

**Smiths Group plc**  
Annual General Meeting  
**15 November 2016**

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**Being the best  
at what we do**

# Disclaimer

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# Overview

**Sir George Buckley**  
Chairman



# New net value creation

Direct ways to create new shareholder value in a company

1. Growth in organic sales
2. Growth in operating margin
3. Removing working capital from the balance sheet
4. Improving the P/E ratio



Subsidiary ways

1. Reducing income and other taxes
2. Acquisitions..... but only if purchased and integrated correctly

Usually combined as EVA

Ignores the value released to employees and customers

# The anatomy of a great company

1. Steadily increasing, above market sales and EPS growth
2. Stable or improving ROIC
3. Consistent ~100% cash conversion



**GAAP like  
measures**

4. Increasing working capital returns
5. Steadily gaining market share
  - by creating new products, new markets and powerful brands
6. Increasing its new product vitality index (NPVI)
  - replacing (or cannibalizing) existing products with new
  - driving incremental new products in both old and new markets
7. Gradually improving employee satisfaction
  - striving for ever better employee engagement
8. Steadily increasing customer satisfaction
9. Building great brands and turning them into enduring franchises

**Internal  
measures**

# Overview

**Andy Reynolds Smith**  
Chief Executive



# Smiths Group

## Full year highlights

- Growth in reported revenue and headline operating profit in four out of five divisions
- Good margin expansion in Smiths Medical, Smiths Detection and Smiths Interconnect
- John Crane margins resilient at 21.9%
- Morpho Detection acquisition expected to complete in early 2017<sup>1</sup>

Revenue

**£2,949m**  
-2%\*

Headline  
operating profit

**£510m**  
-4%\*

Headline operating  
profit margin

**17.3%**  
-40bps\*

Aftermarket and  
consumables

**53%**  
-

<sup>1</sup> subject to regulatory clearances

\* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation



# Smiths Group

## Full year highlights

- Strong cash generation
- Reduced net debt to £978m
- Pension assets substantially de-risked
  - deficits lowered
  - lower cash contributions

Headline  
free cash flow

**£400m**  
**+18%**

Cash conversion

**102%**

Headline EPS

**85.2p**  
**-1%**

Dividend per share

**42.00p**  
**+2.4%**



# John Crane

## Full year highlights

- Difficult oil and gas market conditions
- 57% of revenue from oil & gas markets
- Aftermarket revenue down 4%
- First-fit revenue down 16%
- Strong cost control actions underway, 400 headcount reduction
- Disposal of artificial lift business

Revenue

**£830m**  
**-10%\***

Headline  
operating profit

**£181m**  
**-20%\***

Headline operating  
profit margin

**21.9%**  
**-290bps**

Aftermarket

**59%**  
**+300bps**

\* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

# Smiths Medical

## Full year highlights

- Continued revenue growth, led by Vital Care
- Emerging market sales increased 10%:
  - China +22%
  - India +21%
- R&D increased from 5% to 6% of revenue, supporting increased product launches and pipeline
- Disposal of Wallace business

Revenue

**£874m**  
**+1%\***

Headline  
operating profit

**£187m**  
**+7%\***

Headline operating  
profit margin

**21.4%**  
**+160bps**

Aftermarket and  
consumables

**83%**  
**+100bps**

\* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation



# Smiths Detection

## Full year highlights

- Strong revenue growth led by Ports & Borders
- Operating profit growth boosted by value engineering and management actions
- R&D 5% of revenue, focused on product launches in transportation and military
- Morpho Detection expected to complete early 2017<sup>1</sup>

Revenue

**£526m**  
**+9%\***

Headline  
operating profit

**£69m**  
**+20%\***

Headline operating  
profit margin

**13.0%**  
**+110bps**

Aftermarket and  
consumables

**37%**  
**+100bps**

<sup>1</sup> subject to regulatory clearances

\* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

# Smiths Interconnect

## Full year highlights

- Lower revenue reflecting mixed end markets
- Margins rose across our main product lines:
  - productivity improvements
  - procurement savings
- Reorganisation to focus on target markets and customers
- R&D 6% of revenue, focused on higher growth market segments

