

# Smiths Group

DrKW, Capital Goods Conference

London, Friday 18th March 2005

Presentation by: Alan Thomson, Financial Director



## Highlights

- Headline profit before tax up 16% at £155m\*
- Headline earnings per share up 17% at 20.4p\*
- At constant currency, all four divisions contributed to sales growth of 11%, headline operating profit growth of 16%
- Medex acquisition scheduled to complete on 21 March
- Interim dividend increased by 6%, to 9.25p
- Momentum expected to be sustained in second half of 2005

\* before goodwill amortisation and exceptional items

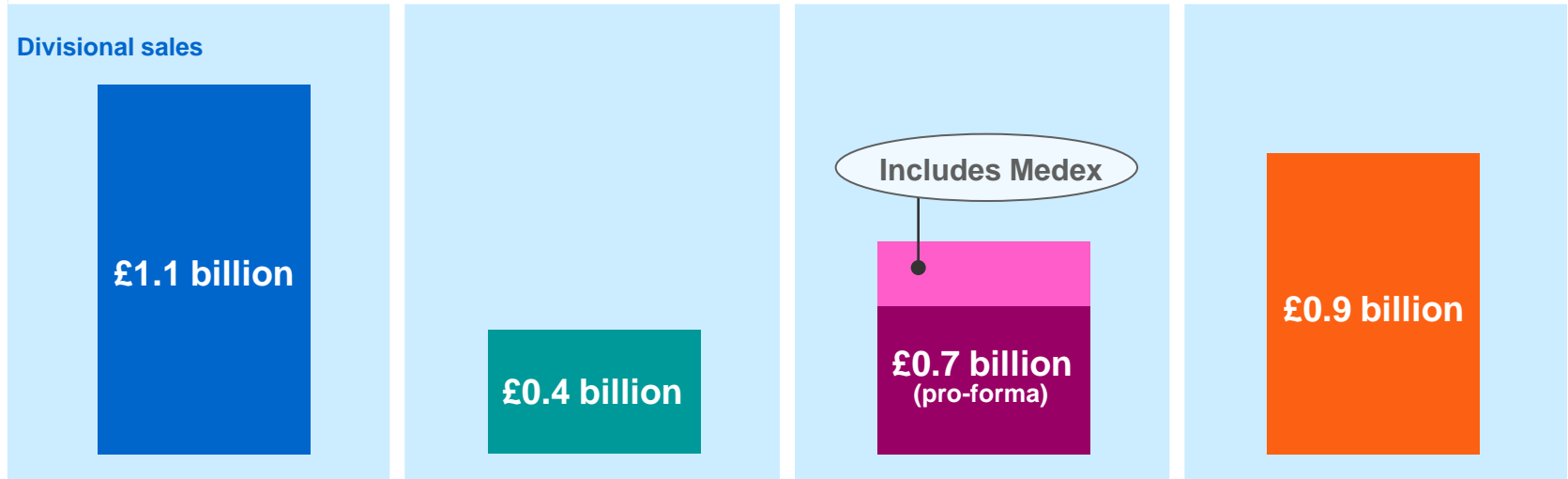
## Operating performance: for H1 2005

£m	H1 2005	H1 2004
Sales	<b>1,344</b>	1,264
Headline operating profit	<b>153</b>	141
<i>Margin</i>	<b>11%</b>	11%
Net interest	<b>(6)</b>	(9)
Pensions financing	<b>8</b>	1
Headline profit before tax	<b>155</b>	133
EPS	<b>20.4p</b>	17.5p
Dividend	<b>9.25p</b>	8.75p

