Thanks very much, and good morning, everyone, and really appreciate you joining at relatively short notice.

Today is a really important day for Smiths Group and for Smiths Medical, and I wanted to take the opportunity to update you both on our first quarter trading and how that supports us through the balance of the year, and also talk to you more about the announcement that we’ve made around Smiths Medical.

Based on our first quarter performance, our expectations for the year remain unchanged. I’m happy with the way that the first quarter is run. The Group will, at least, sustain FY18 underlying growth rate and our performance will continue to be as expected weighted towards the second half. First quarter revenue was down 1% on an underlying basis.

In John Crane, we saw a continued good growth with further improvement in the OE order book and aftermarket orders remaining very strong. We expect this trend to continue through the rest of the year.

In Smiths Medical, revenue was down in the first quarter, but importantly, showed improvement versus the decline we saw in the second half of 2018. First quarter revenue was impacted by the previously communicated regulatory and contract challenges but have now begun to abate. The second half comparator is a little bit easier, but coupled with the growing contributions from the significant programme of investments that we’ve made in new products that are beginning to bear fruit. We support our confidence that Smiths Medical will return to growth in the second half of this financial year.

Smiths Detection performance in the first quarter reflected the anticipated phasing of some order deliveries, and we expect a similar pattern of growth to FY18. The order book remains very strong, particularly in air transportation and ports and borders. Ports and borders is down for the first half but we expect strong growth in the second half, and this supports our confidence in robust growth for Detection in the second half of the year.

Smiths Interconnect delivered strong growth in Q1 as the restructuring of the division completes, and it now focuses on growth markets such as space and commercial aerospace. As the year progresses, the comparator does get a little tougher but we’ll continue to expect Interconnect to deliver good growth for the year overall. Flex-Tek continued to performance strongly in the quarter and demonstrated good growth, especially in heat solutions and flexible gas tubing products, and we expect the division to continue to deliver good growth for the year overall.

I’d now like to move to the really important announcement that we made today regarding our decision on Smiths Medical. As you know, we continue to regularly review all options for the Group’s businesses as part of our ongoing previously communicated strategy to both improve each of the businesses individually through further investments in new products in R&D, in operational improvements and sales effectiveness improvements. But at the same time, and in parallel, we focus very carefully on opportunities that we think exist over and above very strong standalone plans to accelerate value maximisation. As we previously described, we announced today our intention to separate the Smiths Medical business from the Group.

The aim of this is to enable Smiths Group to concentrate on growing as an industrial technology group, united by the shared business characteristics and a common operating model, to deliver on our dream of a world-leading global technology company that is growing with good returns, a strongly competitively differentiated with great technology.

Secondly, the announcement will free Smiths Medical to deliver on its full potential, capitalising on its world-leading brand positions and large programme of new product launches, including some of those launches, which are very significant in their own right, and also to position it to exploit value-creating opportunities in a rapidly changing marketplace. This is a really exciting development for Smiths and for Smiths Medical. And the planned separation will strengthen both Smiths Group and Smiths Medical, as each focus on accelerating the execution of their plans and maximising the opportunities in their respective markets.
Separation planning is at an early-stage and we’ll provide you with the full status update at our interim results in March.

And with that, really happy to take any questions. I’m sure there are some.

Q&A

Mark Davies Jones - Stifel
All very exciting. A couple of practical questions, and one sort of broader one. In terms of separation, I’d take your point about it being early days and a lot to do. But from what you can see at the moment, are there any kind of tax implications, pension implications, balance sheet issues that come out of that process that we should be aware of early on? And the broader one is, I absolutely see the logic of the separation, but why now, I guess, is the question. And does it reflect sort of confidence on where you are on that new product pipeline, and when that starts to make a real benefit to the earnings trajectory of Medical?

Andy Reynolds Smith
I’ll take the why now question, Mark. As you know, we communicated very early that we are running a parallel path approach to our strategy, investing in each of the businesses individually as I said a little bit earlier. Medical has been a key focus in that investment programme particularly in new products right across the business operationally. In parallel, we’re thinking about driving the business forward because we have a very strong standalone plan in Medical. We have continued to think very carefully on an ongoing basis whether there are opportunities for us through positioning the business differently to accelerate on that plan to do better than that plan. You know from some of the discussions that we had last year that that’s been very much front of mind for us.

