

Smiths Group

Preliminary Results 2005

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



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Chief Executive speaking

Continuing and discontinued activities

£m	2005	2004
Sales	3,017	2,733
Operating profit	311	292
Profit before tax	310	300
EPS	39.3p	38.0p

Highlights

- Sales from continuing operations increased by 13% to exceed £3 billion
- All divisions contributed double-digit growth in headline* profit
- Headline* PBT and EPS increased by 18%, to £413m and 54.3p
- Cash generation below target, but expected to recover
- Outlook is for continued growth in 2006
- Annual dividend increased for 35th year, by 7.4% to 29.0p

** Before amortisation and impairment of goodwill and other intangible assets, and exceptional items*

Reaching for full potential:

Six fundamental strengths which drive Smiths' strategy

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1

Choosing markets with long term growth where Smiths can outperform

2

Improving productivity, including establishing low-cost manufacturing

3

Building the scale and infrastructure to operate globally

4

Investing heavily in R&D to win technological advantage

5

Acquiring businesses which will generate additional growth

6

Ensuring ethical standards are respected throughout Smiths

Headline operating performance: For the year ended 31 July 2005

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£m	2005	2004
Sales	3,017	2,678
Headline operating profit	420	360
<i>Margin</i>	14%	13%
Headline profit before tax	413	350
Headline EPS	54.3p	45.9p
Annual dividend	29.0p	27.0p

Profit progression from 2004 to 2005

Note: operational improvement is after absorbing raw material cost increases

£m

Pre-tax 2004 **£350m**

Pre-tax 2005 **£413m**

adverse exchange impact

(10)

increase in R&D

(7)

pay increases

(30)

25

contribution from acquisitions (after funding costs)

20

net improvement in interest/pension financing costs

39

benefit from increased volume

26

better operational performance

Continuing progress on acquisitions

		2005	
Aerospace	Integrated Aerospace landing gear systems	£57m	
Detection	ETI bio-agent detection	£3m	
	Farran millimetre wave technology	£15m	
Medical	Medex infusion safety devices	£499m	
	Sevit Italian distributor	£3m	
Spec. Eng.	Tianjin Timing	£3m	
	US Seal	£6m	
	Hi-Tech Hose	£9m	

Acquisitions in FY 2006:

JC China
mechanical seals
£2m

Farnam
heating elements
£3m

Millitech
microwave components
£19m



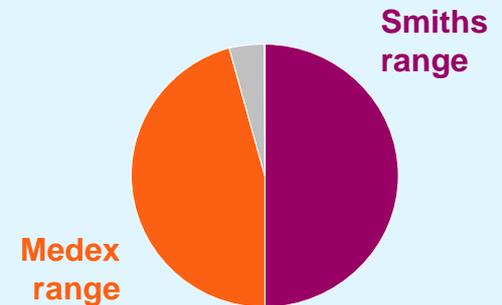
Key statistics

- \$330m sales, high margin, good growth record
- Price £499m: 11 x EBIT

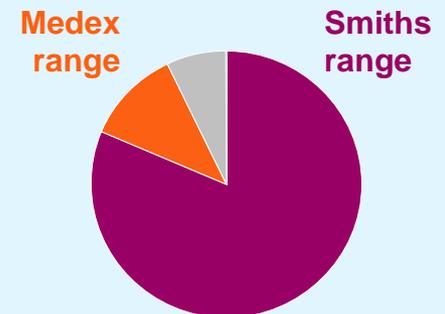
The fit

- Common customer base
- Complementary international footprint
- Excellent product fit
- Synergy opportunities across both businesses

Market offering



combined range covers 95% of safety device market



...and 90% of the critical care market

Achieving synergies across Smiths Medical

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		2005 (£m)	2006 (£m)	2007 (£m)	2008 (£m)
Synergies:	Sales/marketing				
	Back office/distribution				
	Manufacturing				
Profit impact		1	Circa 8	13 - 16	18 - 25
One-off costs		10	20 - 25	15 - 20	0 - 5
Overall profit		45			55
			Synergies		25
					80
£80m in 2008 - well above cost of capital					

Financial Director speaking	
Currency	Exchange impact: sales: £67m, profit: £10m
Acquisitions	First-time contribution from acquisitions: sales: £93m, profit: £21m
Margins	Gross margin: 40%
Exceptionals	Charged: Medex: £10m, Cozmo: £15m Restructuring: £23m, credit: £6m, Cash spend: £35m
R&D	Company-funded: £143m Customer-funded: £152m
Interest	£23m, increase is due to Medex
Pensions	UK plans now fully funded (in total)
Tax	Rate reduced to 26%