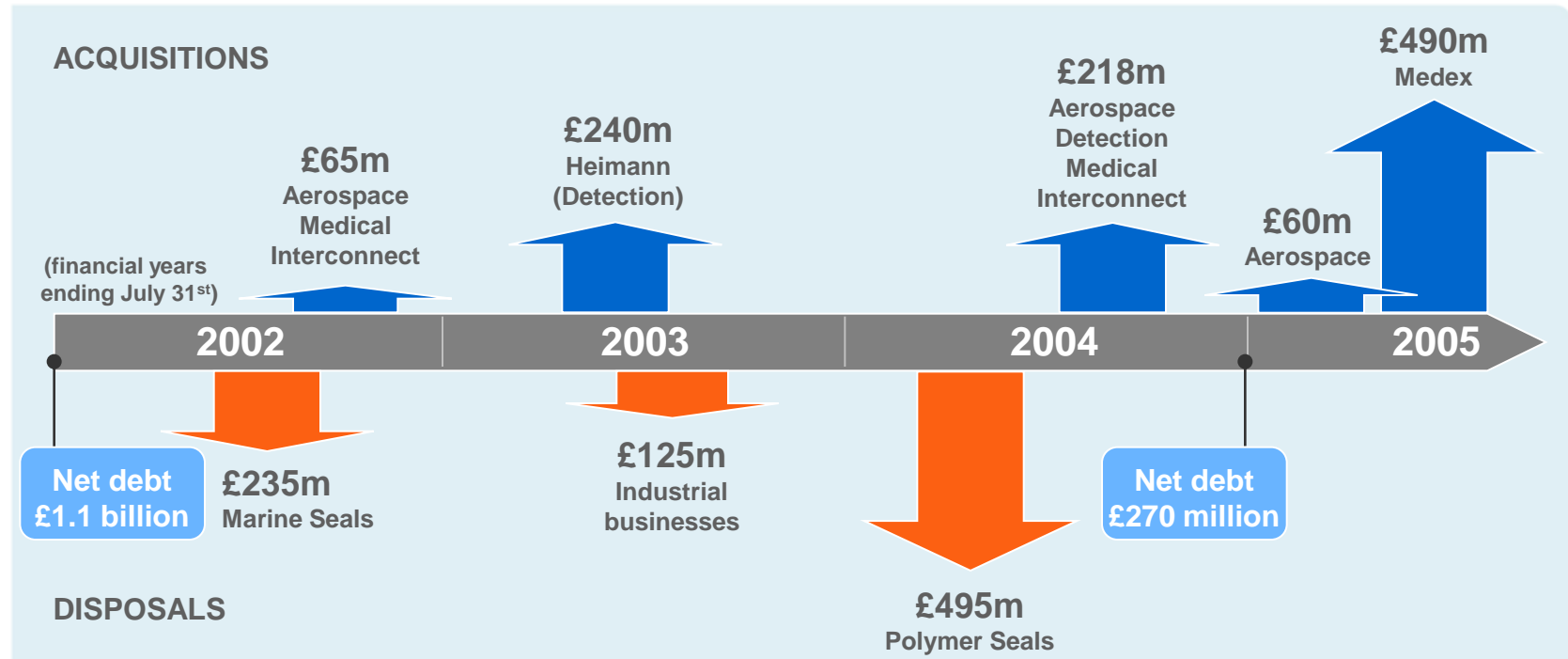
# Smiths Group: Four strongly-performing divisions

Aerospace	Detection	Medical	Specialty Eng
<p><b>Smiths Aerospace</b> Systems and equipment for military and commercial aircraft</p>	<p><b>Smiths Detection</b> Equipment for protection against threats to security</p>	<p><b>Smiths Medical</b> Devices for critical care and medication delivery</p>	<p><b>Specialty Engineering</b> Application-specific electronic and engineered products</p>

## Smiths current annual sales (incl. Medex) approx £3 billion



# Significant progress on reshaping Smiths Group



## Management action:

- Disposal of non-core business
- Focusing on activities with best growth prospects
- Adding relevant acquisitions to existing operations

## Acquisition currency:

- 1 Strong free cash-flow
- 2 Disposal proceeds

# The profit profile of Smiths has changed: now focused on sectors with strong growth

## Aerospace

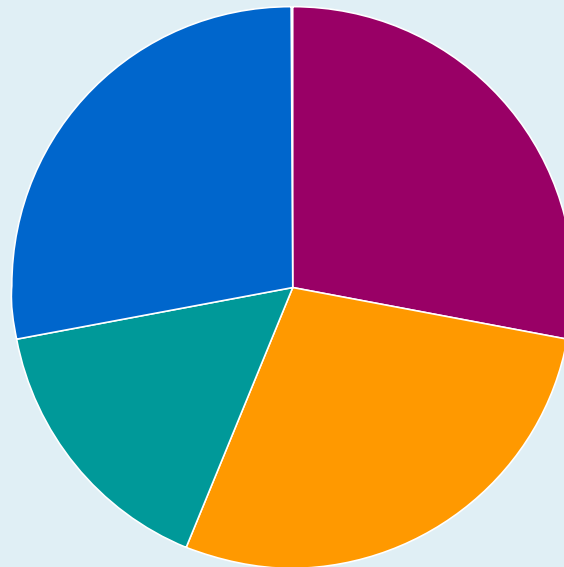
Cyclical markets for commercial, strong momentum business in defence