For me, this is very much a logical continuation of that thinking. It’s about building on what we think is a very good base plan that is starting to show the fruits of the labours and a logical progression. But we think there is opportunity to do more, better and quicker here. And I’ll ask, John, perhaps you could talk to any implications that you have in your mind?

John Shipsey
We are at an early stage of the planning. We do have to work through a number of things, including the tax, pensions, balance sheet implications. For example, on tax there, I can say we don’t see any showstoppers on pensions. You know, we have a very strong relationship with our trustees and that our pension schemes are very well-funded. So, we’re looking forward to using the time now to have a dialogue with the trustees. And yes, there will be further implications to the balance sheet and we’ll be able to update further at our interims in March.

Mark Davies Jones - Stifel
Great. At risk of being greedy, can I ask one unrelated one? Detection, I’d take the point on the strength of the order book. But is there anything you can do to reduce the volatility of this somewhat because it does seem to be seeing some very wild quarter swings in performance and timing?

Andy Reynolds Smith
I’ve got a really clear view of that one, Mark. The air transportation business is about 70% of the total, as you know. If you take that in and of itself, that has a very high percentage of aftermarket and service associated with it that does help to smooth some of the peaks and troughs with big airport contracts. This is by nature a contract business in any case, of course, but that increasing aftermarket share does smooth the picture. Really the lumpiness in the last 18 months has been primarily caused by the ports and borders business, where, as we said at the full year results, we have lost some ground. We’ve now refocused that business both strategically and commercially in terms of the way we organise and the way that we target the business and incentivise the people. And we’re starting to see the real fruits of that.

I mean, we’re starting to win new contracts. We won one particularly large contract in Asia and the plants are full right now. So, through the first half, I expect it to continue to be down, but with a very full order book, very full plants and a strong return to growth in the second half. We’ll also be continuing to push on the urban security side of the business. So, how do we get the 30%, which is much lumperier than the airports business, running better, and we should be in a really strong position to do that on the basis that with the leader in those technologies, we just need to move those technologies across and focus them much more
strongly in those other sectors. So, this business will always be a contract business, but it will smooth out and become less lumpy as time goes forward.

Robert Davies – Morgan Stanley
Yeah, just a couple of questions from me. The first one was just around the potential options on the table. I mean, obviously if you consider the last sort of six or seven years at Smiths, there’s been a couple of approaches for that business. It was the release you put out earlier in the year in terms of discussion with ICU Medical. Do you, at this stage, have any preference for potential solutions or options that are on the table from a sort of personal standpoint?

And the second one is just around the trends you’re seeing in John Crane. You mentioned sort of strength across the board. Is there any particular regional spots that you’re seeing that are stronger than others or certain customers? What’s the discussion given obviously the recent moves in oil price? Are you seeing any changes in behaviour from your sort of large oil and gas customers there?

Andy Reynolds Smith
Well, I’ll take both of those questions. I think around Medical, the primary job of work here is to continue to execute on our base plan. It’s a really good plan. We’ve made the investments. We’re starting to see those come through. At the same time, the market in Medical is evolving and changing very quickly. And it’s been my clear view that in addition to that base plan, which can be extremely exciting – and we’ve been spending quite a lot of time around the new products, and particularly, our own infusion products that are pending launch. So I’m feeling like there’s a lot to come. But alongside that, we have continued to look at ways that we can better position that business in whatever form that takes in order to accelerate over and about that base plan.

I don’t want to talk at this stage about what options it could look like. I mean, I think you and I could probably have an interesting discussion about the clear points. All options are, of course, being considered and they’re all focused on how we optimise shareholder value over time.

Moving to John Crane, you know, I’ve said before that more than 70% of the investments that are going into oil and gas and chemical installations in the next 10 to 15 years are going into Asia and the Middle East. We are seeing that as very much a focus at the moment. So, a lot of the activity around new installations and major refurbishments are going on in that region.

