Smiths Group plc
Annual General Meeting
15 November 2016

Being the best at what we do

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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
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

### GAAP like measures

### 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\(^1\)

Revenue: £2,949m, -2%*
Headline operating profit: £510m, -4%*
Headline operating profit margin: 17.3%, -40bps*
Aftermarket and consumables: 53%
Smiths Group
Full year highlights

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

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

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Headline operating profit</th>
<th>Headline operating profit margin</th>
<th>Aftermarket and consumables</th>
</tr>
</thead>
<tbody>
<tr>
<td>£874m</td>
<td>£187m</td>
<td>21.4%</td>
<td>83%</td>
</tr>
<tr>
<td>+1%*</td>
<td>+7%*</td>
<td>+160bps</td>
<td>+100bps</td>
</tr>
</tbody>
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* 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 2017¹

Revenue
£526m
+9%*

Headline operating profit
£69m
+20%*

Headline operating profit margin
13.0%
+110bps

Aftermarket and consumables
37%
+100bps

¹ 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

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

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### Key Financial Figures

- **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

- One of the world’s leading technology companies
- Outperforming our chosen markets
- Achieving world-class competitiveness
- Strong financial framework
The majority of our businesses are well positioned

Market attractiveness
- Size
- Growth
- Segment profitability
- Competitor concentration

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

Achieving world-class competitiveness

- Customer
- Supply Chain
- Programme
- Production
- Technology
- People
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
- i³ 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

- Technological differentiation
- Positioned in growing markets
- Increasing digitisation
- Sustainably competitive and asset light

More focused, better businesses in Top 3 leadership positions
Creating one of the world’s leading technology companies

- Growth and Returns
- New Product Innovation vitality
- Improve attractive market focus
- Improve competitive position
- In-depth review of markets and Smiths competitiveness
Questions & Answers

Being the best at what we do

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