Upswing in commercial is driving Smiths' profit recovery

## Detection

Exciting market still evolving, new technology is the driver

Smiths expects to achieve double digit growth



divisional contribution to annual operating profit (incl. Medex)

## Medical

Relentless increase in healthcare spending drives continuous growth in devices market

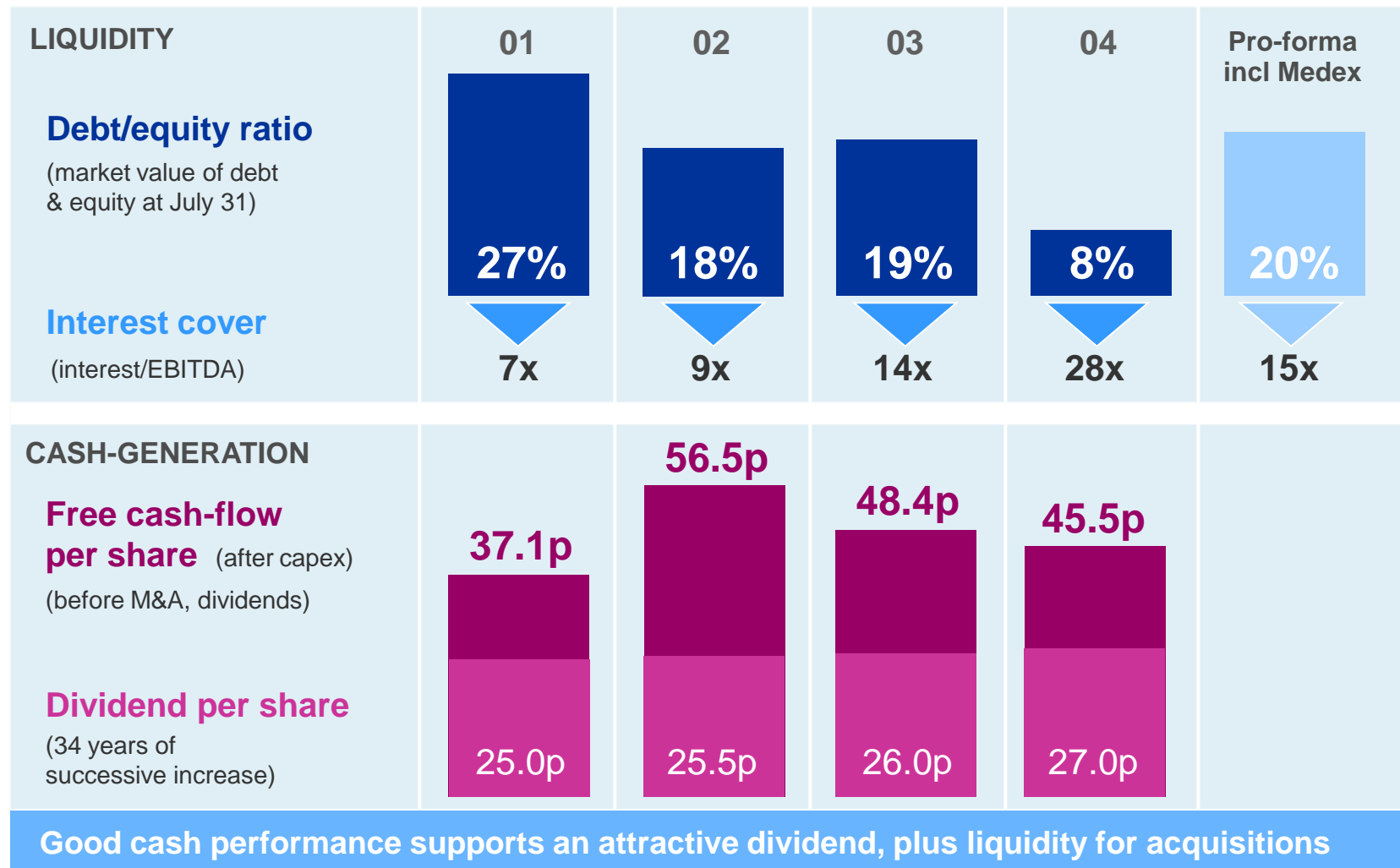
With Medex, Medical is now a larger part of Smiths