We’re in a very good position actually in that whilst all the investments are going in there, we also have good market share in those regions. We have recently secured a major programme in Oman, which we’re really pleased about, one of the world’s largest refineries with more than 3,000 pumps in it. So, that’s where a lot of focus is going, and that’s read across to chemical, of course, as well, which we categorise in our non-oil and gas segment. So, continuing really to capitalise on the strong base that we’ve got in that business, the network on the existing market shares.

Glen Liddy – JP Morgan Cazenove
For John Crane, often when the OE side of the business grows, you get a bit of margin pressure. Because it’s lower margin, I appreciate you need to grow your installed base to deliver the longer-term growth. Are margins still at the moment relatively stable?

Andy Reynolds Smith
This business, as you know, Glen, has always been about installed base and then an ongoing attractive annuity stream over the life of the refinery over 20, 30, 40 years. So competition to win that installed base in the OE bed has always been very tough. I mean, it’s fierce. So, we continue to see that. I don’t see any meaningful changes in the ferocity of that battle right now, but it was already pretty tough. The important thing for me is that the margin on the aftermarket business is not seeing pressure. So, we can continue to see positive pricing on the aftermarket piece of that story. So, no particular differences in the commercial or competitive environment right now.

Glen Liddy – JP Morgan Cazenove
Okay. And on Medical, last year you terminated one of your contracts with a distributor and you’re then in a period of time where you couldn’t sell the product yourself. Could you give us an update on where we are and when that should start to help the top line growth?
Andy Reynolds Smith
Absolutely. The product that you’re referring to is what we call Acapella, which is the COPD device to help clear your airways. And we were off sale for that for a while, having terminated that distributor contract. We went back on sale direct in October. We made very good progress. At this stage, the numbers aren’t material enough to be substantially affecting us in the first half, but we expect that to continue to accelerate now as we retake that market based on a better product in the second half, although, I was very pleased with the first out-of-the-gate performance having effectively not sold it for a period of time. So, it was a good start.

Glen Liddy – JP Morgan Cazenove
Okay. Finally, on Detection. Last year the military side of Detection was pretty tough place to be. How is that sort of panning out now?

Andy Reynolds Smith
It’s largely focused, as you know, with the Department of Defence and around two main products, which are both in sunset phase. We are now well advanced with the DoD-funded development programme for the next generation. However, that doesn’t start to bear any fruit until 2020-2021 depending on budget approvals. We’re in hold position on that based on our history, and the fact that we’re in the main development programme, which is funded. We are seeing a little bit of improvement in that business right now versus where it was when we reported at the end of the financial year, with some additional orders coming through to support conflicts around the world. But this is not a significant return to growth.

We are looking very carefully now, though, Glen, at how we can move to some of the other ministries of defence around the world, with some of these products to reduce the reliance of that business on, specifically, the DoD. And in addition, we’re trying to cross-fertilise some of that technology into other areas, commercial applications. Probably the most meaningful of those to-date was the defence and oil detection using the similar trace detection that we won with the Canadian Police recently.

Sandy Morris - Jefferies
Sorry, I’m going to be my usual agricultural self. Even in broad terms, if we took Medical out of first quarter, would the -1 have become a positive number in terms of underlying revenue?

Andy Reynolds Smith
I think all I would guide you to at this stage, Sandy – because I don’t want to get into implications, we’ll give a much fuller update on that at the interim results in a few months’ time - but I would guide you towards the fact that the second half of Medical was down 4% on revenue. We expect that to be better in the first half of this year, as we make progress back into growth in the second half. I think you’ve got a pretty clear view of where the other divisions sit in their profile at the moment and growth profile. So, I think I’ll leave it at that at the moment, Sandy, if I may.

Sandy Morris - Jefferies
And can I just be absolutely clear: the Detection revenue in the first quarter, I’m gauging by your comments, was significantly down even against a weak comparative?

Andy Reynolds Smith
It was down against a weak comparative, primarily driven by the ports and borders business, which continues down. But I’m really keen to ensure that people understand that the order book is full on ports and borders as a result of the refocusing of that business, and we expect very strong growth in the second half. And of course, airports last year had an extremely strong year above expectations. So, that comparative is pretty strong.

