

smiths

# Smiths Group

Meetings with US investors



California, April 2003

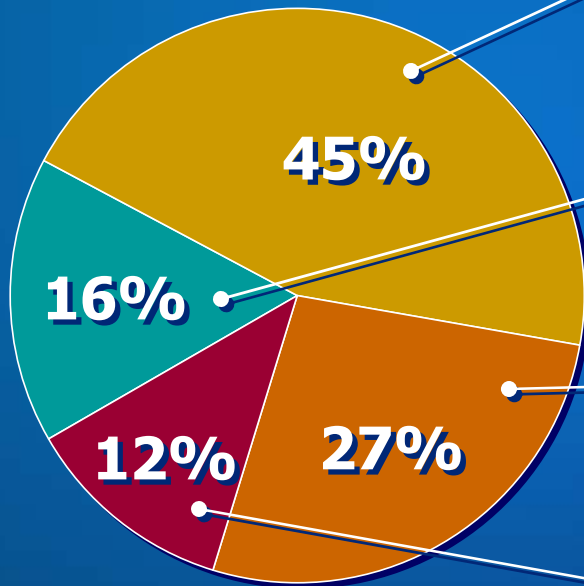
[www.smiths-group.com/ir](http://www.smiths-group.com/ir)

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# Smiths Group

The UK's leading engineering company

Operating in four focused market sectors



divisional split of H1/03 sales  
total £1.46bn

## Aerospace

Advanced avionic systems and aircraft equipment



## Medical

Devices for critical and intensive healthcare



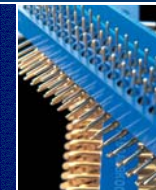
## Sealing Solutions

Mechanical and polymer seals



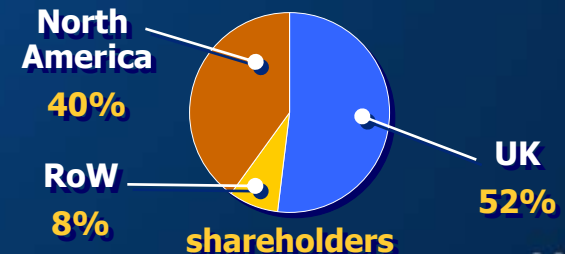
## Industrial

Electronic interconnect and ducting/hosing



Annual Sales - £3bn Employees - 33,000

▶ 50% of revenues generated in US



shareholders

smiths

# Smiths Group

## Fundamental strengths

- Proprietary technologies
- High investment in R&D
- Long-term customer relationships

- 3,000 current patents
- R&D = £212m in 2002
- Supplying Boeing since 1950s

- Competitive positions
- Niche markets
- Strong growth potential
- High barriers to entry

- No1 in x-ray/trace detection
- No1 in ambulatory pumps
- No2 in airway management
- = No2 in defense avionics
- No1 in rotating seals