## Specialty Engineering





In niche markets with growth rates of 5% and above

Interconnect is outperforming, with defence and telecoms components growing strongly

# The financial resources are available for the continued development of Smiths

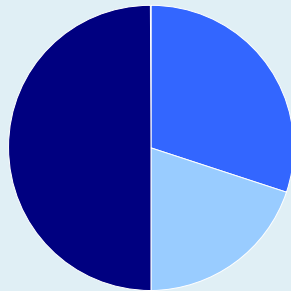


# Continuing progress on acquisitions

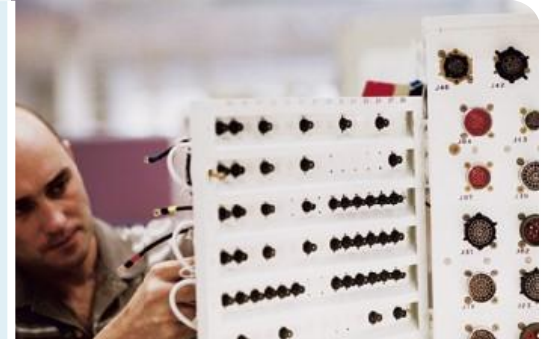
Aerospace	DGT • engine components	cost							
		£57m							
	Integrated Aerospace • landing gear systems	£57m							
Detection	Cyrano • miniaturised detector	£8m							
	SensIR • hazmat detection	£41m							
	Farran • millimetre wave technology	£16m							
Medical	DHD • US respiratory care devices	£30m							
Spec. Eng.	TRAK • microwave components	£63m							
	Tianjin Timing • mechanical seals	£3m							
	US Seal • mechanical seals	£6m							
Cyrano	DGT	SensIR TRAK	DHD		Integrated Aerospace	Tianjin Timing		Farran	US Seal Medex
March 2004	FY2004			Aug 2004	FY2005				March 2005

# Smiths Aerospace: overview

First tier supplier of integrated systems



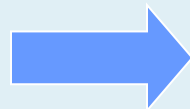
- Electronic systems
- Mechanical systems
- Engine components



With technology leadership in vital areas of the aircraft

## R&D/Sales

Company-funded  
(expensed to profit)

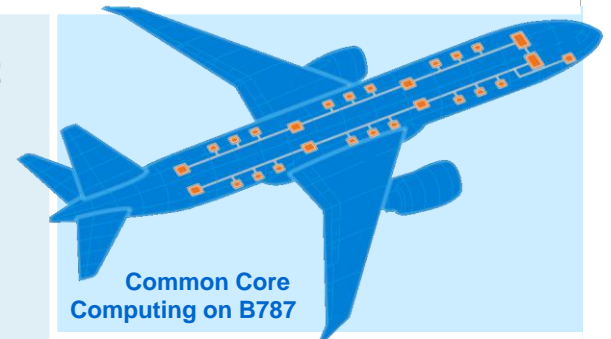


**8%**

Customer-funded  
(largely govt./military)

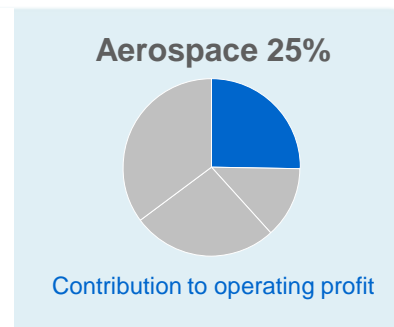


**12%**



# Smiths Aerospace: performance in H1 2005

£m	H1 2005	at constant currency
Sales	<b>514</b>	+17%
Operating profit	<b>39</b>	+24%
<i>Margin</i>	<b>8%</b>	



- Delivered first systems for: Airbus A380, F-35 JSF, C-130 AMP
- Development work on Boeing 787 Dreamliner on schedule
- Selected for complete landing gear on X-47B unmanned aircraft
- Teamed with Lockheed on US 101 Presidential helo fleet
- Capacity in China will be doubled by 2006
- Engine component plant in Poland being expanded