Operating profit into operating cash

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£m	2005	2004
Headline operating profit	420	362*
Depreciation	77	72
Net capital expenditure	(105)	(54)
Retirement benefits	(16)	(23)
Working capital	(96)	(28)
Operating cash-flow	280	329
Operating profit into operating cash	67%	91%

* incl. discontinued

Effect of acquisitions: included in the 'acquisition line'

Effect of currency: included in 'exchange line'

All other changes	£m		
Stock	91		
Debtors	54	Expected increase with 8% sales growth	Worse than planned
Creditors	(49)		
Increase	96	36	60



3 reasons

- Timing of defence contracts
- Concentration of sales in June/July
- Inventory to safeguard supply

Operating cash-flow conversion

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Achieved

67%

Impact of £60m
(additional working cap)

14%

Impact of capital expenditure
(being 1.3x v 1.1x depreciation) } £15m

4%

85%

2006 target
80% plus

Movement in net debt

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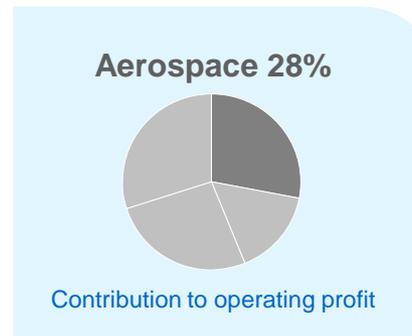
£m	2005	2004
Net debt at start of year	(273)	(715)
Operating cash (after cap-ex)	280	329
Interest and tax	(98)	(51)
Exceptional items (cash spend)	(35)	(23)
Free cash-flow	147	255
Dividends	(155)	(146)
Acquisitions (incl. assumed debt)/disposals	(598)	291
Financing & exchange	(52)	42
Change in net debt	(658)	442
Net debt at end of year	(931)	(273)

Chief Executive speaking

2005 Sales (£m)	growth at constant currency	
Aerospace	1,158	+18%
Detection	367	+17%
Medical	563	+19%
Specialty Engineering	929	+10%
Total	3,017	+16%

2005 Headline operating profit (£m)		
Aerospace	118	+22%
Detection	67	+21%
Medical	108	+23%
Specialty Engineering	127	+16%
Total	420	+20%

£m	2005	reported growth	at constant currency
Sales	1,158	+15%	+18%
Headline operating profit	118	+18%	+22%
<i>Margin</i>	10%		



- Commercial sales up 25%
 - higher OE build rates
 - aftermarket driven by RPMs
- Defence sales increased by 9%
- Good mix of commercial & defence development programmes

Boeing 787



US 101



A380



Manufacturing in China: gaining advantage in commercial aerospace

Phase 1

FY 2004: completed 67,000 sq ft in Suzhou

manufacturing underway for regional jet engine components

Phase 2

FY 2005: additional 67,000 sq ft just completed

Production of basic components for aircraft systems to be transferred

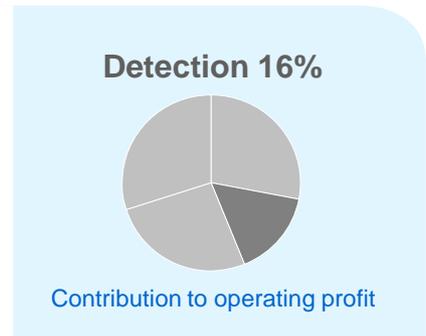
Phase 3

FY 2006-7: additional investment in Suzhou

Manufacture of more complex components and assemblies

Aftermarket: Smiths has just opened a customer service centre for airlines in Beijing

£m	2005	reported growth	at constant currency
Sales	367	+16%	+17%
Headline operating profit	67	+20%	+21%
<i>Margin</i>	18%		



- Smiths technologies used for the widest range of applications
- Transportation sector benefiting from re-equipment with latest products
- Strong growth in military sales, including ACADA and LCAD
- X-ray systems at Ports & Borders also used to prevent smuggling
- High investment in R&D and acquiring technologies, including millimetre wave
- Service revenues now coming through

