

smiths

# Smiths Group

## 2003 Preliminary Results



London, Wednesday 24 September 2003

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# Smiths Group: 2003 Preliminary Results

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Chairman speaking

## Introduction

Keith Orrell-Jones, Chairman

## Presentation

Keith Butler-Wheelhouse, Chief Executive

## Financials

Alan Thomson, Financial Director

For the year-ended 31 July 2003

# Smiths Group: Key messages

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Chief Exec. speaking

**Solid set of results for 2003**

**Core skills in evidence through this period**

**Investing for top line growth**

**Refocusing the company**

**Taking Smiths forward**

# Highlights of the year

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- ✓ **Pre-tax profit of £384m\* (-3%) and EPS of 50.1p\*(-2%) incl. discontinued activities**
- ✓ **Operating profit\* up 2% to £372m on continuing activities**
- ✓ **Operating cash-flow (after capex) at 90% of profit\***
- ✓ **Annual dividend increased by 2% to 26p**
- ✓ **New divisional structure focuses on growth opportunities**
- ✓ **Good progress on disposals of non-core activities**
- ✓ **R&D increased by 18% to £251m**

\* before goodwill amortisation and exceptionals

**Statutory EPS of 20.0p (33.3p) after goodwill write-down on Polymer disposal**



# Smiths Group: Preliminary results 2003 (total, including continuing and discontinued)

Reported on an FRS17 basis

**£m**

**2003**

**2002**  
restated

**Turnover**

**3,056**

**3,223**

**Profit before tax\***

**384**

**396**

**EPS\***

**50.1p**

**51.0p**

**Free cash-flow**

**270**

**315**

**Note: on a statutory reporting basis, 2003 profit before tax was £217m and EPS 20.0p (2002: £277m; 33.3p)**

\* before exceptional charges and goodwill amortisation

# Smiths Group: 2003 breakout of continuing and discontinued

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**2003**

<b>£m</b>	<b>Continuing</b>	<b>Discontinued</b>
<b>Turnover</b>	<b>2,629</b>	<b>427</b>
<b>Operating profit*</b>	<b>372</b>	<b>52</b>
<b>Interest/pensions financing</b>	<b>(23)</b>	<b>(17)</b>
<b>Profit before tax*</b>	<b>349</b>	<b>35</b>
<b>EPS*</b>	<b>45.6p</b>	<b>4.5p</b>

\* before exceptional charges and goodwill amortisation

# Smiths Group: Continuing activities

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<b>£m</b>	<b>2003</b>	<b>2002</b>	
<b>Turnover</b>	<b>2,629</b>	2,588	+2%
<b>Operating profit*</b>	<b>372</b>	364	+2%
<b>Margin</b>	<b>14%</b>	14%	
<b>Interest / pensions financing</b>	<b>(23)</b>	-	
<b>Profit before tax*</b>	<b>349</b>	364	-4%
<b>EPS*</b>	<b>45.6p</b>	46.9p	-3%

\* before exceptional charges and goodwill amortisation

# Improving the quality of the assets, acquisitions and disposals

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## Disposals

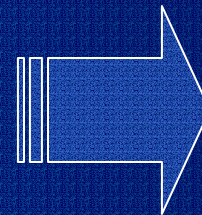
Including:

Lodge

Air Movement

Polymer Seals

Proceeds  
£630m

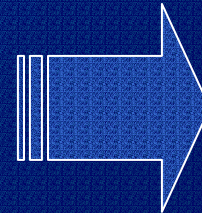


sold for  
**10x**  
operating profit  
(last twelve months)