Boeing 787



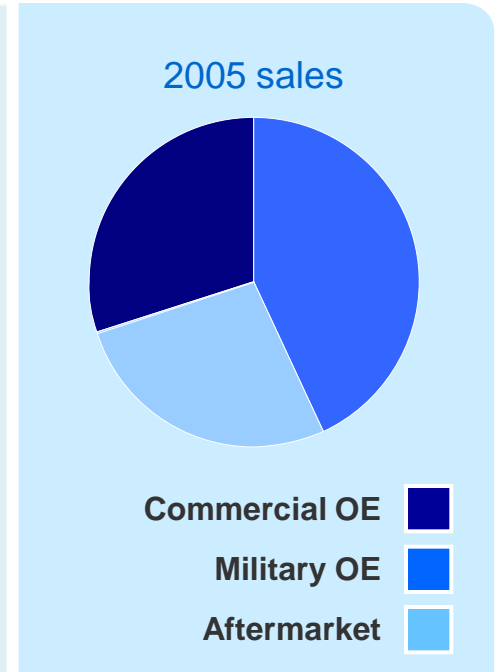
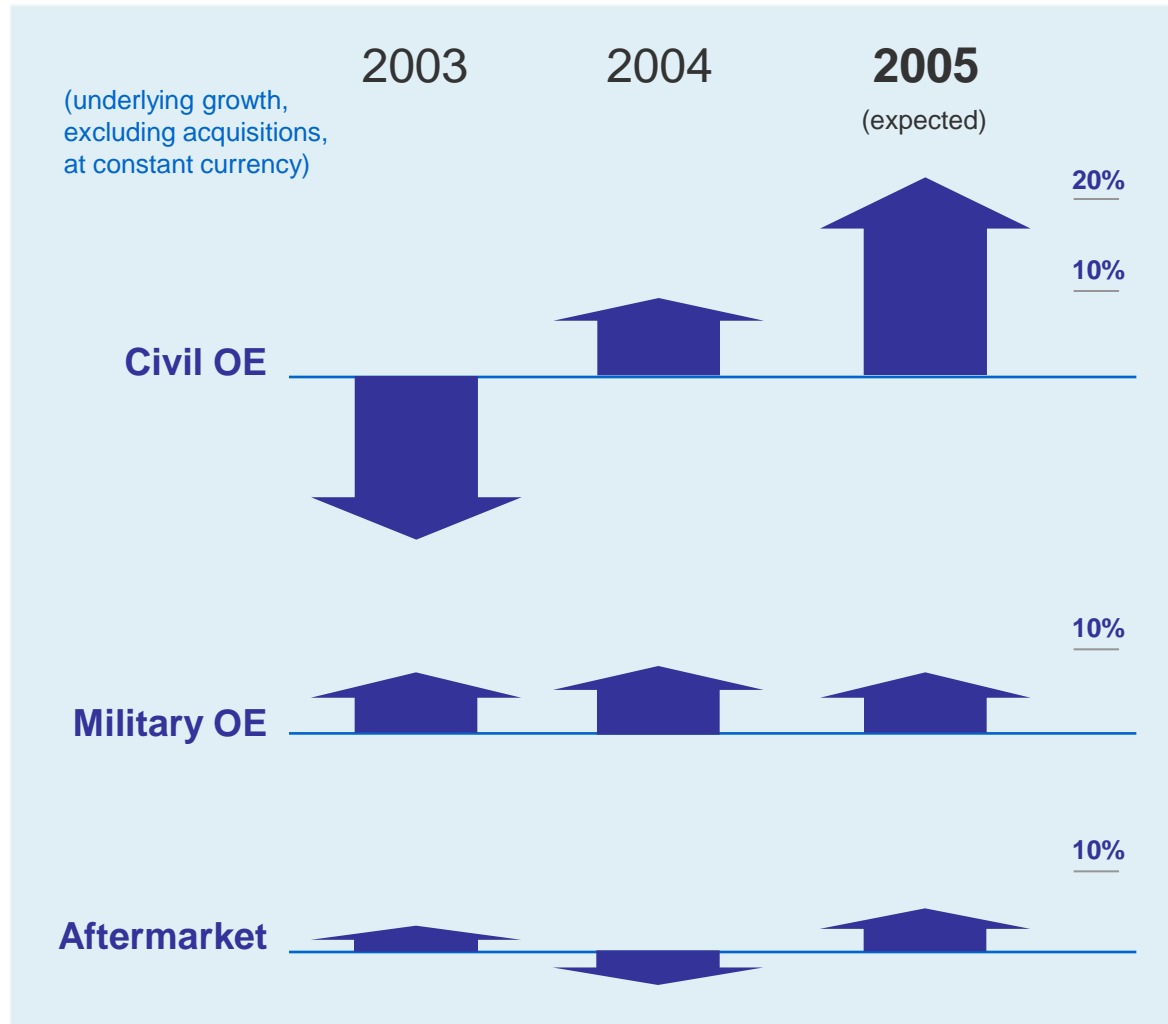
Eurofighter



