

# Smiths Group

Preliminary Results 2004

London, Wednesday 22 September 2004

**Presentation by:** Keith Butler-Wheelhouse, Chief Executive  
Alan Thomson, Financial Director



## Chief Executive speaking

Continuing and discontinued activities, after goodwill amortisation and exceptional items

<b>£m</b>	<b>2004</b>	<b>2003</b>
Sales	<b>2,733</b>	3,056
Operating profit	<b>292</b>	380
Profit before tax	<b>300</b>	217
EPS	<b>38.0p</b>	20.0p

## Highlights

- 45.9p EPS and £350m pre-tax\* match 2003 results
- At constant currency, sales improved by 7% and profits by 2%
- Strong underlying sales and profit growth in the second half
- Free cash-flow of 45.5p per share, equivalent to earnings
- Higher R&D brings new products and contract wins including 7E7
- £215m acquisition spend in 2004 will add to growth in 2005
- Annual dividend increased by 4% to 27.0p
- Outlook for growth in all divisions in 2005

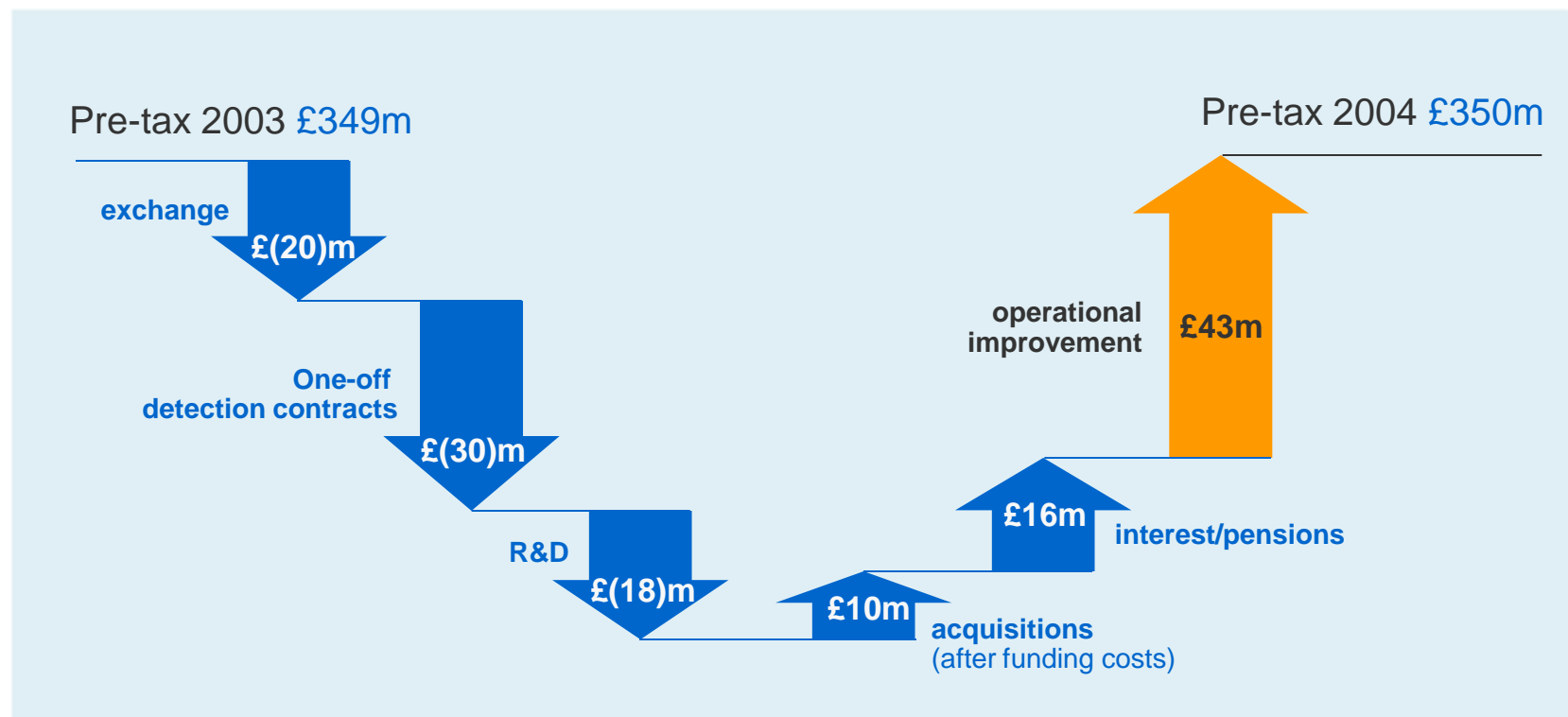
\* Continuing activities, before goodwill amortisation and exceptionals

- 2004 marked a significant transition point for Smiths Group
- Performance gained momentum in the second half of the year
- Second half sales growth of 8% (year-on-year, constant currency) with all divisions contributing
- The outlook is better than it has been for some time:
  - organic growth, market recovery
  - benefit of recent acquisitions
  - efficiency gains from restructuring
  - new product pipeline strengthened

Continuing activities, before goodwill amortisation and exceptionals

<b>£m</b>	<b>2004</b> <b>(@\$1.75, €1.46)</b>	<b>2003</b> <b>(@\$1.59, €1.51)</b>
Sales	<b>2,678</b>	2,629
Operating profit	<b>360</b>	372
<i>Margin</i>	<b>13%</b>	14%
Interest/pensions financing	<b>(10)</b>	(23)
Profit before tax	<b>350</b>	349
EPS	<b>45.9p</b>	45.6p