## Acquisitions

Principally:  
Heimann

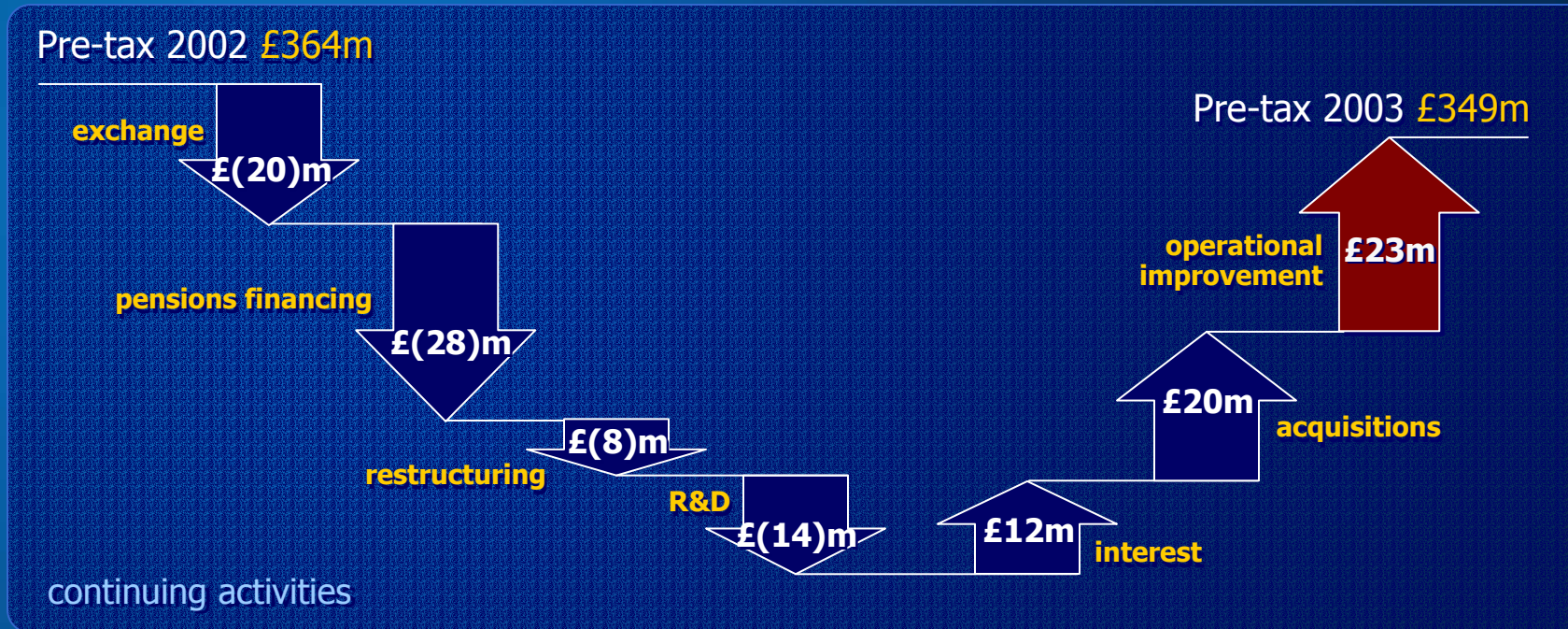
Cost  
£243m



bought for  
**8x**  
operating profit  
(last twelve months)

# Smiths Group: Profit progression 2003 versus 2002

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## Operational improvement included

Benefits from 2002 reorganisations  
Productivity from lean initiatives

Continuing attention to fixed costs  
Establishing production in low-cost areas

# Financial Director's update

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Financial Dir. speaking

## Currency

Translation impact on profit: £20m (continuing activities)

## Exceptionals

Write down on disposals: £122m (net)

## Gross profit

Up 1 point to 40%

## R&D

Total £251m up 18%; company funded £130m up 11%

## Interest

	£m	2003	2002 (restated)
Interest on debt		(38)	(58)
Pensions financing		(2)	26
		<u>(40)</u>	<u>(32)</u>

## Tax

Rate 27%, cf 28% in 2002

# Operating profit into operating cash

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£m	2003	2002 (restated)
<b>Operating profit*</b>	<b>424</b>	<b>428</b>
<b>Depreciation</b>	<b>89</b>	<b>92</b>
<b>Capital expenditure</b>	<b>(86)</b>	<b>(100)</b>
<b>Retirement benefits</b>	<b>(5)</b>	<b>29</b>
<b>Working capital</b>	<b>(42)</b>	<b>34</b>
<b>Operating cash-flow</b>	<b>380</b>	<b>483</b>
<b>Op. profit into op. cash</b>	<b>90%</b>	<b>113%</b>

