

# Smiths Group

Meetings with investors, December, 2004

Alan Thomson, Financial Director

Russell Plumley, Director, Investor Relations



# The acquisition of Medex

- **Medex's performance:**  
pro forma for 12 months ended 31 December 2004

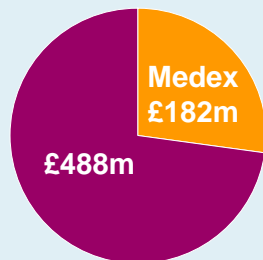
Sales: \$330m  
 Operating profit (EBITA): \$75m  
 EBITDA: **Multiple: 9.3x** — \$100m

- Medex has a track record of strong growth
- Significant opportunities for synergies
- Management has agreed to join Smiths Medical

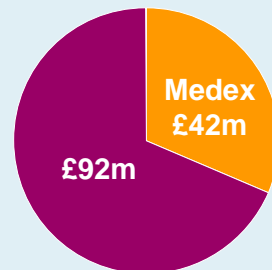


## Smiths Medical pro forma 2004

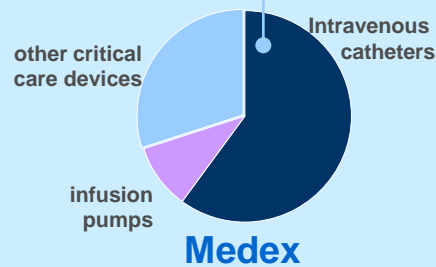
sales: £670m



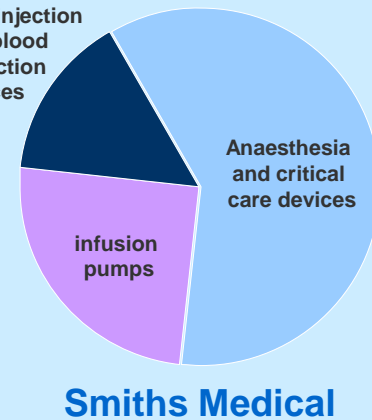
profits: £134m



includes high proportion of safety infusion devices



safe injection and blood collection devices



# Smiths Medical is significantly enlarged by the inclusion of Medex

## Safety devices



Smiths

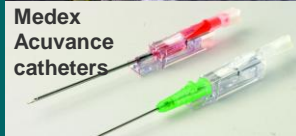
Needle-Pro



Saf-T-wing



Medex  
ProtectiV  
catheters



Medex  
Acuvance  
catheters

## Medex

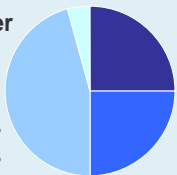
Other critical care products

Medfusion syringe pump



Highly complementary with Smiths other devices

Other



Hypodermic syringes

Winged collection etc...

Intravenous catheters

Total US market \$900m

## Common call points

Anaesthesiologists

Critical care

Infection control

## Geographic opportunity

Total pro forma 2004 sales £670m

Sales in the US

Medex

Smiths Medical

Sales outside US

Medex

Smiths Medical

- Gives Smiths Medical a leading position in safety devices and anaesthesia
- Familiar markets and technologies
- Cost and sales synergies
- Immediately earnings enhancing, will exceed WACC in second full year
- Continues Smiths' process of enhancing the portfolio

# Smiths Group: four divisions, all performing strongly

smiths

## Contribution to FY 2004

sales

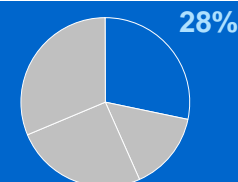
proportion  
of op. profit

### Smiths Aerospace

Systems and equipment for  
military and commercial aircraft



£1,006m  
Margin 10%

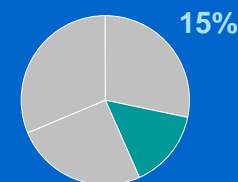


### Smiths Detection

Equipment for protection against  
threats to security



£317 million  
Margin 18%

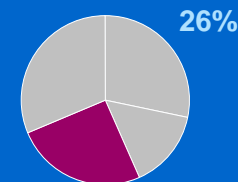


### Smiths Medical

Devices for critical care  
and medication delivery

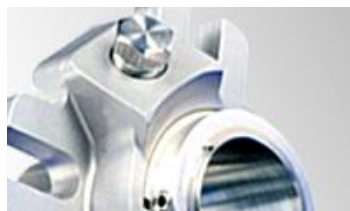


£488 million  
Margin 19%

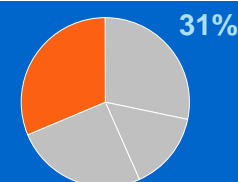


### Specialty Engineering

Application-specific electronic  
and engineered products



£868 million  
Margin 13%



# Smiths Group: 2004 results

Continuing activities, before goodwill amortisation and exceptionals

£m	2004	increase on 2003 (at constant currency)
Sales	2,678	+7%
Operating profit	360	+2%
Pre-tax profit	350	+6%
Earnings per share	45.9p	cf 45.5p
Dividends per share	27.0p	+ 4%



