SMITHS GROUP PLC INTERIM MANAGEMENT STATEMENT

Smiths Group Chairman Donald Brydon made the following Interim Management Statement at the Company’s Annual General Meeting today.

In the three months to 29 October 2011, Smiths Group has delivered growth in underlying sales, driven primarily by increased volumes in John Crane. Headline operating profit was also ahead reflecting John Crane’s strong performance and the benefits of restructuring savings and operational efficiencies across other divisions. Overall, expectations for the year remain in line with the guidance given at the annual results, despite the difficult economic and trading conditions.

John Crane has started the year strongly with good underlying growth in sales and headline operating margin, reflecting continued demand for its first-fit original equipment and aftermarket services. Margins have benefited from the drop-through from the higher volumes, despite increased investment in sales and marketing and expansion of its sales and service network. A positive book-to-bill ratio continues to grow the order book and provides visibility on sales growth well into the second half. The acquisition of Turbo Components and Engineering, which services, repairs and builds replacement bearings and seals, completed on 3 October.

Reported sales at Smiths Detection in the first three months were slightly down on the same period last year while headline operating profit was slightly ahead. The performance improvement programme is making progress with the announcement of the closure of a site at Morristown, New Jersey. The programme is expected to deliver £40m of annualised savings by the end of the 2014 financial year, including £15m due in the current financial year. Overall, trading for Smiths Detection in the first half is expected to lag that of last year as a result of slightly lower sales. First half margins will also be affected by restructuring costs charged against headline operating profit, some adverse mix from lower military sales and the impact of certain historic low margin contracts. Looking to the full year, the current order book is comparable to last year’s and is expected to support sales at a similar level. Headline operating margins will benefit from the £15m of restructuring initiatives, offset by £7m of associated costs.
Smiths Medical again grew headline operating profit margins in the first three months, reflecting a continued focus on operating improvements and cost reduction initiatives. Overall, like-for-like sales in Smiths Medical were slightly below last year reflecting constrained healthcare budgets and a reduced level of procedures. Looking to the balance of the year, sales are likely to continue to be held back by the trading environment in developed markets. However we are continuing to increase our investment in new product development and sales and marketing, particularly in emerging markets, to build a platform for improved sales growth in the future.

Smiths Interconnect has started the year slowly. Although revenues grew in wireless telecommunications, this was offset by lower sales to military customers caused by defence project deferrals and weaker connector sales. Overall underlying sales and headline operating margin both lag behind last year and these trends are expected to continue through the first half. The second half sales outlook is likely to remain challenging although the order book is showing some tentative signs of strengthening. Second half margins will benefit from cost saving initiatives currently underway. The results will also reflect the $235m acquisition of Power Holdings Inc., a leading designer and manufacturer of specialist power distribution, conditioning and monitoring systems, which completed on 11 October. This acquisition expands our product portfolio enabling access to the fast-growing data centre market while reducing dependence on military and public sector funding.

Flex-Tek has delivered flat sales with a strong performance in aerospace offset by slightly weaker sales to the US residential construction and domestic appliance sectors. Headline operating margins improved as a result of continued cost control and better mix from higher aerospace revenues. Sales for the half and full year are expected to show modest overall growth. Continued improvement in the aerospace order book is likely to be moderated by the tough trading environment in other market sectors. Margins are expected to improve through careful cost management and price rises to offset raw material inflation.

At 29 October, net debt was higher at £920m, largely reflecting acquisitions of £168m and adverse foreign exchange translation.

ENDS

This press release contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of the press release and the Company undertakes no obligation to update these forward-looking statements. Nothing in this press release should be construed as a profit forecast.
Smiths Group
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