\* continuing and discontinuing

# Movement in Net Debt

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£m	2003
<b>Net Debt (at 1 August 2002)</b>	<b>(725)</b>
Operating cash (after cap-ex)	380
Interest and tax	(87)
Restructuring	(23)
<b>Free cash-flow</b>	<b>270</b>
Dividends	(142)
Acquisitions (incl. acquired debt)	(252)
Disposals	147
Financing & Exchange	(13)
<b>Net cash generation</b>	<b>10</b>
<b>Net debt (at 31 July 2003)</b>	<b>(715)</b>

48.4p per share

Proceeds of Polymer Seals' disposal will reduce net debt to below £250m

# Smiths Group: Retirement benefits (FRS 17)

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£m	2003	2002
<b>Balance sheet</b> (Funded schemes)		
<b>Assets</b>	<b>2,468</b>	2,345
<b>Liabilities</b>	<b>(2,776)</b>	(2,430)
<b>Deficit</b>	<b>(308)</b>	(85)
<b>Unfunded/PRH</b>	<b>(145)</b>	(119)
<b>Deferred tax</b>	<b>145</b>	75
<b>Total</b>	<b>(308)</b>	(129)

(UK discount rate down from 6% to 5.5% increases the liabilities)

## Profit & Loss

<b>Service cost</b>	<b>(48)</b>	(49) (charged to operating profit: fairly stable)
<b>Financing</b>	<b>(2)</b>	26 (depends on 'snapshot' of funding level: volatile)
<b>Total</b>	<b>(50)</b>	(23)

**Note: cash contributions to the funded plans increased to £46m in 2003 (2002: £14m) and are expected to increase further in 2004**

PRH: post-retirement healthcare

# Focusing on activities with strong growth potential

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Chief Exec. speaking

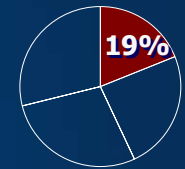
## Smiths Detection

Protecting against threats to security from terrorist activity



Sales £273m  
Margin 26%

contribution to profit

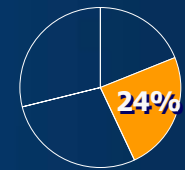


## Smiths Medical

Devices used in critical care and for medication delivery



Sales £486m  
Margin 18%

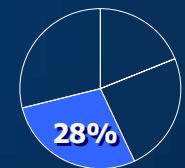


## Smiths Aerospace

Systems and equipment for military and commercial aircraft



Sales £998m  
Margin 11%

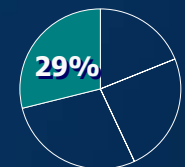


## Specialty Engineering

Highly engineered products for specific industrial applications



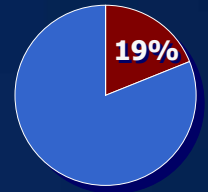
Sales £872m  
Margin 12%



# Smiths Detection

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contrib. to  
op. profit



£m	2003	2002	growth incl. Heimann
<b>Turnover</b>	<b>273</b>	119	+129%
<b>Operating profit</b>	<b>71</b>	29	+145%
<b>Margin</b>	<b>26%</b>	24%	

Benefit of TSA in H1

Heimann performed better than expected

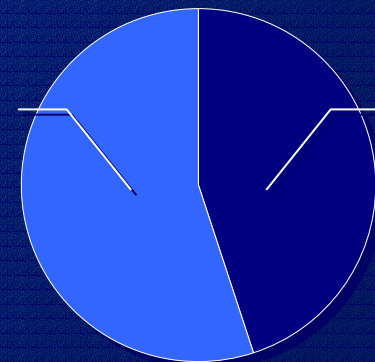
Smiths has market and technology leadership

Only supplier with both trace and X-ray capabilities

Synergy benefits still to come

Trace

X-ray



2003 sales



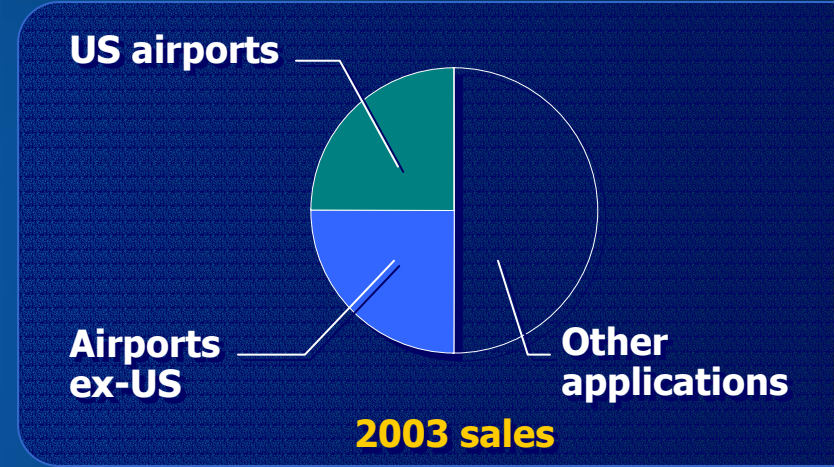
# Smiths Detection: Wide range of capabilities and applications