Revenue

**£435m**  
-1%\*

Headline  
operating profit

**£57m**  
+9%\*

Headline operating  
profit margin

**13.1%**  
+150bps



# Flex-Tek

## Full year highlights

- Diverse end market performance:
  - US housing growth
  - growing medical demand
- Margins softened from Construction product transition and lower industrial volumes
- Continuing sales growth in China

Revenue

**£284m**  
**+/-0%\***

Headline  
operating profit

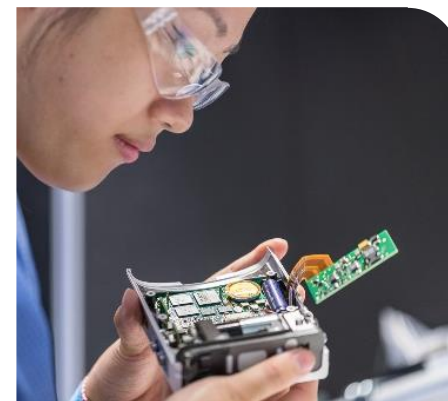
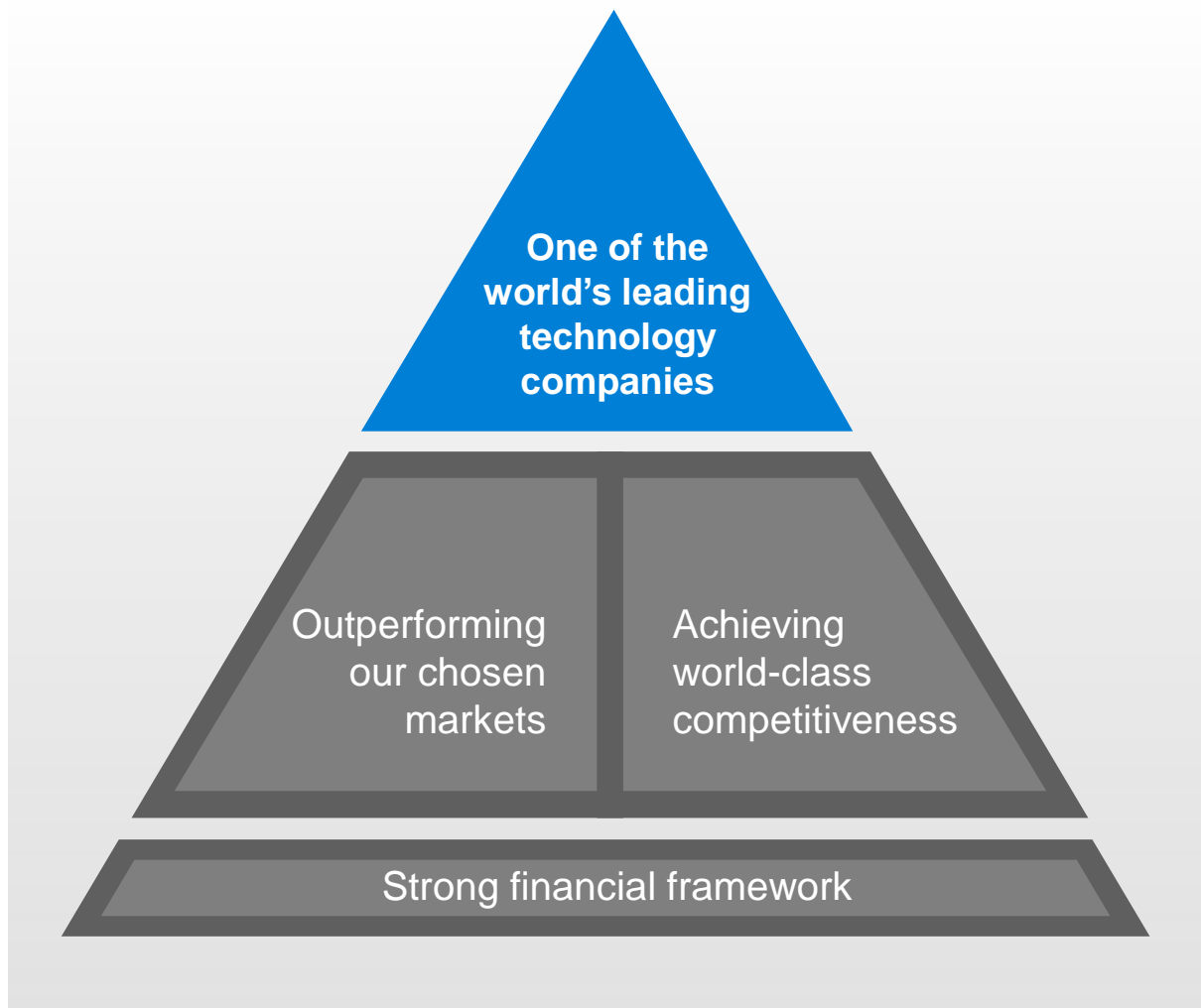
**£51m**  
**-3%\***