# Profit progression from 2003 to 2004

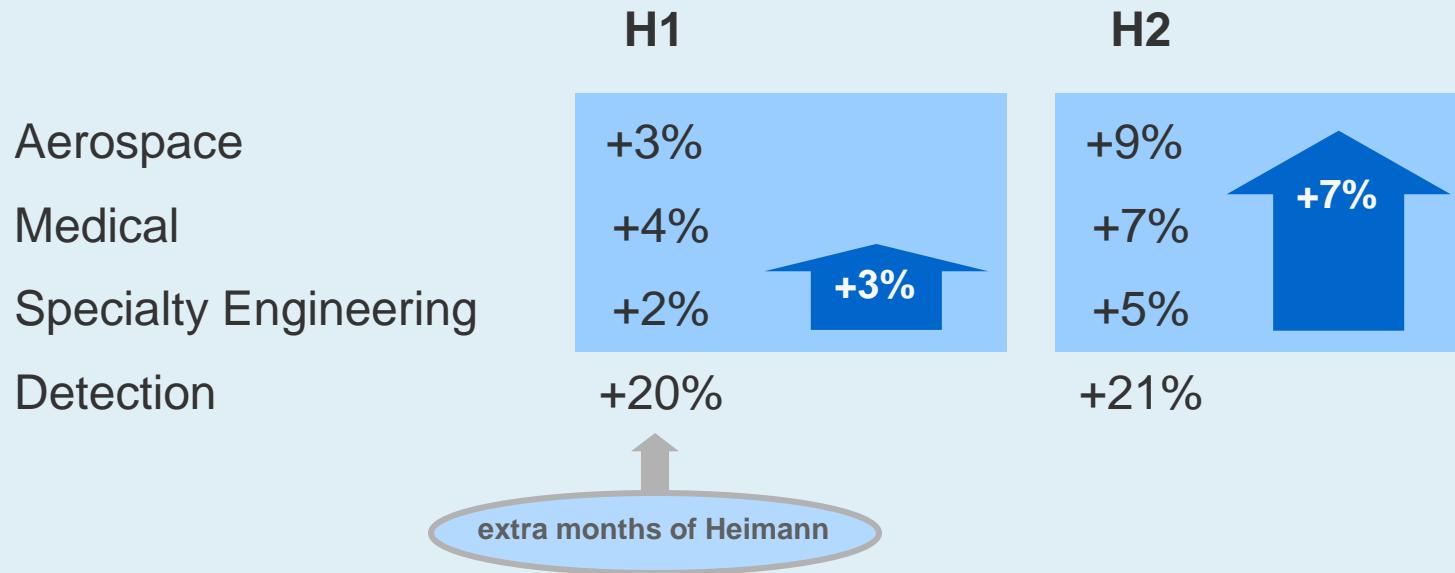


## Operational improvement:

- Productivity
- Restructuring
- Volume

# 2004 year-on-year sales growth analysis

(at constant currency)



# Adding valuable bolt-ons in each division: Six acquisitions since March 04 for £215m

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## Aerospace

DGT • Engine components

£56m



## Detection

Cyrano • Miniaturised detector  
SensIR • Hazmat kit

£8m

£41m



## Medical

Smiths Med. Japan • Full ownership of  
Japanese distribution  
DHD • US respiratory care devices

£16m

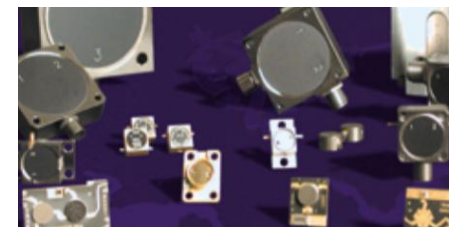
£30m



## Specialty Engineering

TRAK • Microwave components for military  
communications airborne antennae

£61m

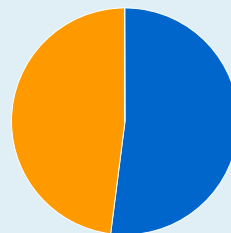


# Operating performance

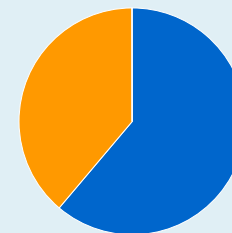
## Financial Director Speaking

£m	2004 (published)	exchange impact	increase on 2003 (at constant currency)
Sales	2,678	(137)	+7%
Operating profit	360	(20)	+2%
Pre-tax profit	350	(20)	+6%

### North America: by origin, as percentage of Smiths total



Sales: 52%



Profit: 61%

## Operating profit into operating cash

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£m	2004	
Operating profit	362	(incl discontinued)
Depreciation	72	
Capital expenditure	(54)	(net of disposal proceeds)
Retirement benefits	(23)	(contributions to reduce deficit)
Working capital	(28)	(mainly trade receivables)
Operating cash-flow	329	
Op. profit into op. cash	91%	

## Movement in net debt

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£m	2004	
Operating cash (after cap-ex)	329	
Interest and tax	(51)	(tax rate 26.5%)
Restructuring	(23)	(cash spend)
<b>Free cash-flow</b>	<b>255</b>	(compares with £257m post-tax profit)
Dividends	(146)	(03 final and 04 interims)
Acquisitions	(215)	
Disposals	506	(mainly Polymer Seals)
Financing & exchange	42	
<b>Reduction in debt</b>	<b>442</b>	
<b>Net debt at 31 July 2003</b>	<b>(715)</b>	
<b>Net debt at 31 July 2004</b>	<b>(273)</b>	