The pace of growth accelerated in the second half of FY 2004

## Continuing to generate a healthy cash-flow

smiths

<b>£m</b>	<b>2004</b>	
Operating profit (incl. discontinued)	<b>362</b>	
Operating cash (after capex)	<b>329</b>	
Conversion of profit to cash	<b>91%</b>	well above 80% target
Free cash-flow (after interest, tax, exceptionals)	<b>255</b>	equivalent to EPS
Net M&A proceeds	<b>291</b>	acquisitions £215m, disposals £506m
Net debt (at 31 July 2004)	<b>(273)</b>	down from £(715)m

### Track record: Free cash-flow per share (before acquisitions, dividends)

2001	2002	2003	2004
37.1p	56.5p	48.4p	45.5p

Smiths has generated  
over £1 billion in  
free cash since 2001

## **1** Achieving better operational performance

- In all four divisions
- Sales growth
- Efficiency gains
- Recent acquisitions

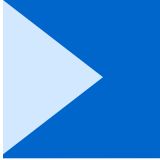
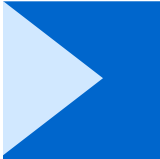
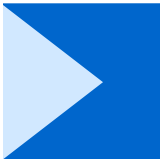
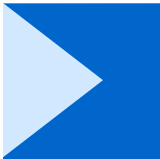
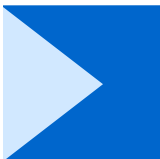
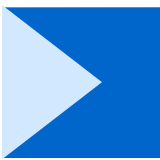
## **2** Adding valuable acquisitions to the existing businesses

- In all four divisions
- Demanding criteria
- Financial resources ready

Recent track record has demonstrated success in both areas

## Operational performance: The drivers of growth in 2005

smiths

Market recovery		<ul style="list-style-type: none"><li>• commercial aerospace</li><li>• telecom infrastructure</li></ul>
Volume increases		<ul style="list-style-type: none"><li>• high gross margins</li><li>• operational gearing effect</li></ul>
Benefit of recent acquisitions		<ul style="list-style-type: none"><li>• made late in 2004</li><li>• will give full year benefit in 2005</li><li>• strengthen all 4 divisions</li></ul>
Payback from higher R&D		<ul style="list-style-type: none"><li>• new products at higher margins</li><li>• has increased from 3% in 2001 to 5% in 2004</li></ul>
Restructuring efficiencies		<ul style="list-style-type: none"><li>• improve competitiveness and profitability</li><li>• offset the input cost increases</li></ul>
Financial factors		<ul style="list-style-type: none"><li>• exchange impact may lessen</li><li>• pensions financing is beneficial</li></ul>

# Smiths Aerospace: Fundamental strengths

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➤ First tier supplier to aircraft primes