Headline operating  
profit margin

**18.0%**  
**-50bps**

\* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

# Our vision and strategic priorities



# The majority of our businesses are well positioned

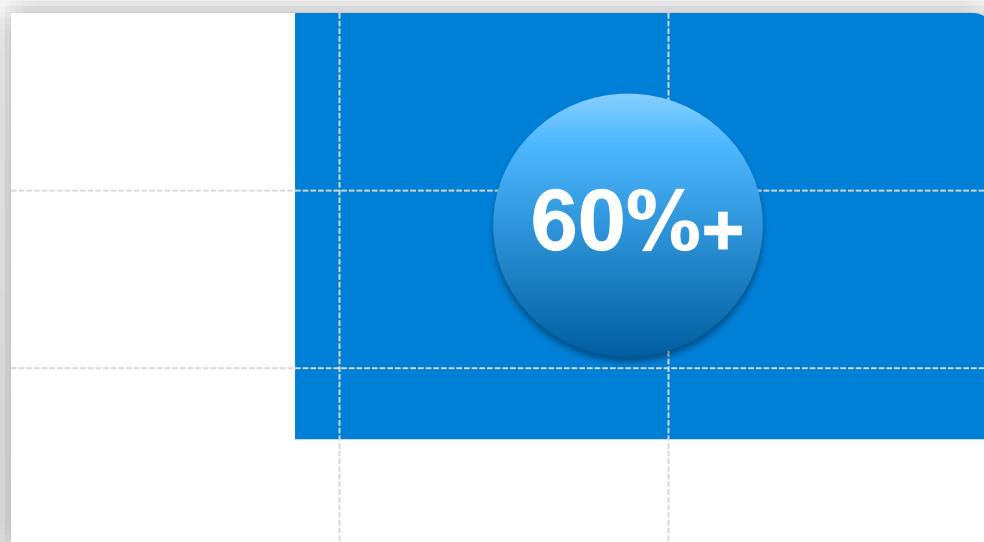
## Market attractiveness

Size

Growth

Segment profitability

Competitor concentration



Low

Medium

High

## Competitive position

Relative market share

Relative profitability

Relative growth

% = of Smiths Group revenues

## The growth framework

- Focus on growing market segments
- Are we in the right geographies?
- Do we serve the right customers?
- Increased aftermarket
- Increase value of content with each customer
- High competitive differentiation

**Market leadership =  
Top 3 market position**





## Smiths driven by Excellence System



## A culture of innovation

- Developing Group-wide capabilities
- 250 software engineers today
- Key strengths in diagnostics, security algorithms, and software libraries
- Moving to end-to-end solutions
- New central fund focused on
  - Digital transformation
  - 3D printing
  - Nano technology
- *i*<sup>3</sup> innovation forum established to create a culture of innovation