## Post-retirement benefits update

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£m	2004	2003
<b>Funded schemes (UK&amp;US)</b>		
Liabilities	<b>(2,686)</b>	(2,776)
Assets	<b>2,558</b>	2,468
Deficit	<b>(128)</b>	(308)
<b>Unfunded post-retirement healthcare</b>		
Liabilities	<b>(119)</b>	(145)
	<b>(247)</b>	(453)
Deferred tax	<b>85</b>	145
Net liabilities	<b>(162)</b>	(308)

The assets of the UK pension schemes now cover 98% of the liabilities

## Divisional performance - sales

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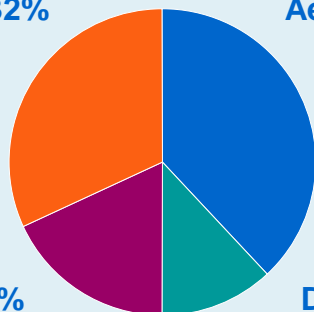
Chief Executive speaking

£m	Sales 2004	growth at constant currency
Aerospace	1,006	+7%
Detection	317	+21%
Medical	487	+5%
Specialty Engineering	868	+4%
	<hr/> 2,678	<hr/> +7%

Specialty Eng 32%

Aerospace 38%

2004 sales



Medical 18%

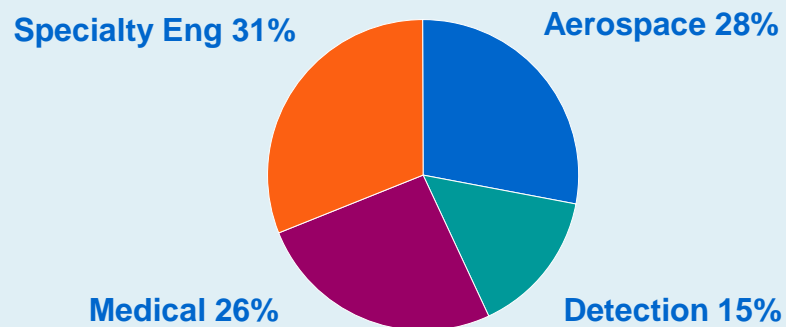
Detection 12%

## Divisional performance - profit

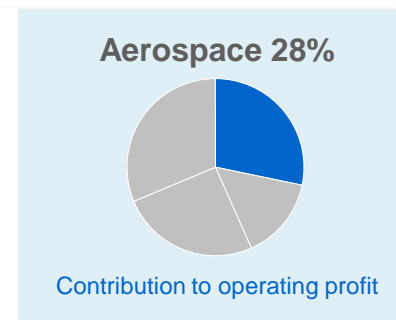
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£m	Profit 2004	growth at constant currency
Aerospace	100	+2%
Detection	55	-20%
Medical	92	+12%
Specialty Engineering	113	+11%
	<hr/> 360	<hr/> +2%

2004 profit



£m	2004	at constant currency
Sales	1,006	+7%
Operating profit	100	+2%
<i>Margin</i>	<b>10%</b>	



- **Significant contract wins:** commercial - Boeing 7E7, military - Boeing 737MMA and Northrop J-UCAS
- Restructuring benefits being achieved
- R&D has continued to increase
- Military business performing strongly
- Commercial upturn has commenced
- Components production in China underway
- Acquisition of DGT enlarges engine component business to circa £250m p.a.