Sentinel II



Ionscan 500 DT

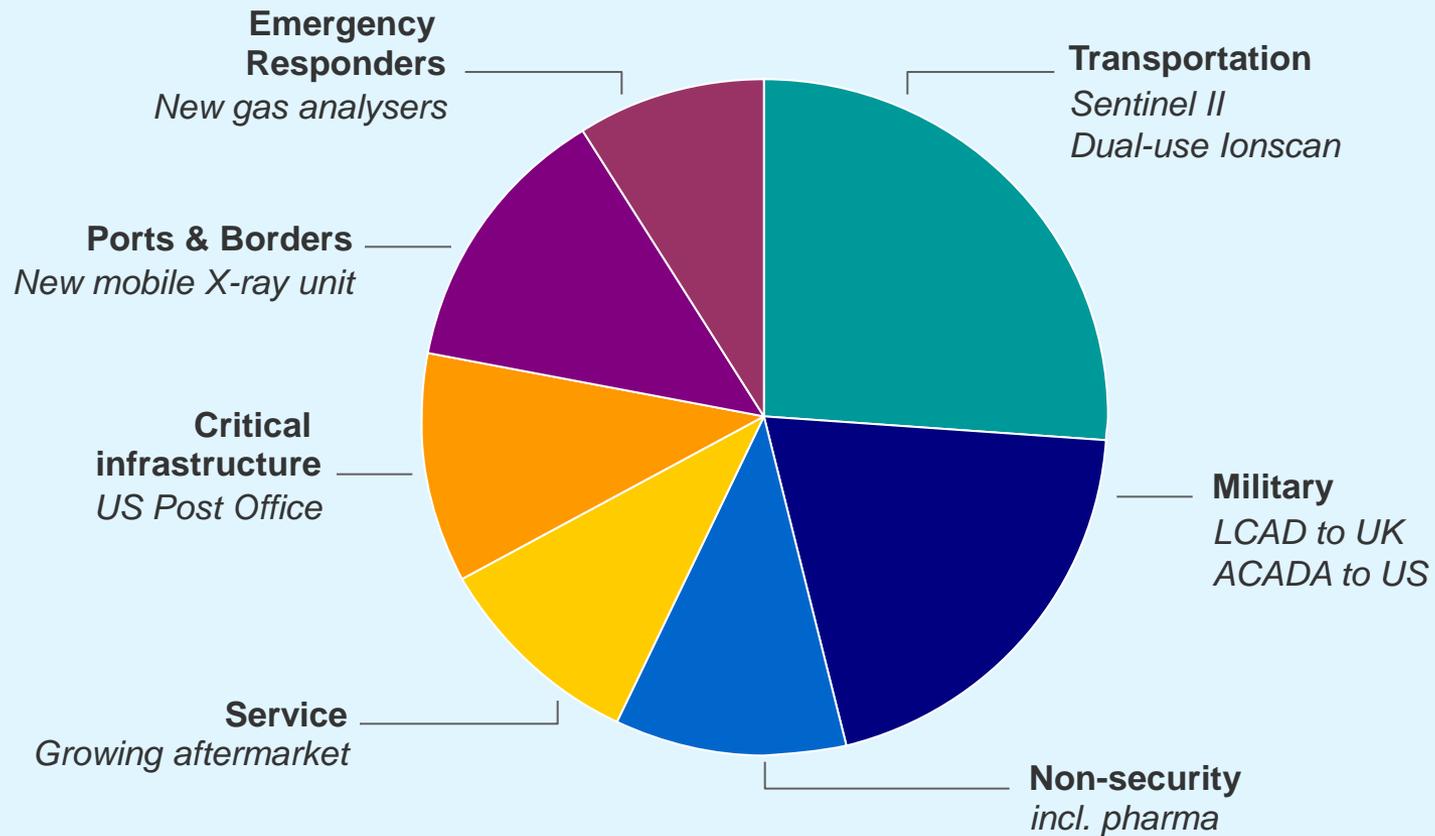


Hazmat kit



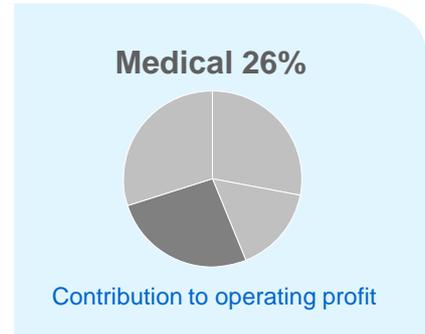
Smiths Detection:

Growth is coming from the wide range of market sectors



2005 sales: £367m

£m	2005	reported growth	at constant currency
Sales	563	+16%	+19%
Headline operating profit	108	+18%	+23%
<i>Margin</i>	19%		



- Excluding Medex and currency, sales grew 4%, profits 3%
- Base business held back by supply issues
- New products introduced in each sector
- Strong US Cozmo sales; now launched in 8 countries

Protect IV catheters



Cozmo



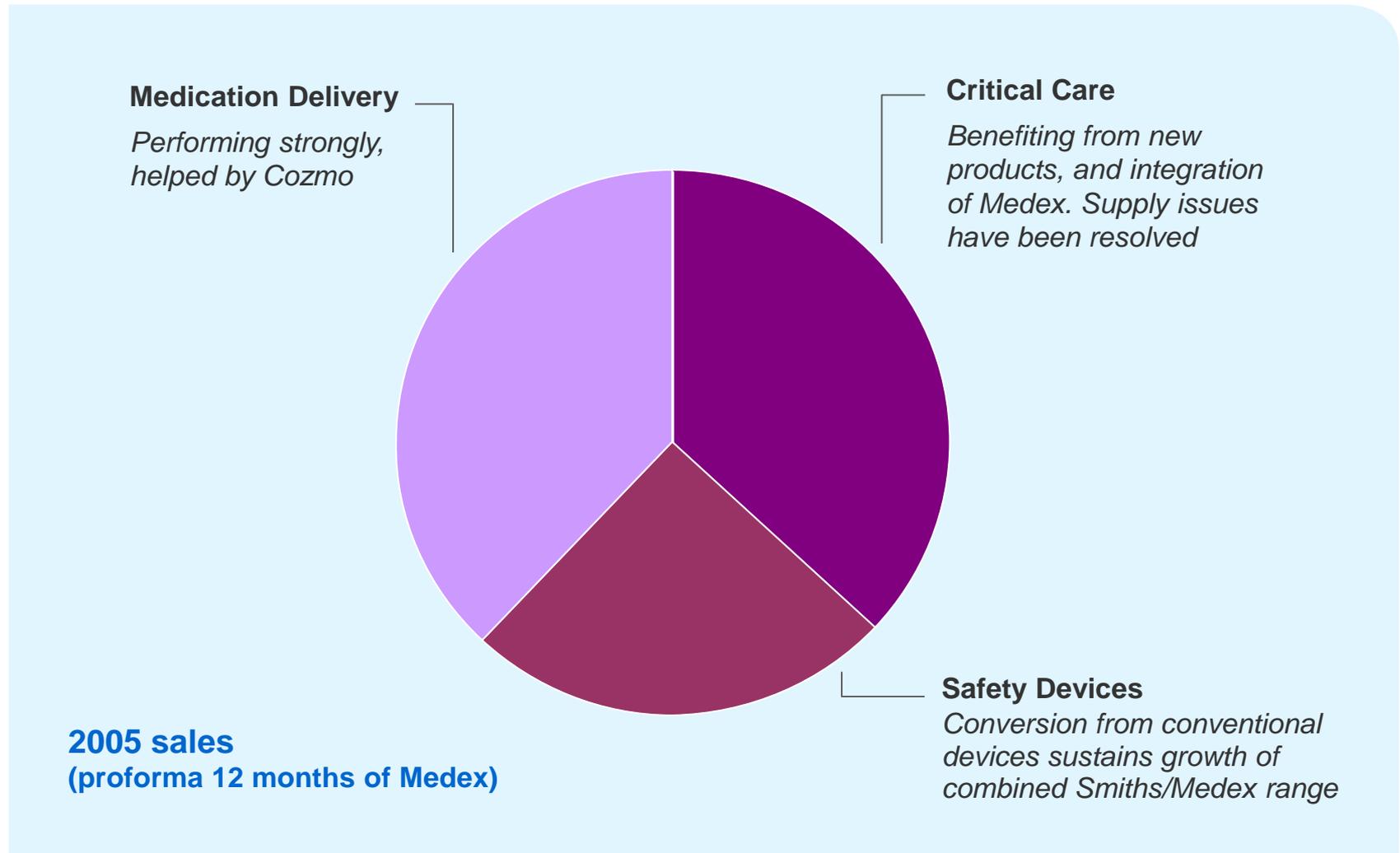
Digit



Smiths Medical:

In specialised markets, with strong niche positions

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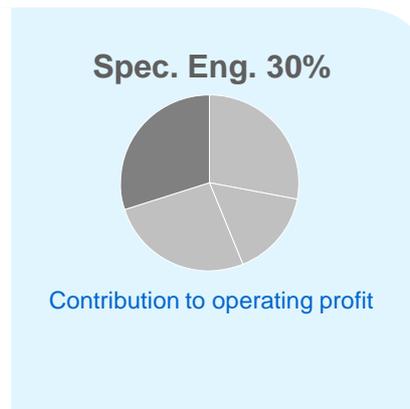


2005 sales
(proforma 12 months of Medex)

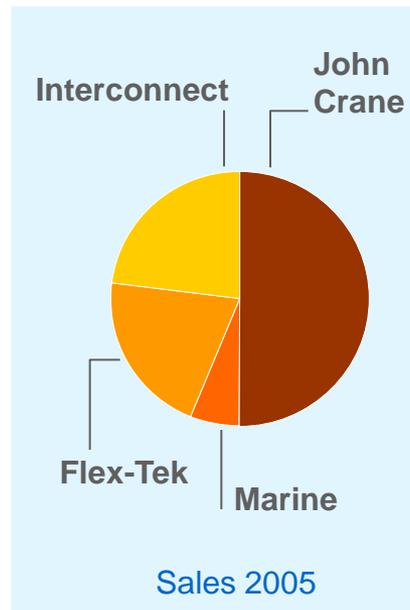
Specialty Engineering

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£m	2005	reported growth	at constant currency
Sales	929	+7%	+10%
Headline operating profit	127	+12%	+16%
<i>Margin</i>	14%		



- All four businesses contributed to growth
- John Crane benefiting from increased investment by oil & gas majors
- And from entering new markets, including China
- Interconnect achieved strong growth, in defence and telecoms
- Flex-Tek performed well
- Marine Systems improved



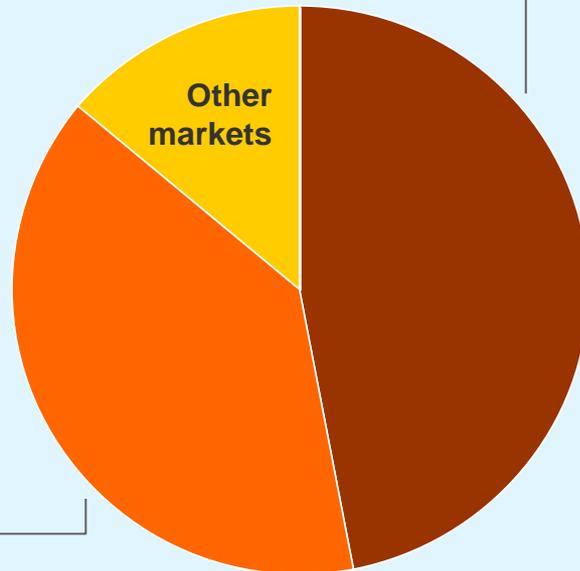
John Crane is performing strongly

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- Increased oil & gas investment is driving growth
- Sales increased in all territories except Middle East
- With Performance Plus, aftermarket is now 50% of sales
- Global coverage increased with investment in Russia, China, India and South America
- Bolt-ons in China and US extend market reach



- a global electronic components and sub-systems manufacturer
- providing signal, power and microwave capability
- mainly to the defence, aerospace and wireless infrastructure markets



Defence and Aerospace

- *EMC protection*
- *Sat-com antennae*
- *Microwave assemblies*

Wireless infrastructure

- *Microwave cables*
- *Lightning protection*
- *Power-surge protection*

latest acquisition

Millitech

- Millimetre wave assemblies
- Antennae for network-centric warfare
- Adds £15m to Interconnect sales

Smiths Group: Preliminary Results 2005

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£m	2005	2004	
Sales	3,017	2,678	+13%
Headline profit:			
Operating	420	360	+17%
Margin	13.9%	13.4%	
Pre-tax	413	350	+18%
EPS	54.3p	45.9p	+18%
Annual dividend	29.0p	27.0p	+7.4%

Full potential programme: generating sales growth and enhancing profitability

Smiths Group: Looking ahead

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Robust markets

R&D yielding benefits

Cost reductions

Medex synergies

Improved cash-flow

Growth from all divisions

“The Board is confident that Smiths is on track to deliver continued growth in 2006”



Smiths Group

Preliminary Results 2005

Questions and answers