## Airports

- People
- Hand luggage
- Checked baggage
- Global customer base
- Less dependent on TSA
- New products: significant opportunities

## Other applications

- US Postal Service: bio threats
- Public events, eg sports
- Federal buildings
- Container inspection: security at ports



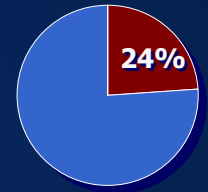
Contraband at borders  
Leading supplier to the military



# Smiths Medical

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contrib. to  
op. profit



£m	2003	2002	
<b>Turnover</b>	<b>486</b>	480	+1%
<b>Operating profit</b>	<b>88</b>	93	-6%
<b>Margin</b>	<b>18%</b>	19%	

Currency translation reduced sales by £20m and profits by £5m

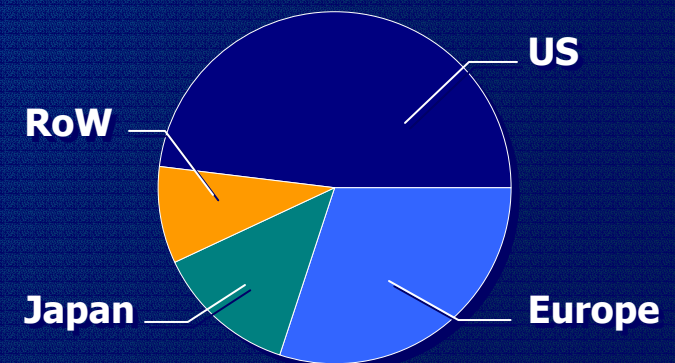
Underlying performance kept pace with market growth

Second half margin of 20%

R&D moving towards 5% of sales

Now focused on two main areas

Cozmo<sup>™</sup> launch cost of £3m and restructuring of £2m charged to profit



**2003 sales (by destination)**

# Smiths Medical: Two areas of product focus

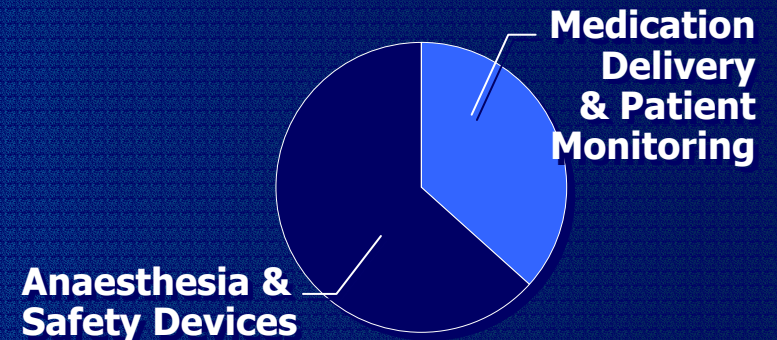
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## Anaesthesia & Safety Devices

Single use devices for critical care  
Mainly used in hospital, e.g. surgery  
Strong new product pipeline  
Needle protection growing strongly

## Medication Delivery & Patient Monitoring

More complex devices, incl. electronics  
Used in hospitals, but also during recovery  
and continuing care  
No 1 supplier of ambulatory pumps  
3,000+ Cozmo<sup>™</sup> insulin pumps sold already



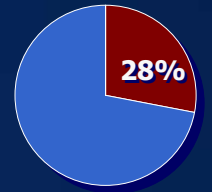
2003 sales



# Smiths Aerospace

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contrib. to  
op. profit



£m	2003	2002	
<b>Turnover</b>	<b>998</b>	1,079	-7%
<b>Operating profit</b>	<b>105</b>	139	-24%
<b>Margin</b>	<b>11%</b>	13%	