Boeing 7E7



DGT



J-UCAS



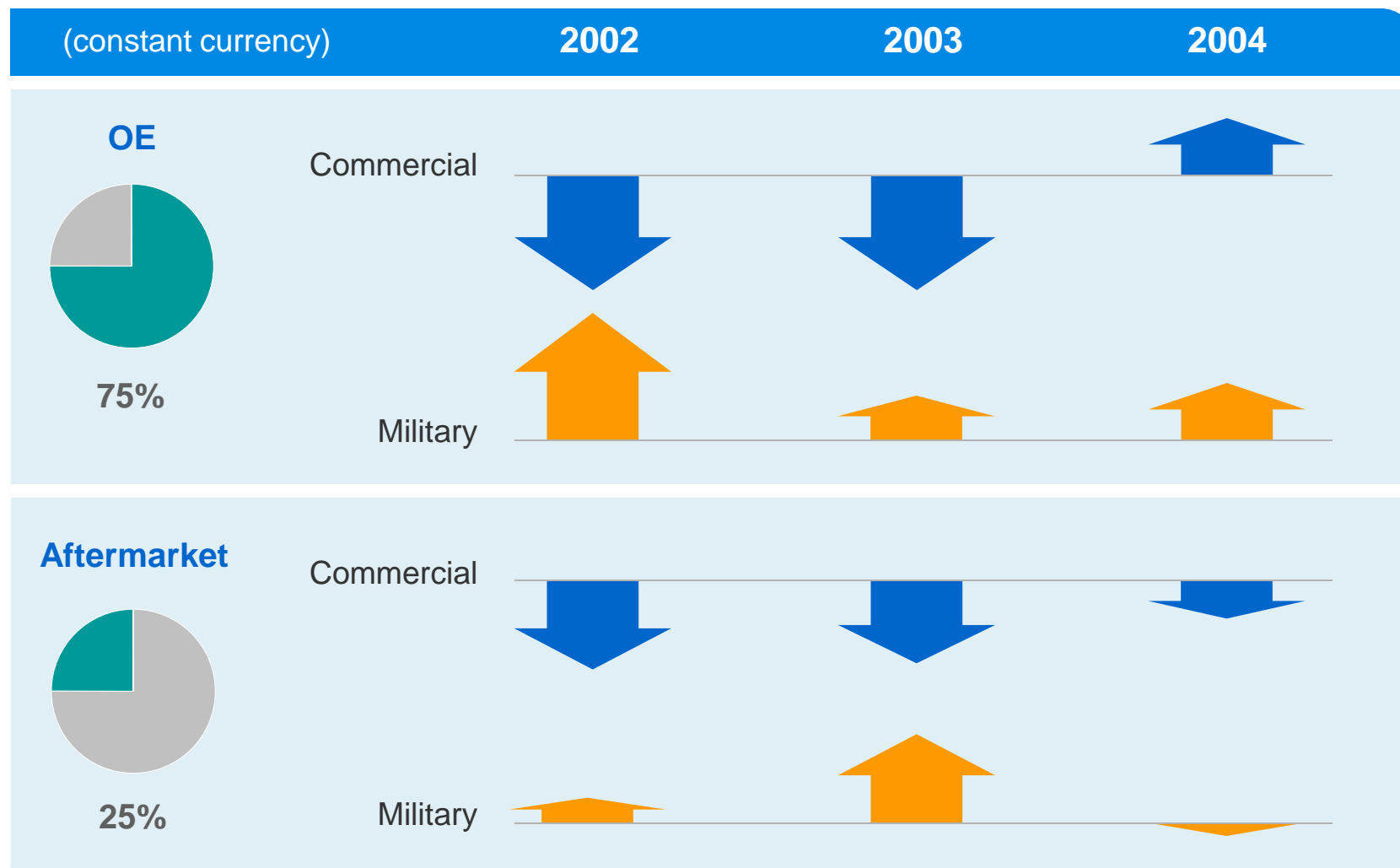
## Smiths Aerospace: commitment to R&D investment

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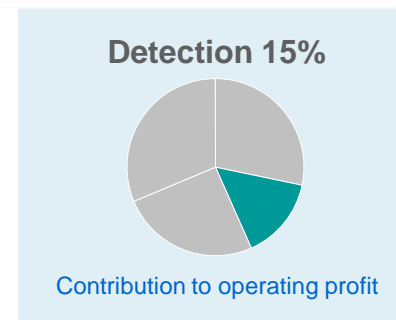
	2001	2002	2003	2004
<i>Published Aerospace margin</i>	16%	13%	11%	<b>10%</b>
Company funded R&D (£m)	55	67	75	<b>81</b>
(% of sales)	5%	6%	7%	<b>8%</b>
<b><i>Aerospace margin excl. R&amp;D</i></b>	<b>21%</b>	<b>19%</b>	<b>18%</b>	<b>18%</b>

Not included: customer-funded R&D, which has grown from 9% of sales in 2001 to 12% (£116m) in 2004

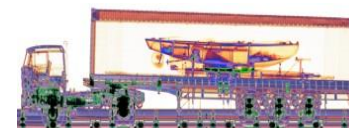
# Smiths Aerospace sales trends



£m	2004	at constant currency
Sales	317	+21%
Operating profit	55	-20%
<i>Margin</i>	<b>18%</b>	



