoW growth is predominantly driven by conversion to digital
- Including new emerging markets such as India
- As well as markets not addressed by Pace, such as China

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

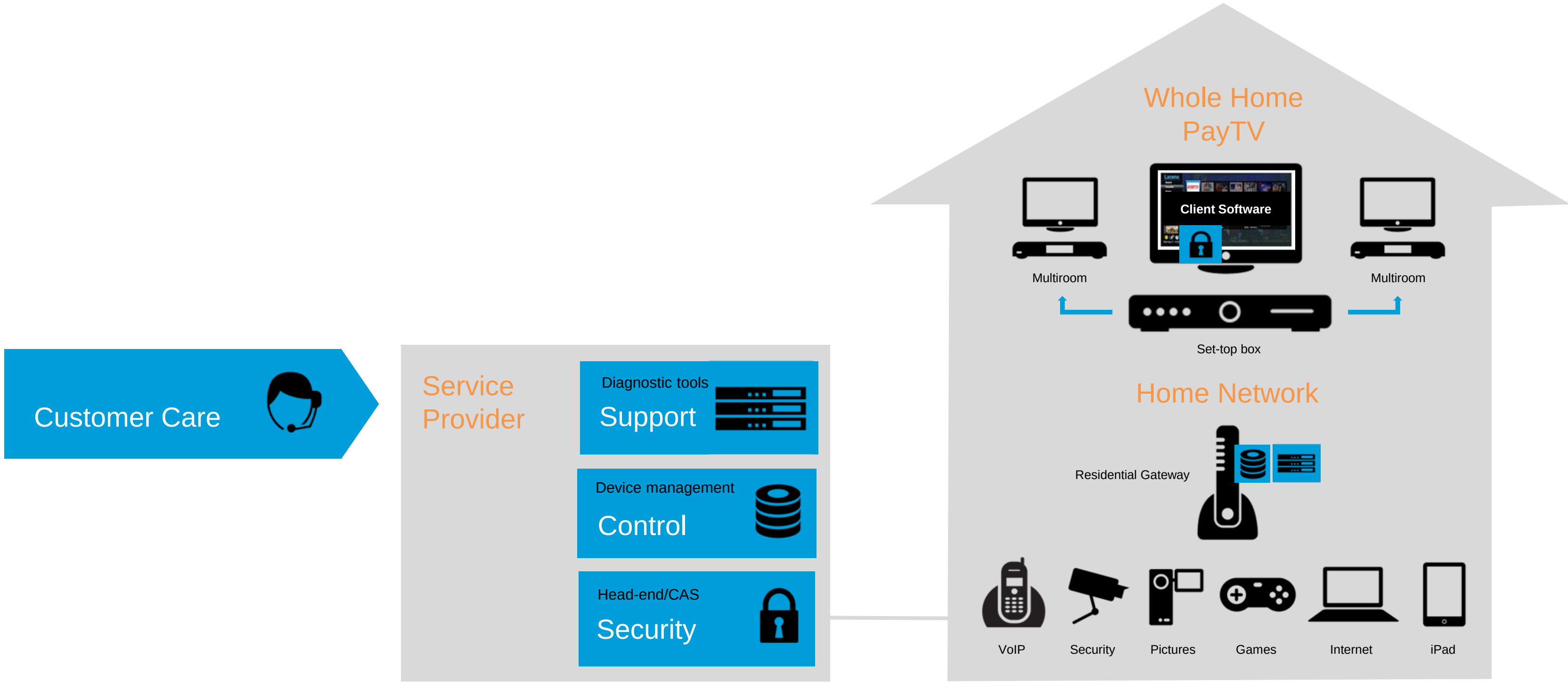
Organic product mix

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

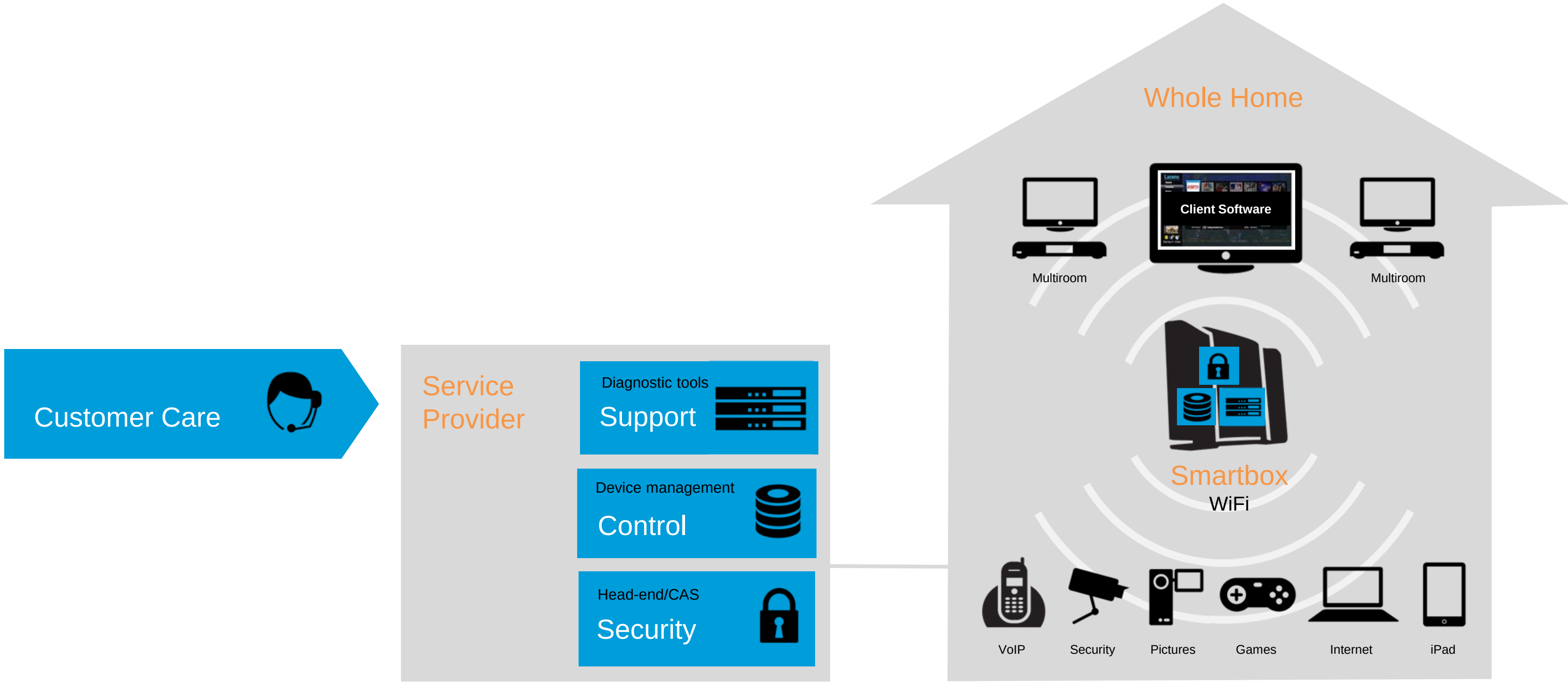


* Pace RoW is APAC + MEA

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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