### Good margins over the long term\*

99	00	01	02
16%	16%	16%	15%

### Divisional margins in 02\*

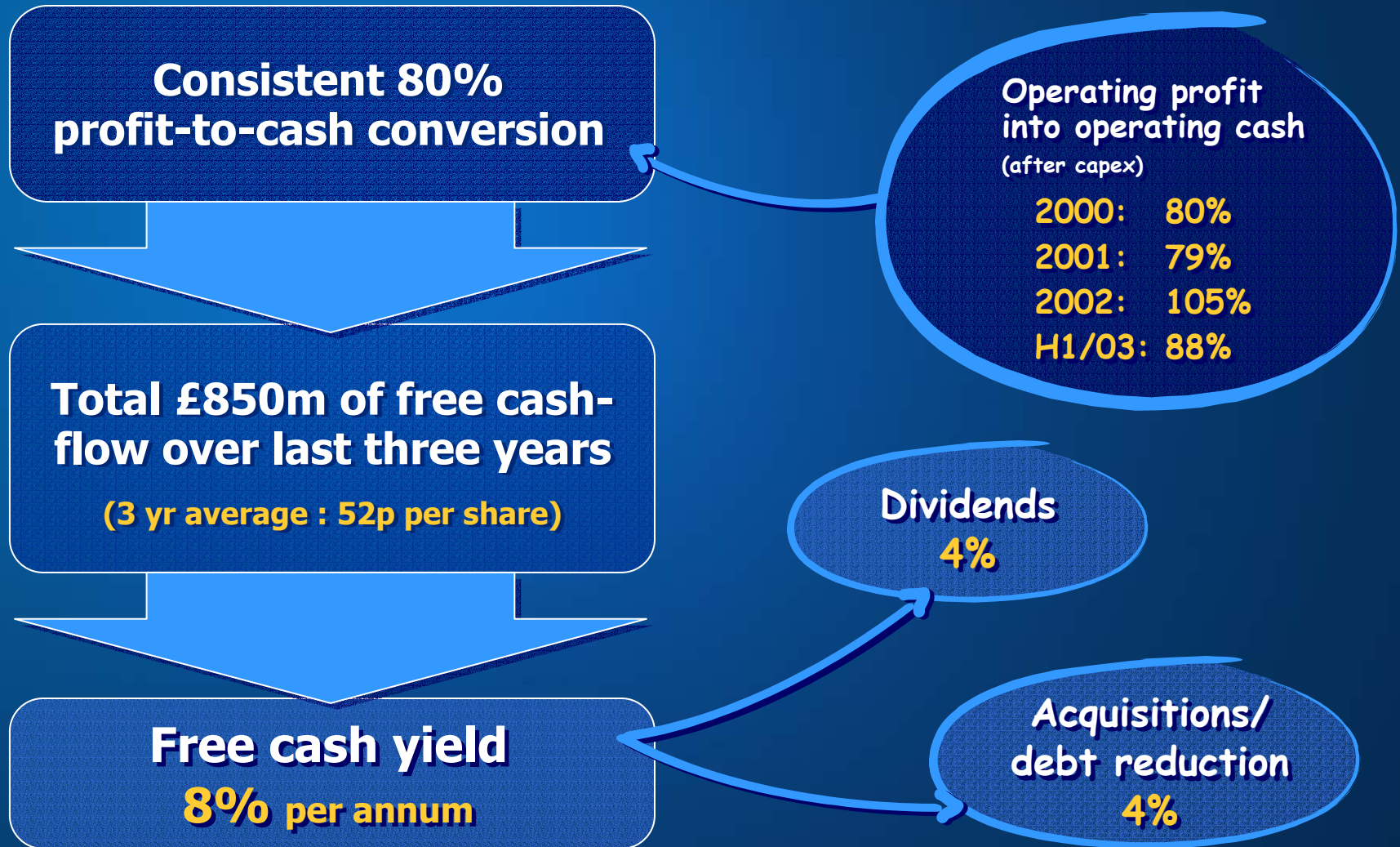
Aerospace	14%
Medical	20%
Seals	12%
Industrial	15%

\*continuing activities, under SSAP 24

**Smiths has the resilience to perform well during difficult economic conditions**

# Smiths Group

A good track record of delivering profits in cash



# Performing strongly in the current economic climate

Interim Results for 6 months ended 31 January 2003

**£m** reporting under FRS17  
(before exceptionals & amortisation)

	<b>H1/03</b>	<b>cf H1/02</b>
<b>Sales</b>	<b>1,456</b>	<b>-2%</b>
<b>Op. profit</b>	<b>180</b>	<b>-1%</b>
<b>Margins</b>	<b>12%</b>	<b>~</b>
<b>Op. cash-flow</b>	<b>158</b>	<b>-1%</b>
<b>Pre-tax</b>	<b>161</b>	<b>-4%</b>
<b>EPS</b>	<b>20.8p</b>	<b>-4%</b>
<b>Dividend</b>	<b>8.75p</b>	<b>~</b>

free cash-flow of  
16.5p per share

- Operating profit very close to a year ago
- Group margins sustained
- Cash conversion above target level
- Productivity counteracted currency & higher R&D
- Pensions not an issue for Smiths
- Interim dividend maintained