Cargo X-ray screening



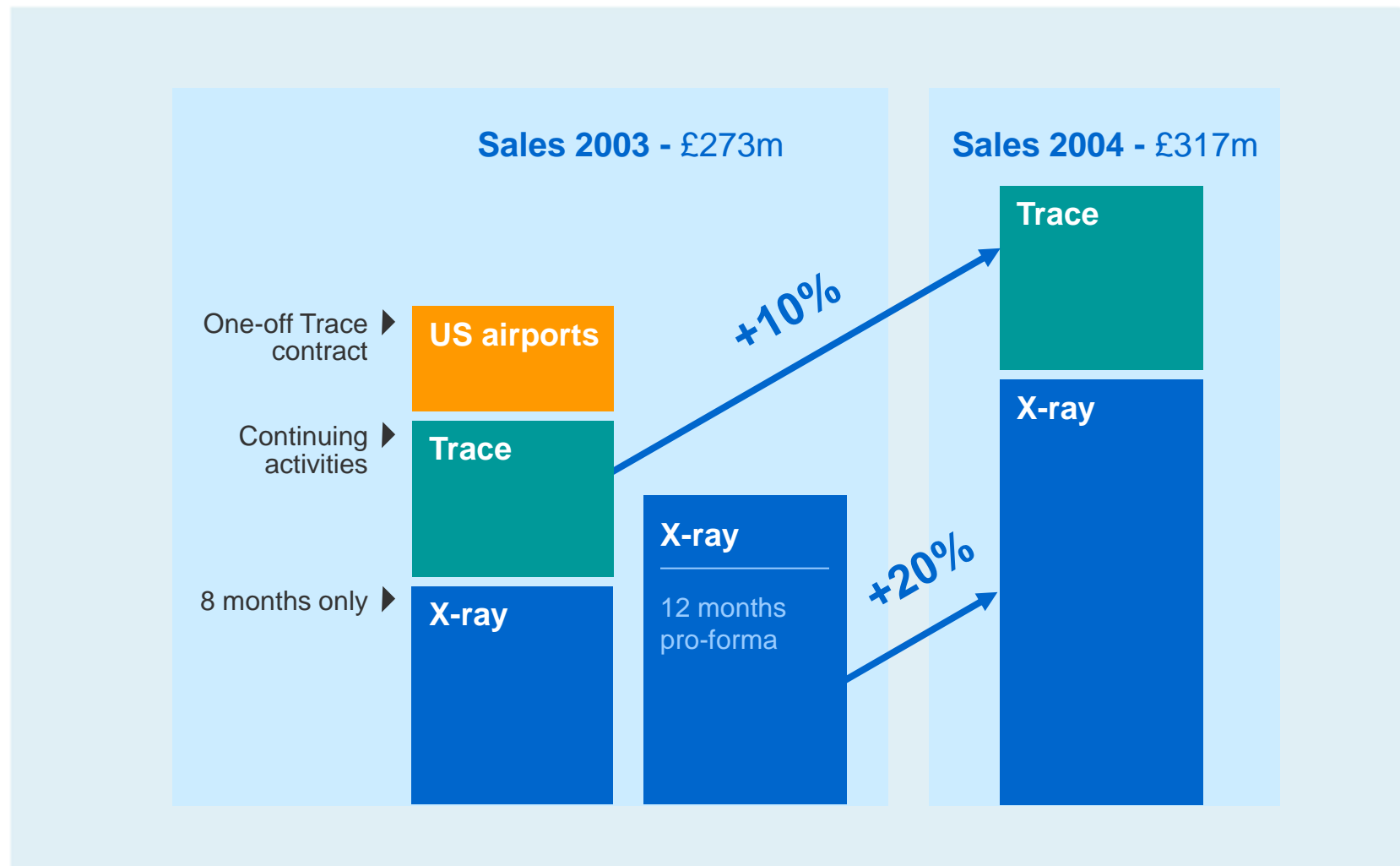
Sentinel II



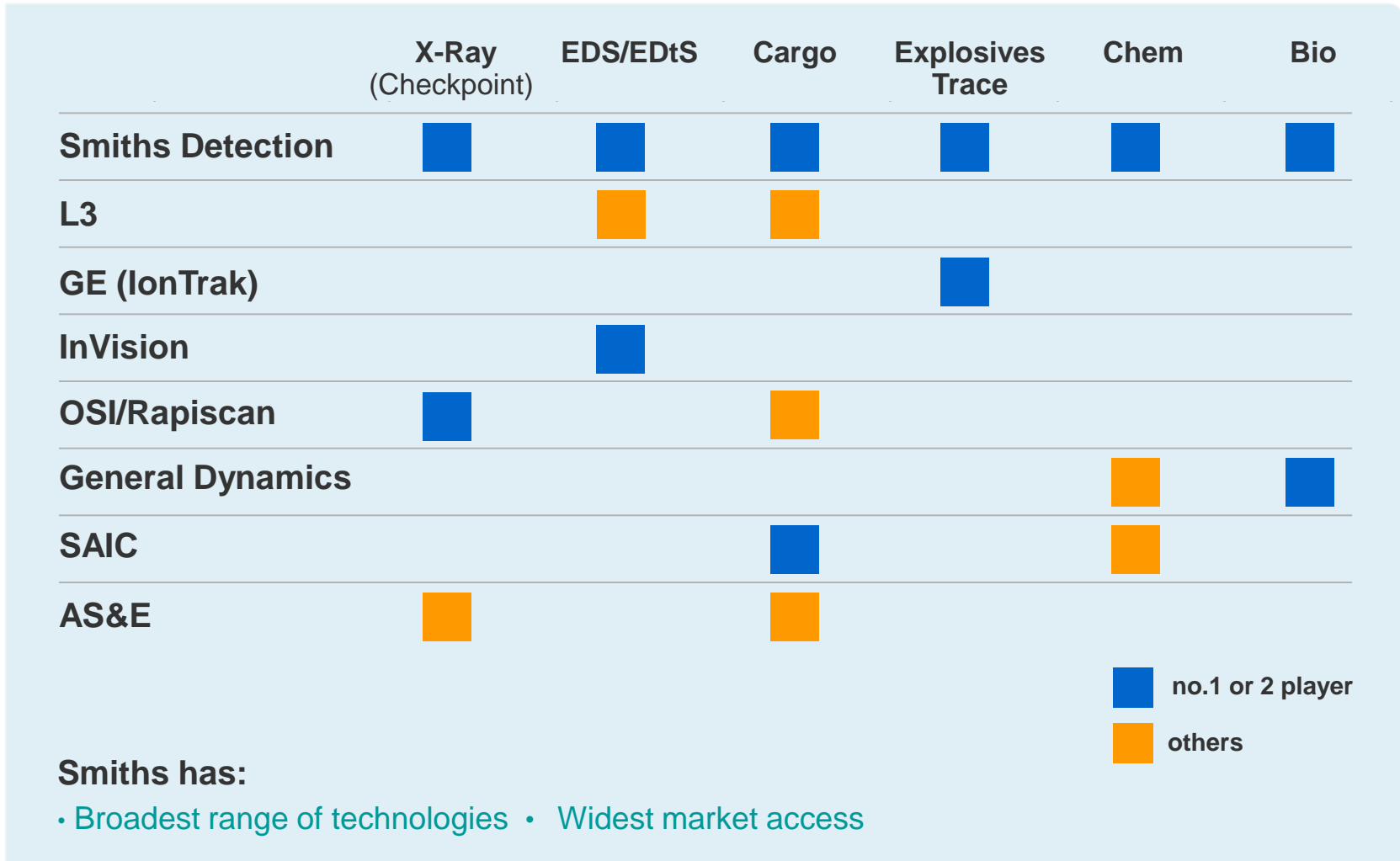
Hazmat



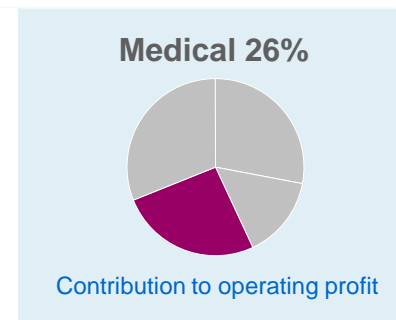
- X-ray and Trace business now integrated on a global scale
- Market has extended well beyond airports
- Major new products introduced:
  - Bioseq - Sentinel II - LCAD - Centurion
- R&D increased to 7% of sales
- Acquisitions bring new capabilities
  - Miniaturised chem detectors
  - Hazmat analysis: liquids/solids



# Smiths Detection: market leadership across the full range of capabilities



£m	2004	at constant currency
Sales	487	+5%
Operating profit	92	+12%
<i>Margin</i>	<b>19%</b>	



- Strong sales growth in US market
- Margin improved by one percentage point
- Continued gains from moving to low-cost manufacturing regions
- Growth in both Anaesthesia & Safety Devices and in Medication Delivery Patient Monitoring
- Minorities bought out in Japan
- New products add to organic growth
- Acquisition broadens respiratory product range