➤ On all the important current programmes

➤ Balanced 60/40 military/commercial split

➤ Strong commitment to R&D/  
technology leadership

➤ Major supplier to US Dept of Defense

➤ Recent major awards ensure  
long-term growth

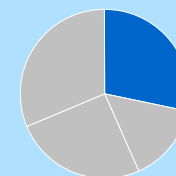


2004

Sales  
**£1,006m**

up **7%**  
at constant  
currency

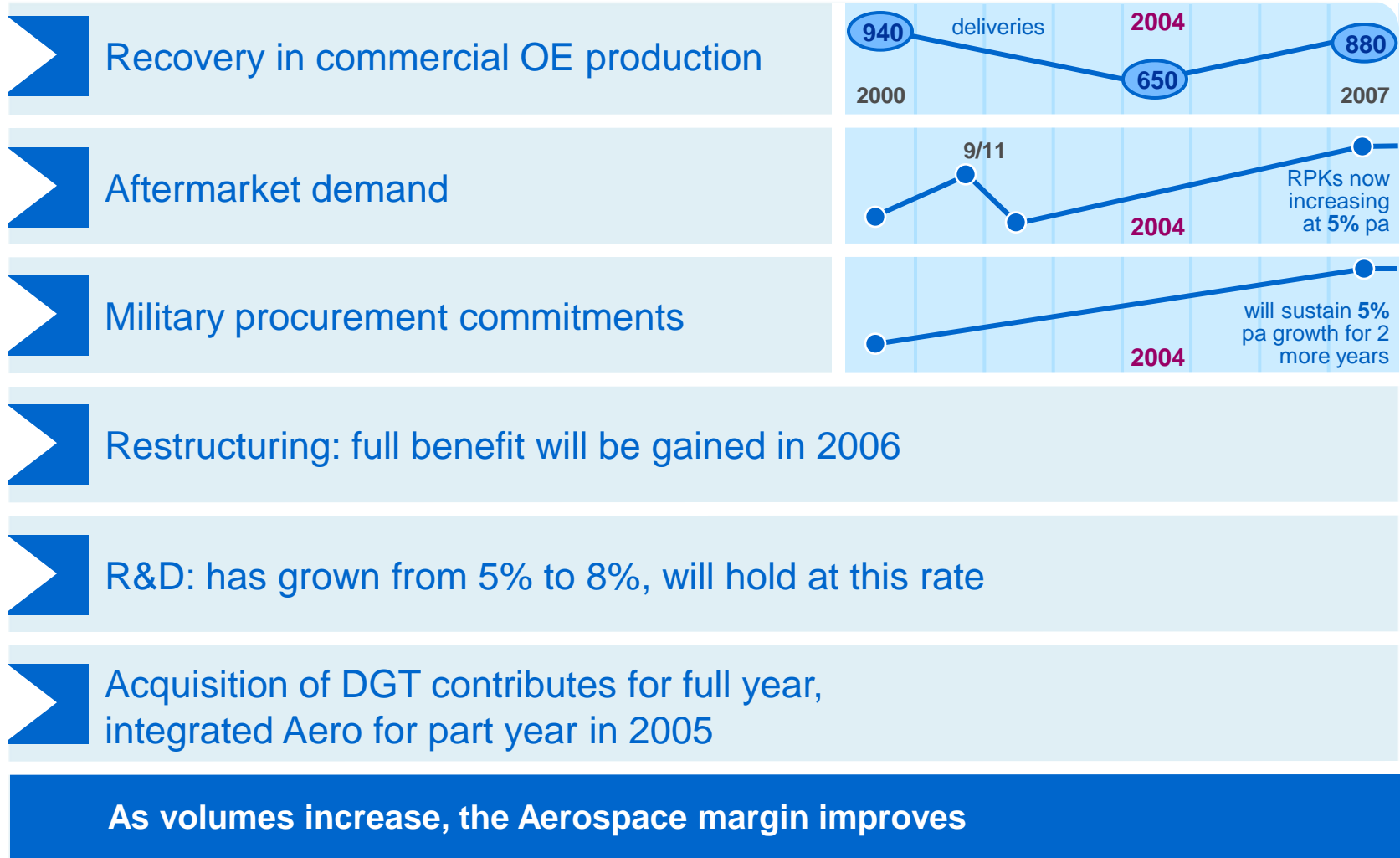
**£100 million**  
operating profit



Contribution to  
total profit

**Smiths Aerospace: a leader in:** avionics • actuation • engine components

# Smiths Aerospace: The drivers of continued growth



# Smiths Detection: Fundamental strengths

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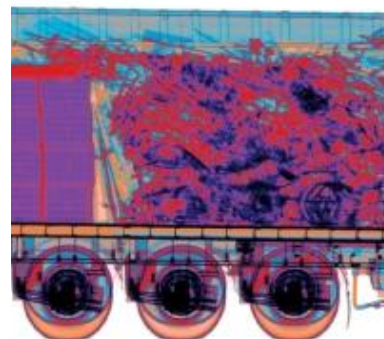
➤ Market leadership in both Trace and X-ray detection

➤ Broadest range of applications

➤ Not dependent on airport security

➤ Significant investment in product innovation

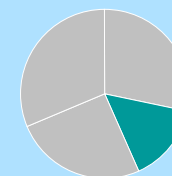
➤ Worldwide sales base, incl. military customers



**2004**

Sales  
**£317m**  
up **21%**  
at constant  
currency

**£55 million**  
operating profit



Contribution to  
total profit

**Smiths Detection:** built from strong organic growth and key acquisitions since 1997

# Smiths Detection: The drivers of continued growth

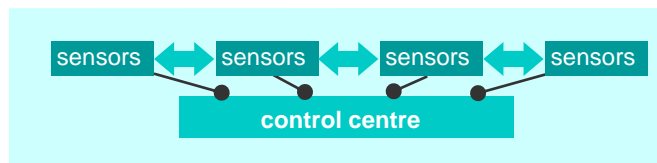
➤ Market is still expanding rapidly:  
Military, Airports, Critical infrastructure, First responders, Ports and borders