US 101



# Smiths Aerospace: sales trends



## Smiths Detection: Fundamental strengths

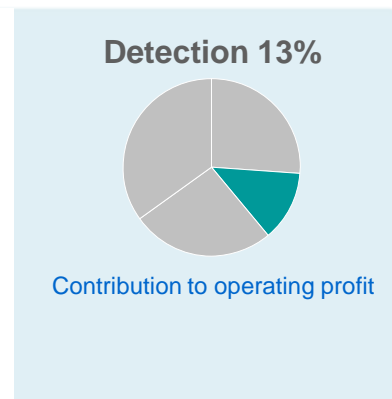
- Market leadership in both Trace and X-ray detection
- Broadest range of applications
- Not dependent on airport security
- Significant investment in product innovation
- Worldwide sales base, incl. military customers




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

# Smiths Detection: performance in H1 2005

£m	H1 2005	at constant currency
Sales	153	+10%
Operating profit	21	+22%
<i>Margin</i>	<b>13%</b>	



- Timing of deliveries variable, government order patterns skewed to second half
- Significant military awards, including:
  - US ACADA programme
  - UK LCAD programme
  - Royal Netherlands Army
- R&D now at 8%, yielding good stream of new products
- Acquired technologies (eg: millimetre wave) will broaden Smiths' capabilities
- Orders in this period from: 