Now focused on systems and equipment for aircraft

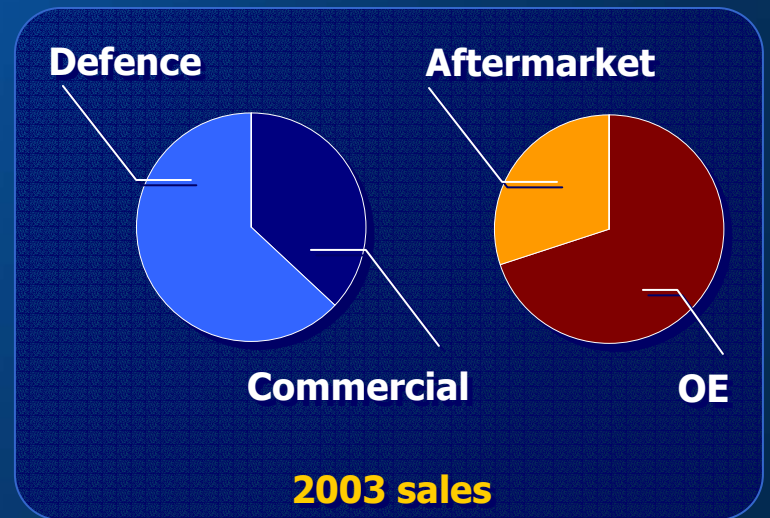
Tier One status confirmed by recent commercial and defence programme wins

2003 performance affected by commercial slowdown and currency

Commercial recovery in 2006

Defence business has continued to grow

Company-funded R&D up by 13% in 2003



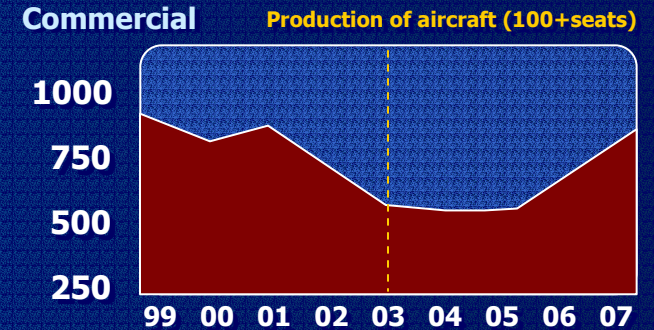
2003 sales

# Smiths Aerospace: Commercial down, defence up

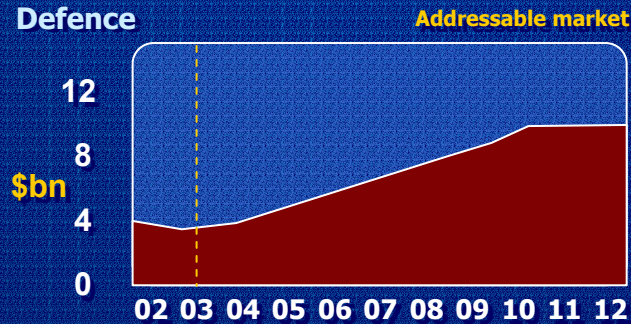
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## Commercial

Low aircraft production will persist through 2005  
 Aftermarket remains flat  
 Investing in new programmes: A380/Boeing 7E7  
 Market will recover, driven by growth in air travel



## Defence



## Defence

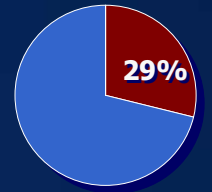
Current programmes performing strongly  
 F-35 and 767 tanker will sustain growth  
 Aftermarket trend: performance-based logistics



# Specialty Engineering

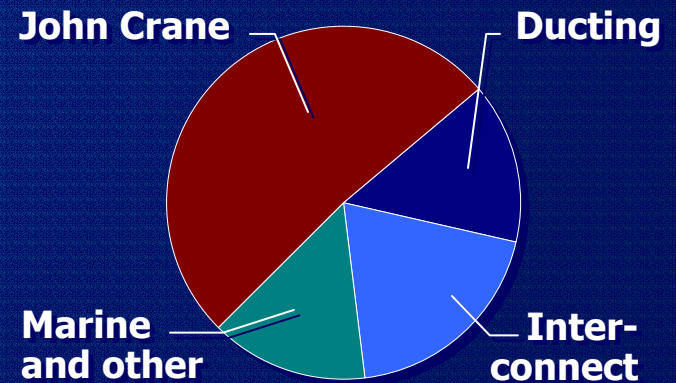
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contrib. to  
op. profit