➤ New products are strengthening our competitive position:  
BioSeq, Sentinel II, Centurion

➤ Over 40% of 2005 sales are already in the orderbook

➤ Service revenue are now occurring: will be over 15% of sales by 2007

➤ Moving from stand-alone sensors  
to integrated systems



➤ Cyrano and SensIR: full year contribution in 2005

# Smiths Medical: Fundamental strengths

smiths

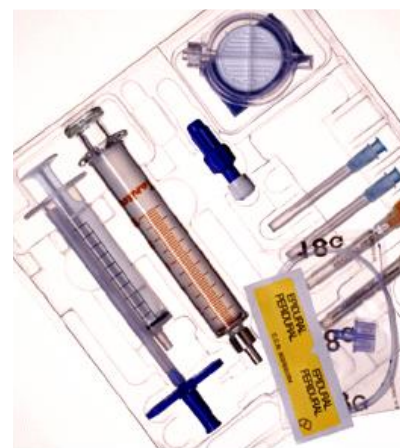
Strong market niches in specialised devices

Smiths is well-placed in the hospital **and** in the ex-hospital recovery sector

Market grows steadily at 5-6% p.a

Recent product intros are adding to current growth

Nearly three-quarters of profits are generated in dynamic US market

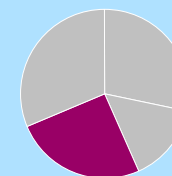


2004

Sales  
**£488m**

up **5%**  
at constant  
currency

**£92 million**  
operating profit



Contribution to  
total profit

**A leader in medical devices and equipment, in a dynamic world market**

# Smiths Medical: The drivers of continued growth

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➤ New Cozmonitor strengthens competitive position

➤ NeedlePro applications continue to be added

➤ Strong pipeline of other new products

➤ Manufacturing transfer to Mexico/ Far East delivers improved performance

➤ Restructuring to improve logistics starts to pay back

➤ 2004 acquisition of DHD makes full contribution in 2005



**Medical margins will be sustained as sales increase**

# Specialty Engineering

smiths

## Fundamental strengths

Very strong market leadership in rotating mechanical seals

Technology innovator in electronic circuit connection and protection

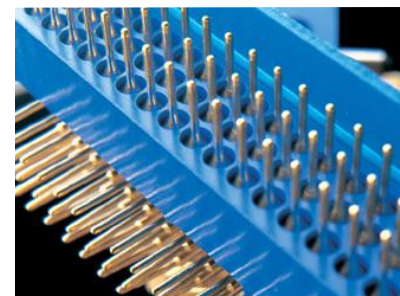
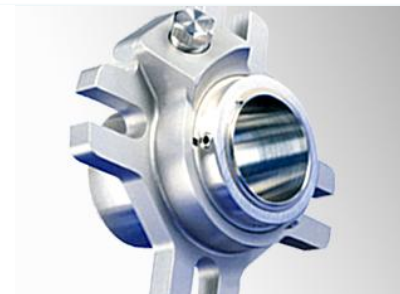
High margin businesses, generating a strong cash-flow

## The drivers of continued growth

John Crane will grow in world markets (but Mid-East depends on stability)

Interconnect is benefiting from telecom infrastructure investment

2004 acquisition of TRAK makes full contribution in 2005

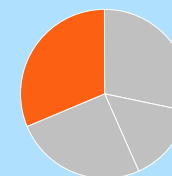


2004

Sales  
**£868m**

up **4%**  
at constant  
currency

**£113 million**  
operating profit



Contribution to  
total profit

**Specialty Engineering delivers 100% of its profits in cash**

<b>Sales 2004</b>	<b>£2.7 billion</b>		<b>current outlook</b>
	(% of sales)		
Payroll costs	30%		Increases pegged to efficiency gains
Purchased materials	20%		Cost are rising: energy/metals/PVC
Fixed costs	10%		Less significance for Smiths
<b>Gross margin</b>	<b>40%</b>		
S&D	10%		Holding steady
G&A	11%		
R&D	5%		
<b>Net margin</b>	<b>13%</b>		Increased volume has positive effect
<b>Operating profit</b>	<b>£360m</b>		

**Material costs are a factor:**  
must be counteracted by volume, pricing and efficiency

- Improving market conditions drive sales growth
- Operational gearing effect benefits profitability
- Restructuring delivers significant efficiency gains
- Material cost increases will have modest impact
- Recent acquisitions add to growth
- Ready for more, using strong balance sheet
- Financial factors (pensions, currency) now more favourable

**Smiths has regained the momentum for sustained earnings growth**

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# Smiths Group



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