# Smiths Detection: a broad spread of applications

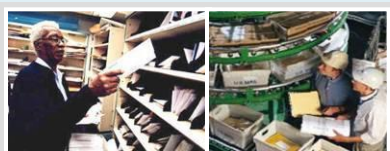
smiths



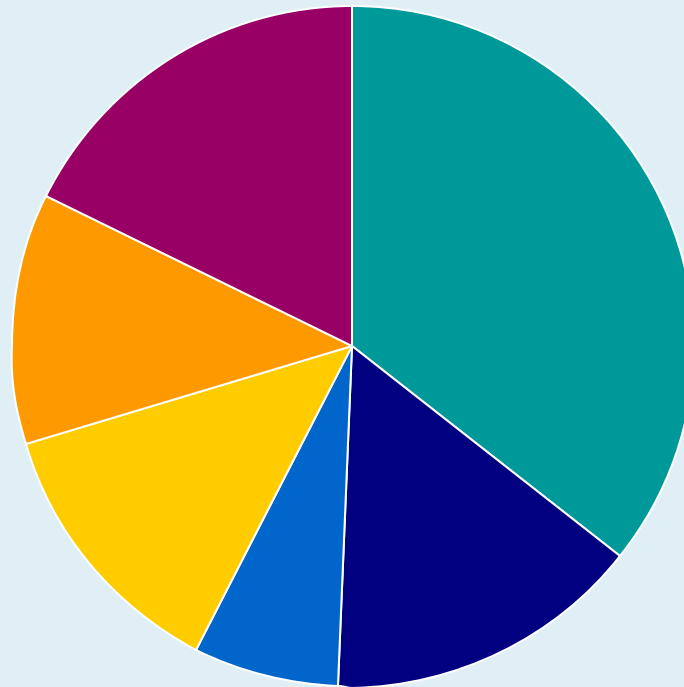
Military



Non-security applications



Critical infrastructure



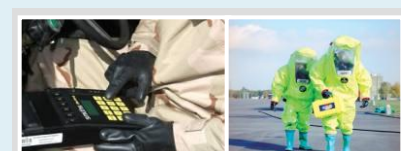
Current sales



Airports



Ports & borders



First responders

## Smiths Medical: Fundamental strengths

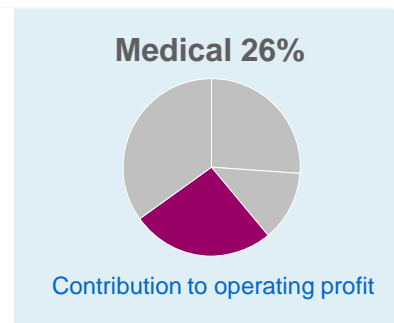
- Strong market niches in specialised devices
- Smiths is well-placed in the hospital **and** in the ex-hospital recovery sector
- Market grows steadily at 5-6% p.a
- Recent product intros are adding to current growth
- Nearly three-quarters of profits are generated in dynamic US market



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

# Smiths Medical: performance in H1 2005

£m	H1 2005	at constant currency
Sales	<b>237</b>	+6%
Operating profit	<b>39</b>	+7%
<i>Margin</i>	<b>17%</b>	



- Two-thirds of profit generated in North America, significant translation impact
- Strong growth in safety devices, US market not yet fully compliant
- Cozmonitor (in partnership with Abbott) well-received in US
- Cozmo launched in 8 countries
- Sales in Japan held back by withdrawal from third-party products

Epidural kit



Cozmonitor



Digit

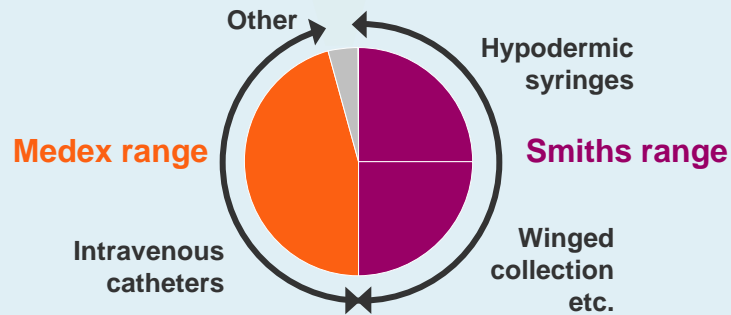


# The acquisition of Medex:

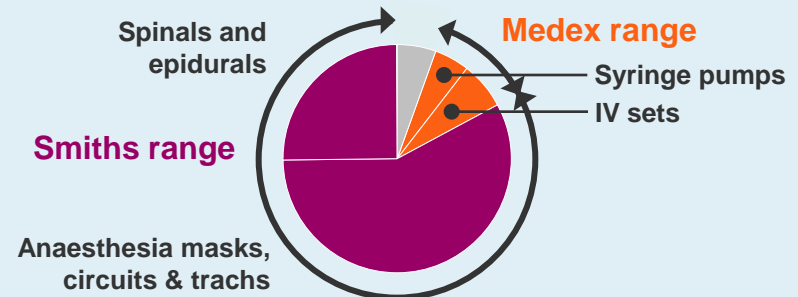
Gives Smiths a significant presence in the critical care sector

smiths

The combined range meets 95% of the requirement for safety devices...



...and 90% of the requirement for anaesthesia disposables



## The customer callpoints for Smiths and Medex are the same

With a full range to offer, the combined sales team has the opportunity to increase market share

- Anaesthetists
- Critical care
- Infection control



Medex Acuvance catheters

Smiths now has a significant presence in the safety device sector

# The acquisition of Medex:

## A comprehensive integration plan is in place

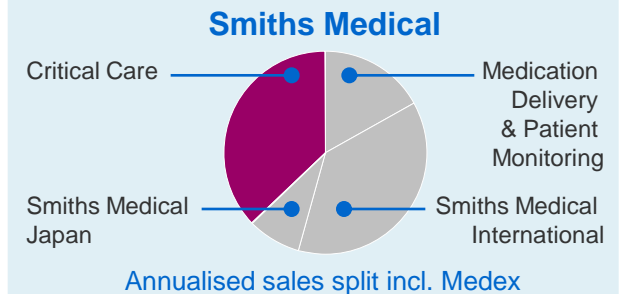
- Scheduled to complete on 21 March
- Medex senior team secured
- Overall organisation established