**Net debt: £812m - from £725m at start of period**

# Smiths - the current topics of interest

**Second half performance this year**

**Recovering margins in Medical**

**Sustaining high growth in Detection**

**Pensions, and moving to FRS17**

**Dividend policy**

**Further progress on acquisitions/disposals**

# Re-focusing Smiths on the best opportunities for growth

Finding valuable additions to strengthen the core activities

## Acquired since Dec 2000

Acquisition costs	£360m
Annual sales	£240m
<i>Margins</i>	<i>14%</i>

Costs: 11 x operating profits

Mainly in the fast-growing detection equipment sector

Getting on with the disposal of non-core and slow growth businesses

## Sold since Dec 2000

Proceeds	£470m
Annual sales	£440m
<i>Margins</i>	<i>10%</i>

Proceeds: 11 x operating profits

Mainly in the capital goods sector

## Acquisition in H1/03

	cost	contrib. for
Heimann ▶	£233m	2 months

## Disposals in H1/03

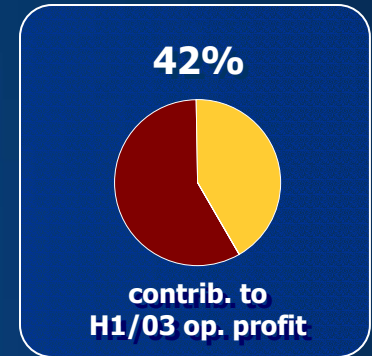
	proceeds	contrib. for
AMG ▶	£125m	4 months
Lodge ▶	£33m	3 months

exceptional gain £16m

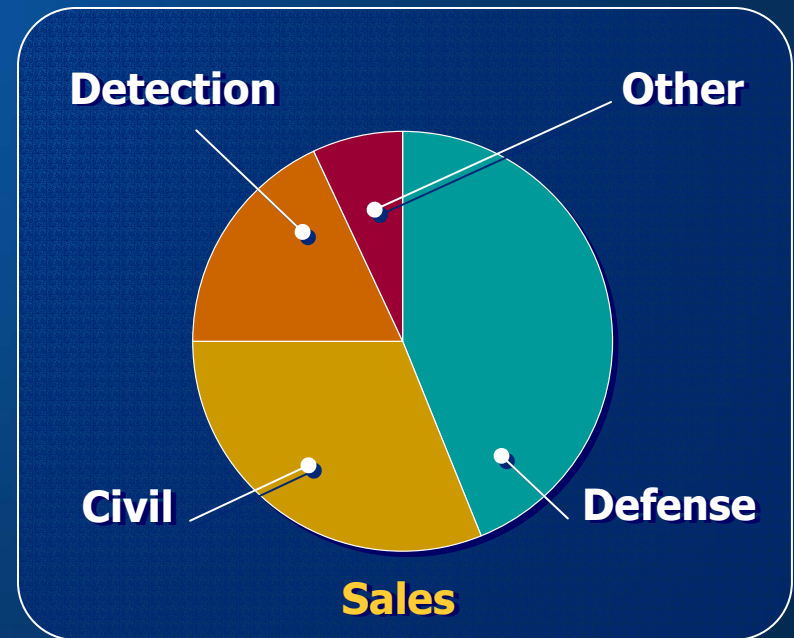
# Smiths Aerospace

A first tier supplier to the world's major aircraft and engine manufacturers

£m	H1/2003	cf H1 2002
<b>Turnover</b>	<b>648</b>	+1%
<b>Operating profit</b>	<b>75</b>	+8%
<b>Margin</b>	<b>12%</b>	