NeedlePro



Cozmonitor

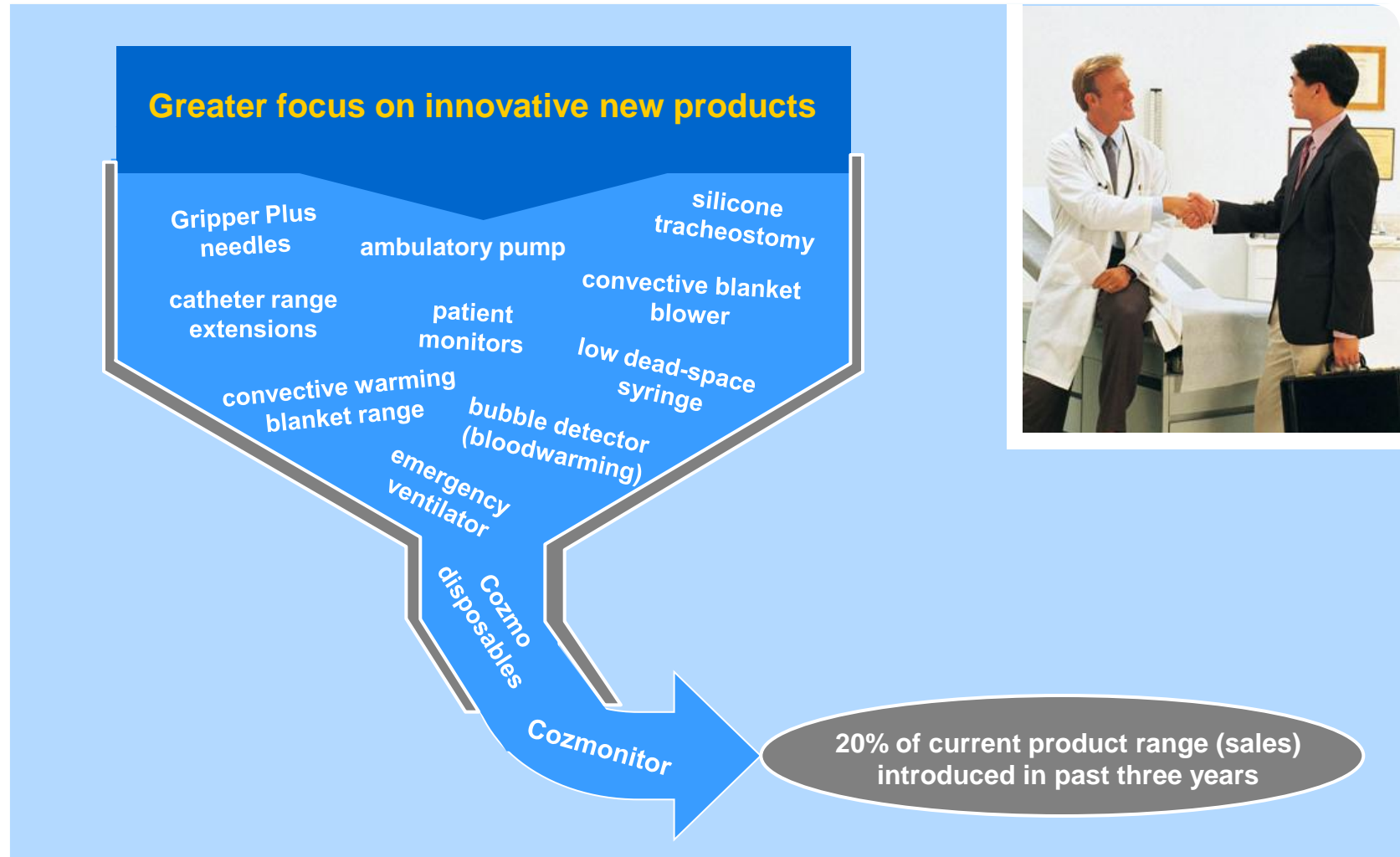


Nebuliser



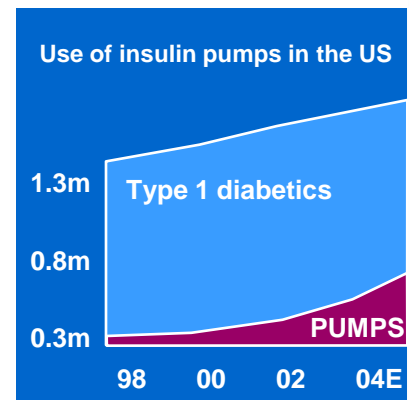
# Smiths Medical: Product innovation ensures high margins and volume growth

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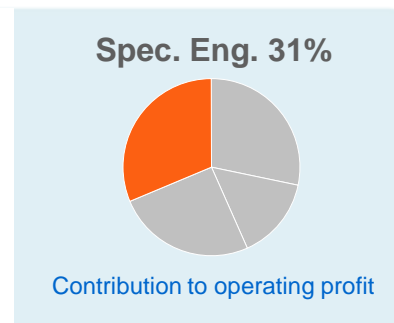
# The latest development of the Cozmo diabetes pump

- Total pumps now in use: 11,500
- Following US, Cozmo has now been launched in:
  - Canada – France – Germany – Australia
- Cozmonitor now launched
- Next generation: combines insulin delivery with blood/glucose monitor
  - Only all-in-one product available
  - Pump displays blood/glucose level
  - Patient data easily stored/retrieved
  - Software is backward compatible with existing installed base



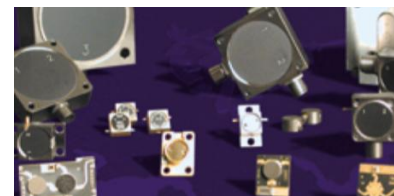
# Specialty Engineering

£m	2004	at constant currency
Sales	868	+4%
Operating profit	113	+11%
<i>Margin</i>	<b>13%</b>	

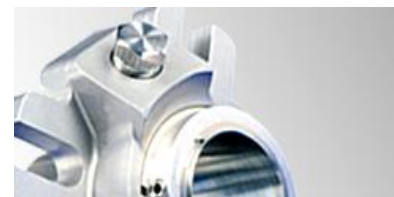


- Strong growth in Interconnect from defence, telecoms
- Acquisition adds to microwave technologies, raises Interconnect sales to circa £220m per annum
- John Crane held back by Middle East uncertainty
- Steady performance from remaining businesses