- Medex and Smiths Anaesthesia & Safety Devices combined
- New **Critical Care** division established
- **International** organisation streamlined

- Unified US Critical Care sales-force in first month
- Critical Care marketing team in place
- “Capturing top line synergies” programme launched

- Manufacturing integration
- Procurement rationalisation
- R&D co-ordination
- Shared services organisation

Medex ProtectIV catheters



# Specialty Engineering: A significant contributor to Smiths' profits.

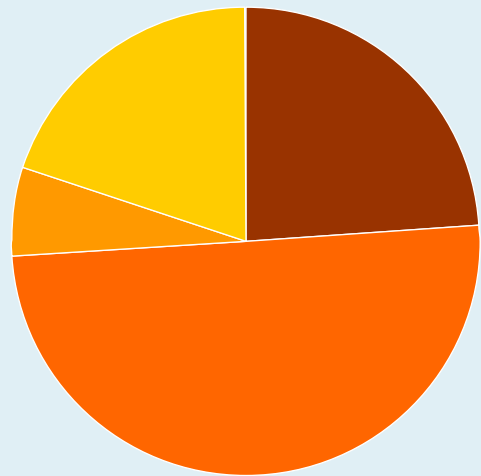
Businesses with good margins and respectable growth rates

## FlexTek

Hoses, ducting for domestic appliances, aircon

## Marine

Marine radar & navigation charts



Annual sales circa **£0.9 billion**  
margin 14%

## Interconnect

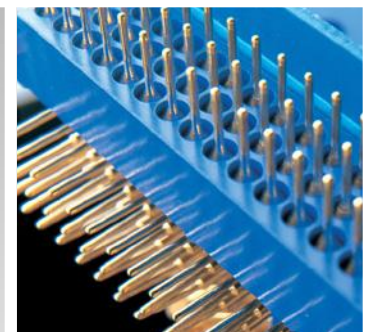
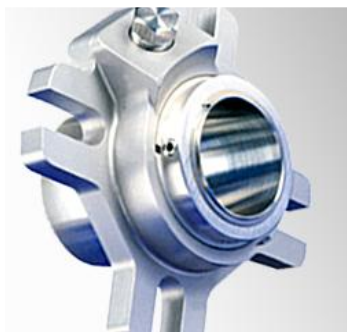
Connection & protection of electronic circuits, currently achieving double digit growth from aero and telecom upswing

## John Crane

World's No1 supplier of rotating seals, used in oil/gas/chemical plant and pipelines

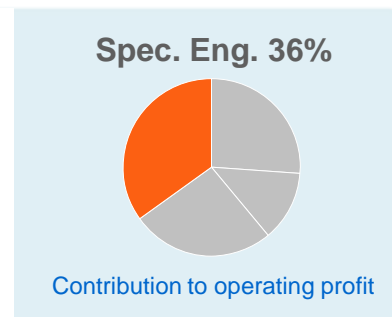
## Specialty Engineering

delivers 100% of its profits in cash



## Specialty Engineering: performance in H1 2005

£m	H1 2005	at constant currency
Sales	440	+9%
Operating profit	54	+14%
<i>Margin</i>	<b>12%</b>	



- Higher sales and profits in all four activities
- John Crane - grew strongly in America
  - but was held back in Middle East
  - Russian JV now delivering to Gazprom
  - higher raw material costs passed on
- Interconnect - microwave components business performing well
  - strong demand in military, aerospace, telecoms
- Flex-Tek - Malaysian plant now supplying Dyson
- Marine - strong naval business

TRAK



John Crane



Microwave cable



## Smiths Group: Looking ahead

Pick-up in commercial aerospace will continue

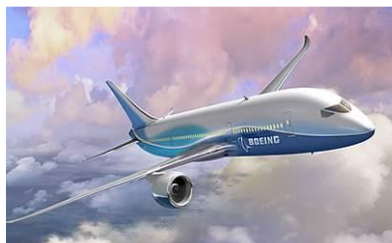
R&D, new products generating incremental sales

Recent acquisitions are contributing strongly

The benefit of Medex starts in H2

Further productivity gains from current restructuring

Smiths' "second half" pattern will be repeated



**“Capitalising on opportunities to generate sustained growth”**

# Smiths Group

DrKW, Capital Goods Conference