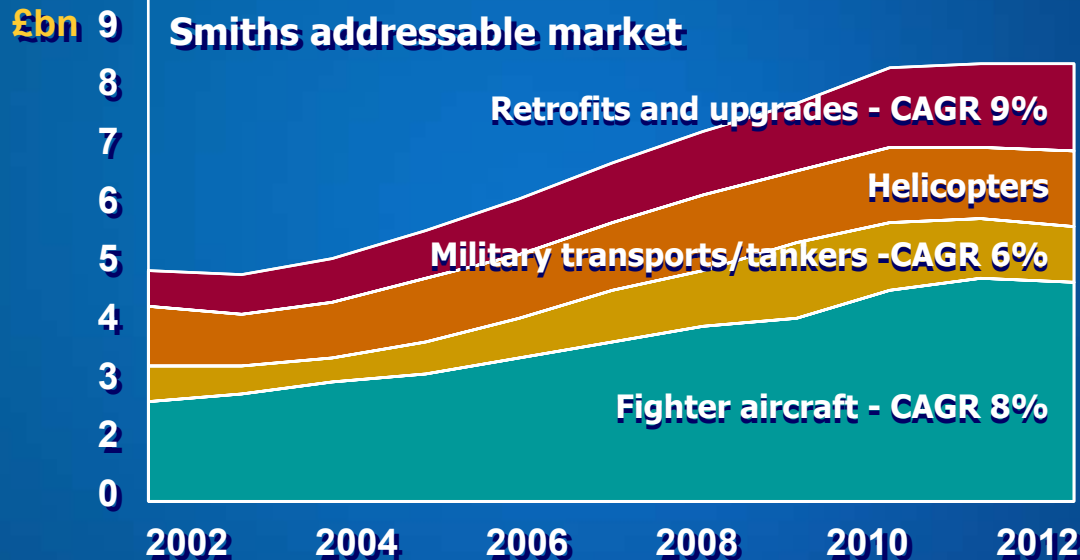


- **Commercial aerospace business has been 'right-sized' for current slowdown**
- **Military business will continue to grow steadily**
- **Strong growth in detection can be sustained**
- **R&D will continue to increase, incl. military**



# Military Aircraft - market trends

Strong growth in military spending - particularly in US



## Defense

- Sustained growth throughout next ten years
- Investing in new programmes
- Systems integration capability

### B767 Global Tanker

Smiths is integrator of in-flight refuelling system. Shipset of \$3.5m, up to 500 aircraft potential



### Joint Strike Fighter

Smiths is one of Lockheed's first-tier suppliers for the F-35. Over \$1m shipset awarded to date



Smiths well positioned on fighter aircraft, tankers, transports & UAVs including

- ▶ F/A-18 E/F
- ▶ JSF
- ▶ Eurofighter
- ▶ F-22
- ▶ C130J
- ▶ 767 GTTA

# Smiths Detection

Recent addition of Heimann gives strong market position in both trace and x-ray detection

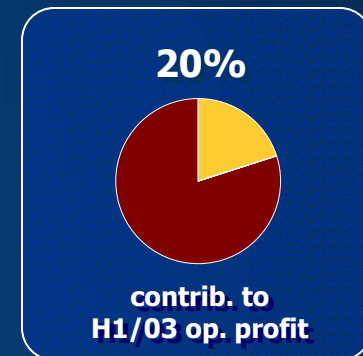


- Current rapid growth is fuelled by meeting TSA requirements
- Next area of opportunity is trace detection for airports beyond the US
- And for automated x-ray of checked baggage for explosives
- Container inspection market driven by terrorism and tax collection
- Military contracts will contribute more in H2/03