TRAK



John Crane

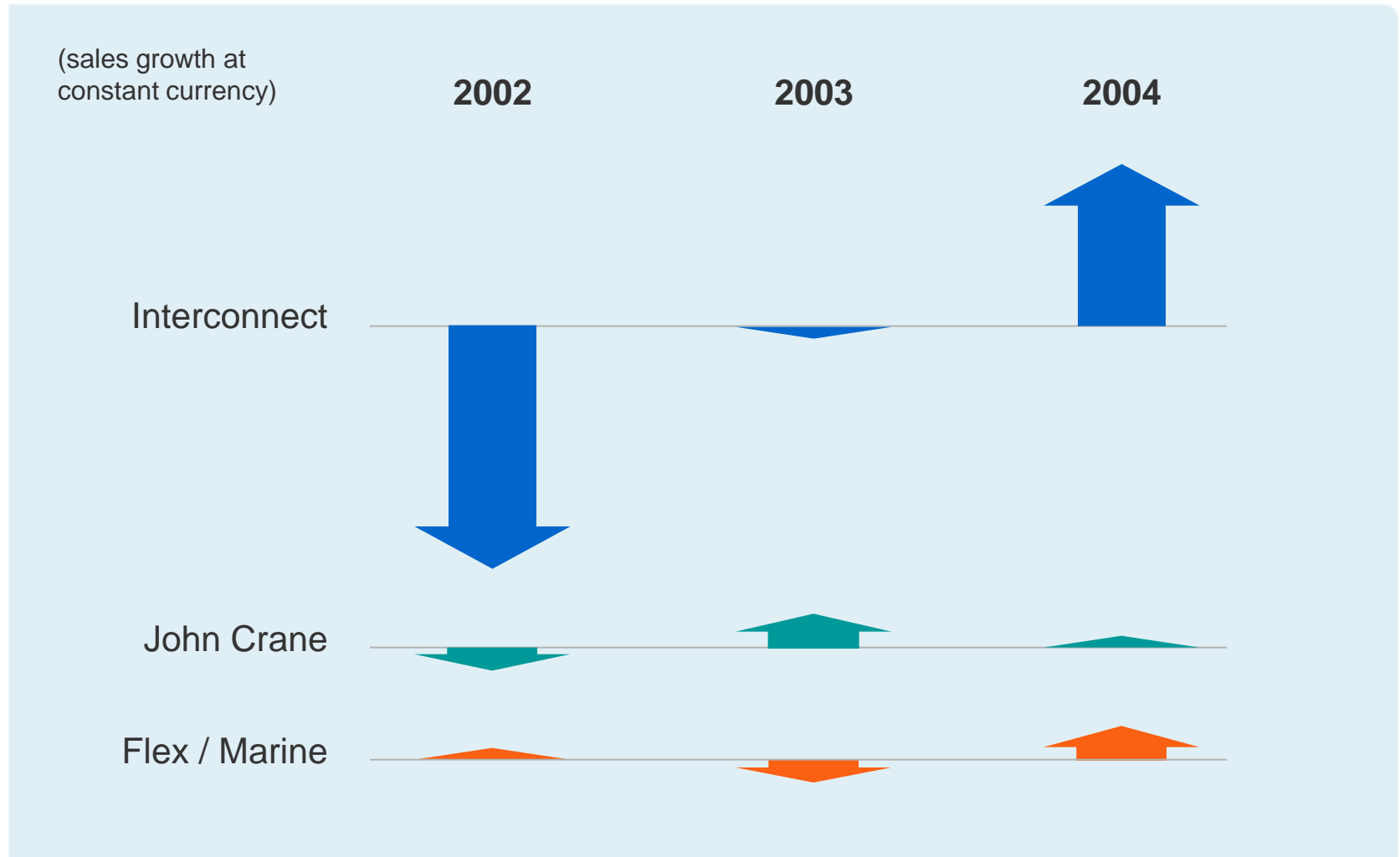


Interconnect



# Interconnect: driving the growth of Specialty Engineering

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## Management action to drive growth:

- Investing in new products
- Investing in cost base reductions
- Enhancing the portfolio



## Other drivers of profit growth:

- Volume increases
- Pensions financing

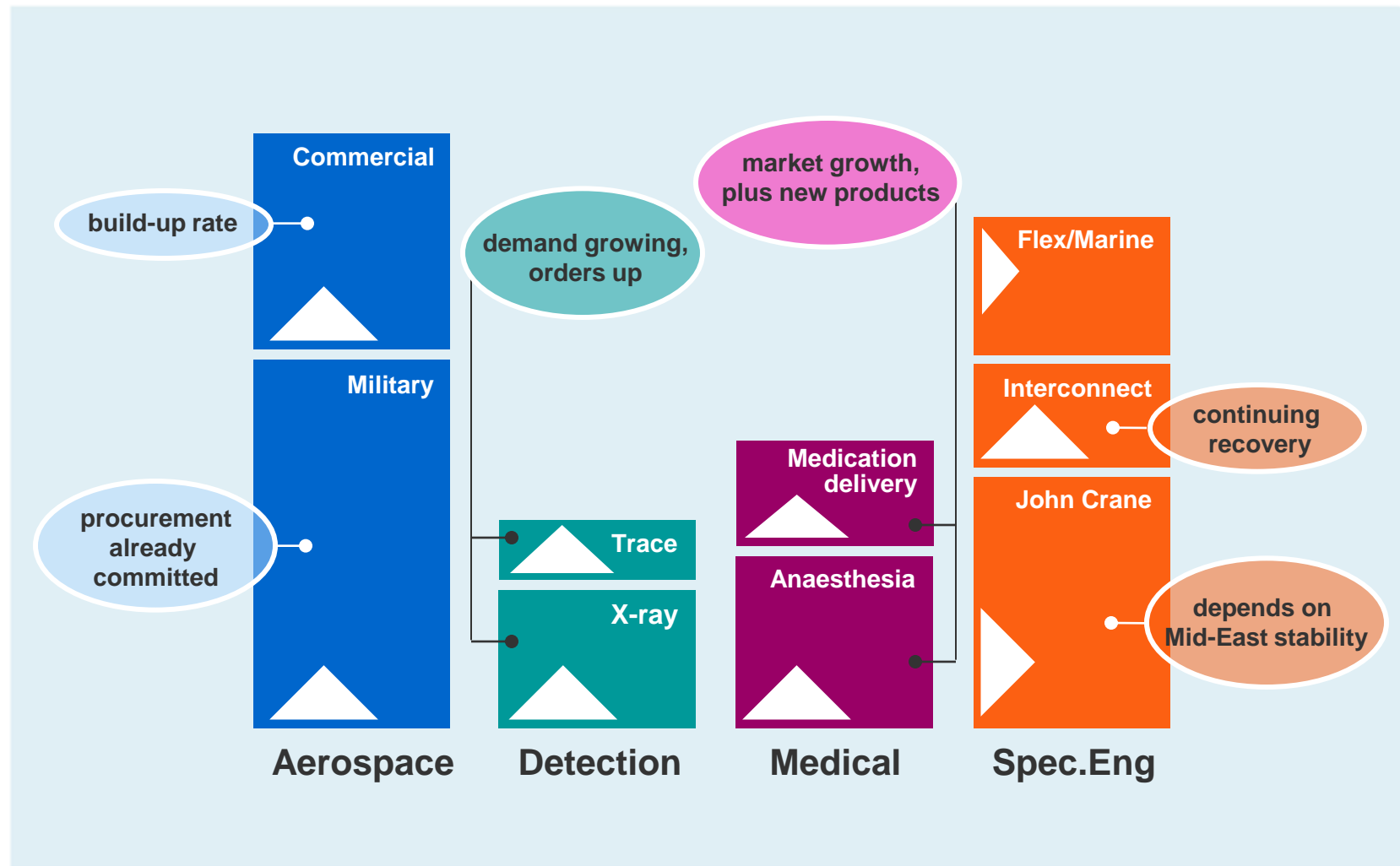


## Likely negatives:

- Input cost increase
- Currency translation



# Smiths Group: sales growth prospects for 2005



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