John Shipsey
Sandy, air transport was up 8% in the first half of last year. So, the comparator on that wasn’t so easy.

Sandy Morris - Jefferies
Right. And actually, as you’ve chimed in – that’ll teach you to volunteer information – I’m guessing the working capital position at the end of the first half might not look that great if Detection really is very heavily second half-loaded this year?
John Shipsey
Actually Sandy, I’m willing to volunteer that that would be right. As Andy referred, for example, on ports and borders, the factory is full. The revenue recognition will actually come in the second half for most of that ports and borders programme, so clearly that will be WIP in our working capital at the end of the first half.

Sandy Morris - Jefferies
Right. And at the risk again of being really ignorant, and not looking for a huge amount of answers, you know, but when you’re talking about the medical market rapidly changing, you know, has anything changed materially in the last three, six months, or is it just medical has always been evolving quite rapidly really?

Andy Reynolds Smith
Well, the Medical business over previous years, as you know, has gone through lots of changes, with development of admin buying or the group purchasing organisations, some out of field players starting to enter, like Amazon trying to disrupt distribution channels has also been a great deal of consolidation going on in the market in previous years, which has really all been about strengthening category leadership and scale. And I think our plan, we have a very strong plan based on category leadership, particularly around it, which we continue to develop hard on.

Sandy Morris - Jefferies
So, it’s a funny old thing. If there’s another business out there like Smiths Medical, I can’t think of it and I’m not counting ICU for example. I mean, it’s a scarce old beast, your medical business, no?

Andy Reynolds Smith
I wouldn’t say that, Sandy. I mean, it’s a very valuable business in its potential for sure. We’ve got a number of world-leading positions. You know what the playing field is. There is some strong players there. And our aim has been to ensure that we’re competitively differentiated with the very best product and then getting it to market quickest and most effectively. And that remains the focus with that business. So, I’m really confident in the plan that the Medical team have. I think, this move will enable them to further focus their efforts and resources. And also, if there is an opportunity to further accelerate value over and above that plan, it will give us wide eyes and the ability to take advantage of that should that occur.

Ed Maravanyika - Citi
I had two questions. Firstly, just on Smiths Medical. Could you just give a bit more detail on the – on how the previously-announced regulatory challenges are abating? I know you spoke on the contract, but maybe if you could just give us some colour on the regulatory challenges?

And then on John Crane, especially with the oil price moves over the last couple of days. At what oil price do you start to worry, or are your projects pretty much locked in long-term that it’s not really about short-term oil price volatility?

Andy Reynolds Smith
Sure. First on Medical and I’ll take the answer to that regulatory piece in two chunks. The first is the change of notified body that we experienced that related to products that had been on sale for many years, that we have to do some work around to either get them requalified or get documentation, where it needed to be. We are well through that now. We’re almost entirely complete with regaining those qualifications, almost – we’re almost entirely back on sale. There are one or two products that are still pending. But we expect by the end of the first half, we’ll be fully back on sale. There are some products which we’ve decided to end of life as a result of the process, where simply the economics of going through a requalification process versus the size of those product sales didn’t make financial sense for us. So, end of the first half, we’re done. We’re back on sale and exactly where we wanted to be.

The second chunk of it is around the new MDR medical device regulations that come to bear in early 2021, which affect everyone across the industry across Europe. We continue to work on those. We had previously talked about the costs associated with moving to those new regulatory levels, which include a higher level of efficacy testing. We communicated the amount that we think it’s going to cost us and we continue to believe that we’re in the right phase. So, things going very well, almost entirely back on sale for the stuff that we had to stop selling.

I think on the second question around Crane. It’s important to remind that the John Crane business is almost entirely downstream-related now, having sold the businesses, the upstream businesses. So, we don’t depend on extraction activity, the Permian Basin activity. We depend on refinery and chemical plant
and pharmaceutical plant activity and new build and pace of operation. So we’re much more impacted by demand for oil and gas than we are by the oil price. Now the oil price does have some halo effect on thinking around new investments clearly. But we’re very much a late cycle. So, if there are delays, we tend to be late cycle versus any impacts that you see on upstream activity. And we’re currently in a position with record order books actually, as there’s a lot of catch-up going on from previously deferred installation improvements that were being made and also approvals for new installations.