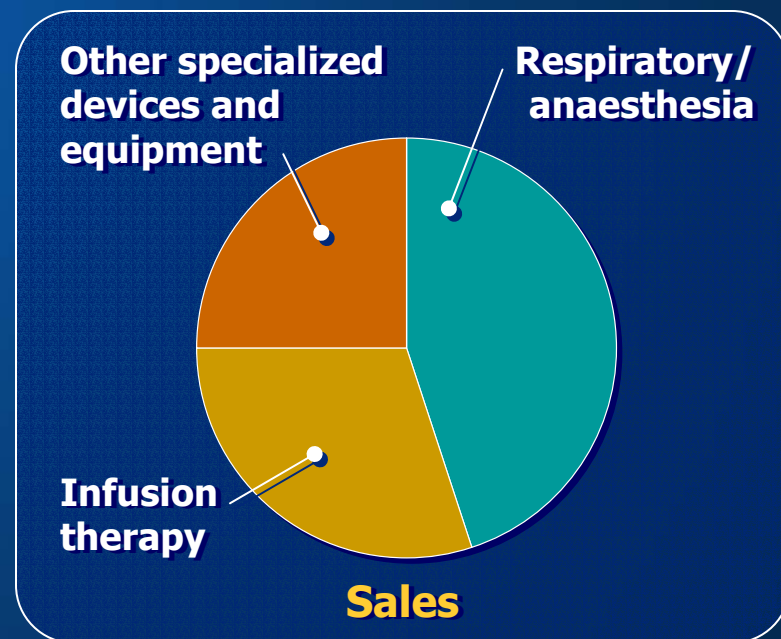
# Smiths Medical

A high margin business with good prospects in a dynamic world market

£m	H1/2003	cf H1 2002
<b>Turnover</b>	<b>231</b>	+3%
<b>Operating profit</b>	<b>37</b>	-15%
<b>Margin</b>	<b>16%</b>	



- **Market-leading positions in specialized niches, brands have premium product status**
- **North America is principal market, but also strong in Europe & Japan**
- **Sales outperforming market growth (masked by translation)**
- **Cost savings from transfer to Mexico are being achieved**
- **New products are being introduced, R&D increased to 5% next year**



# Medical R&D filling up new product pipeline

New devices achieve highest margins



## ◀ Portex Saf-T Wing

Winged needle safety device for blood sampling



## Gripper Plus ▲

Deltec's new safety needle for implanted ports



## Portex Soft Seal ▶

World's first single-use laryngeal mask for airway management

## Digit ▶

BCI's new finger-tip blood/oxygen analyser



## Cozmo ▶

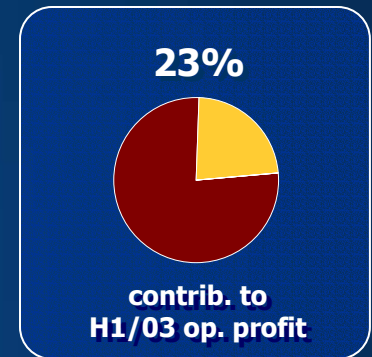
Deltec's new ambulatory pump for insulin delivery



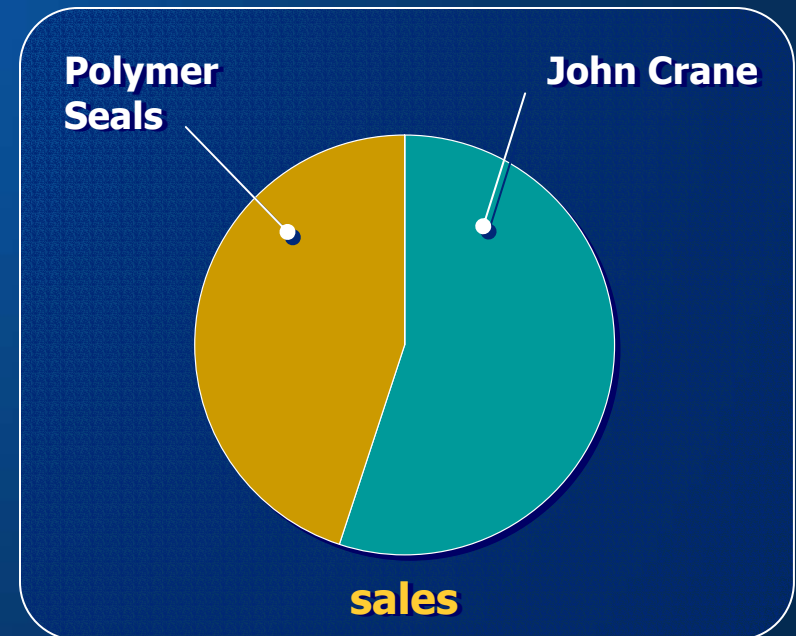
# Sealing Solutions

Major restructuring, including moving production to low cost countries, is improving profitability