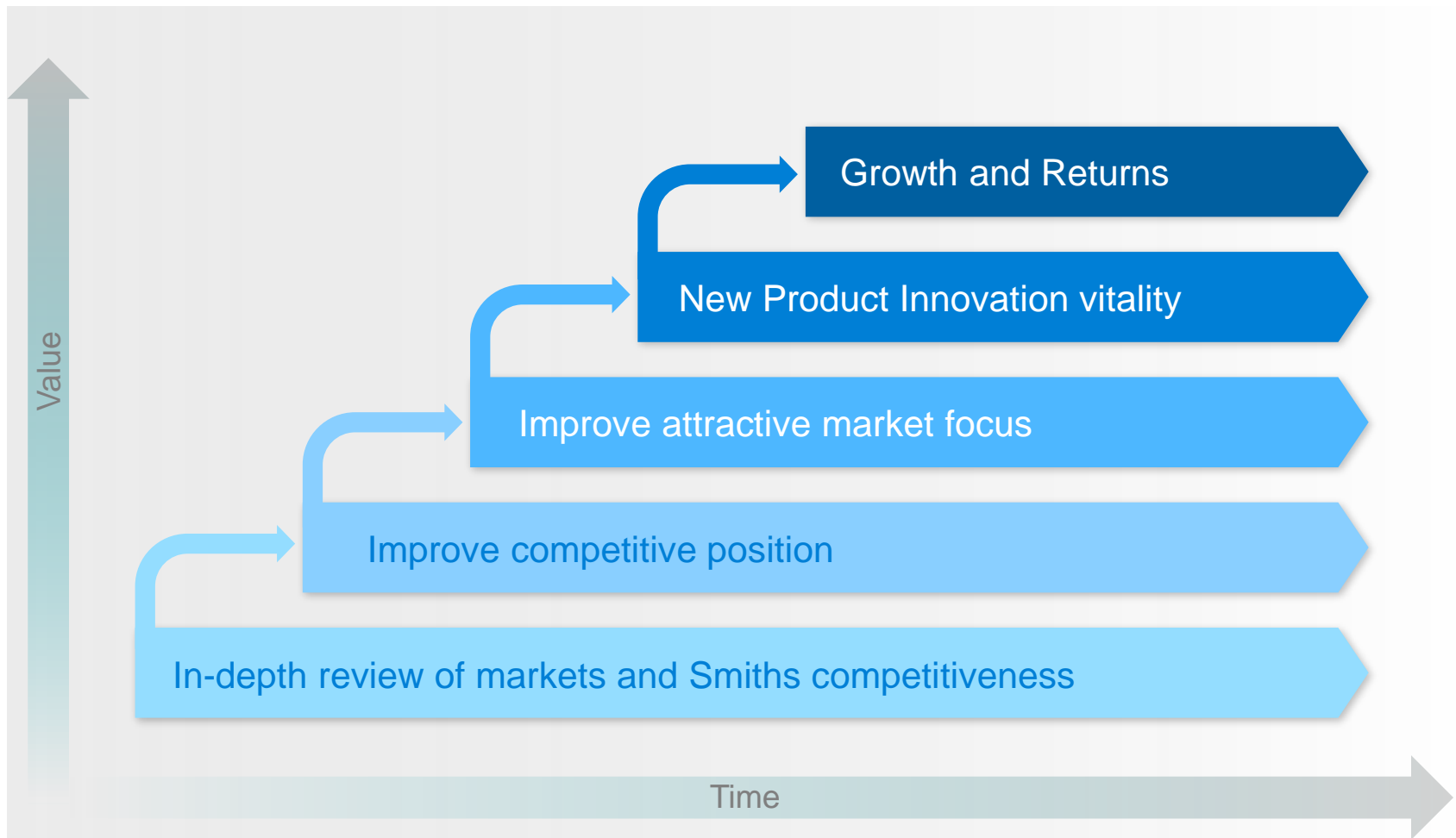
**£20m new Group Innovation Fund, in addition to current R&D**

## Characteristics of a Smiths business



**More focused, better businesses in Top 3 leadership positions**

# Creating one of the world's leading technology companies





**Questions  
& Answers**

**smiths**  
bringing technology to life

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**Being the best  
at what we do**

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