£m	2003	2002	
<b>Turnover</b>	<b>872</b>	910	-4%
<b>Operating profit</b>	<b>108</b>	103	+5%
<b>Margin</b>	<b>12%</b>	11%	

Margins moving up  
 All generating strong cash flow  
 John Crane shown separately (next slide)  
 Interconnect's defence business improving  
 Marine slightly up, ducting slightly down



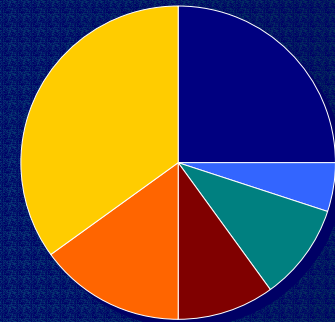
2003 sales

# Specialty Engineering: John Crane

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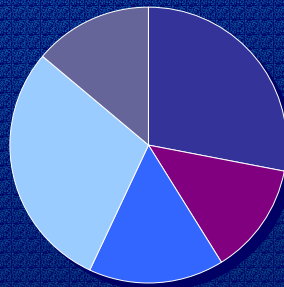
Clear market leader, operating worldwide  
 Margin improved from 12% to 13%  
 Gaining benefit of establishing production in low-cost countries  
 Significant agreements with Gazprom in Russia and Shell in China  
 Oil & gas majors are currently investing in new plant to increase capacity

- John Crane
- Flowserve
- Burgmann
- Eagle
- Chesterton
- Others



World market for mechanical seals £1.3bn

- Oil & Gas
- Chemical/pharma
- General Industrial
- OEM
- Others



Market sector split of JC sales (£445m)



# Reshaping the company to focus on growth activities

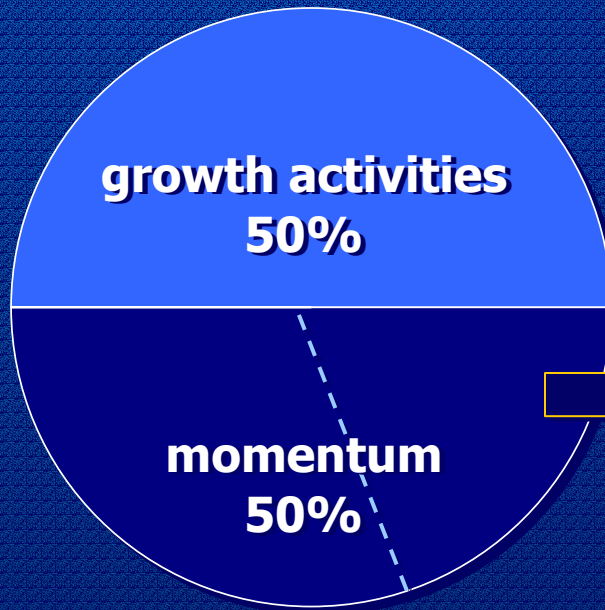
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An increasing % of activities in areas of strong market growth (inc. Detection, Medical & Aerospace)

**Jan 2001**  
(excl. Automotive)

(profit contribution)

**July 2003**



Heimann,  
Barringer, etc...

Marine Seals,  
Air Movement,  
Polymer Seals, etc...

**growth activities**  
**70%**

**momentum**  
**30%**

# Smiths Group: The outlook for growth

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**Long-term  
market growth\***

**Nature  
of growth**

**Detection**

**8%**

**lumpy**

**Medical**

**6%**

**steady**

**Aerospace**

**5%**

**cyclical**

**Specialty Engineering**

**2.5%**

**GDP**

\* Forecast: Cazenove

# The prospects for Smiths Group

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- ✓ **Continue to refocus on growth opportunities**
- ✓ **Balance sheet, cash-flow provide a strong platform**
- ✓ **Positive market outlook: detection  
medical  
defence**
- ✓ **Recovery in commercial aerospace in 2006**
- ✓ **2004: steady performance from continuing activities**
- ✓ **Longer term: benefits from focus on growth and operational improvements**

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