£m	H1/2003	cf H1 2002
Turnover	397	-2%
Operating profit	41	+1%
Margin	10%	



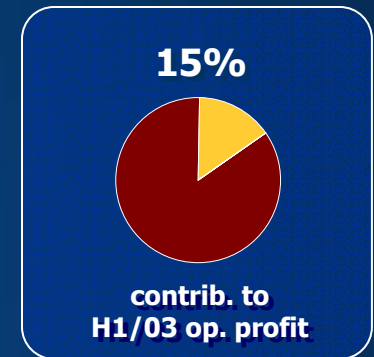
- Substantial disposals in 2002 have re-focused this division into two, cash-generative businesses
- Margins in both are improving, without any benefits from top line growth
- Cost reductions are being achieved from transferring production to low cost countries
- John Crane Inc asbestos litigation is not a material contingent liability



# Industrial

High margins and profit-to-cash conversion at over 100%

£m	H1/2003	cf H1 2002
Turnover	180	-14%
Operating profit	27	-5%
Margin	15%	



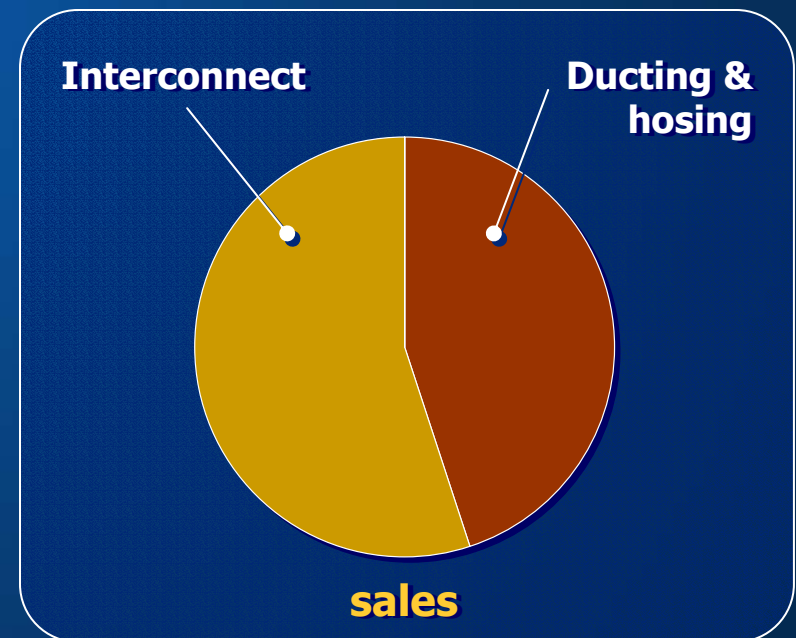
After recent large disposal,  
now comprises two activities:

## Interconnect

- Highly engineered products
- Proprietary technology
- Strong market niches

## Ducting

- Market leader in US
- Production know-how
- Value added products



# Smiths Group

Summary of factors influencing the current market outlook

**Demand for detection equipment will extend rapidly beyond airports**

**Defense procurement will continue to increase for many years**

**Civil aerospace has two more lean years before a gradual recovery**

**World market for medical devices grows at 6% pa, fuelled by product innovation**

**Capital equipment markets remain flat, but de-stocking now completed**

**Oil prices affect investment in production and refining (and airline profitability)**

**War in Iraq will temporarily reduce airline traffic (and aircraft spares)**