So, does the oil price have an effect? Yes. Is oil and gas demand the major driver for us? Yes, it is.

**Jack O’Brien – Goldman Sachs**
Hi, good morning, everyone. First question is just on thoughts regarding optimum leverage you had seen with the new structure. So the sort of industrial technology business and Medical. How you’d think about leverage there? And then just secondly on John Crane. Just a quick question to see how that the non-oil and gas part of that division is going?

**Andy Reynolds Smith**
I won’t get into views on what we think leverage is. Obviously, you know, this is about creating strong two businesses, the Smiths Industrial Technology business, a world-leading technology company and our Medical business. It’s about making them both stronger. Obviously as we think about what form, any separation may take, front of mind is going to be enabling those businesses to continue to thrive and structuring them financially accordingly.

**Jack O’Brien – Goldman Sachs**
Okay, great. And just on the sort of other 50% of John Crane?

**Andy Reynolds Smith**
Well, we said that we were taking a measured approach. Our market share is much lower than it is in oil and gas. We refocus the division, as you know, probably a couple of years ago to say that the oil and – non-oil and gas, which is 50% of the revenue, should be receiving a lot more attention in terms of new product but also commercial focus. We have been solidly in growth at 3% or 4%. We expect that to continue through this year. We are taking a measured approach to that, because it’s really important that the projects that we win and the deals that we win share similar characteristics, both financially and from a technical demand point of view to our oil and gas business.

So, I've had questions previously, well, can you be growing more quickly if your market share is much lower currently. Well, yes, but we’re doing it in the right way, so that we can maintain the financial performance of the business and the technical positioning in differentiation of that business. So, continuing to expect 3-4%. In fact, in the first quarter, we did a little bit better than that.

**Denise Molina - Morningstar**
Hi, thank you. Just a couple of questions on the – first, on the Urban Security. You mentioned that you’re trying to grow share there. Just wondering if you have any new products in the pipeline that you’re expecting to put out there. And then just staying on Detection. On the ports and borders business, you talked about increasing incentives to sort of get that business going in the right direction. Just wanted to make sure that the margins aren’t lower on that new business with the additional incentives.

**Andy Reynolds Smith**
I’ll take those questions back to front, if I may. I think with ports and borders, the main thing we’ve done is we’ve refocused the organisation in a different way so that we got a group of people specifically on ports and borders with their incentives aligned to that. As always, what Smiths is about is where we’ve got technology differentiation and real value to bring. So, are there areas Urban Security where there are much lower demands, where we could start to play? Yes, but they would probably have inferior financial returns. So, our growth strategy is really around those areas where we think there’s really opportunity for us to use the muscle of our unmatched R&D in this space to secure reality good returns at the same time as something that the competition can’t bring.

Some of the projects that we’re working on includes Shanghai Underground, for example, and there are whole range of different opportunities in Urban Security around government buildings, general sports stadia, underground transportation systems. So, it’s an area with huge potential but one that we’re very focused on how we want to grow in the way that we’ve got best technology differentiation and best returns.
Denise Molina - Morningstar
Okay, that’s clear. Can I just ask one last question just in terms of the separation? What distinguishes Medical from the other divisions? I know, you know, John Crane, we think about like the catch-up period on replacement cycle for the seals, but is there anything that would – about Medical that would distinguish it from the other businesses that might be up for separation, so I’m just thinking about maybe some of the smaller ones, like Interconnect or things that aren’t as meaningful to the whole group?

Andy Reynolds Smith
No, I think the investment approach that we’re taking in all of the businesses is primarily about the organic development of those businesses, how we make them stronger through more R&D, better operations, executing better. So, I wouldn’t draw any differentiation. This will just enable us to really focus that team, allow them to focus on applying their time, resource, their money in a very effective way. So, no, I wouldn’t draw any differentiation there.

Denise Molina - Morningstar
I just want to be clear. You’re not saying that the Medical is going to be spun-off and that the rest would never be spun-off. I guess, I’m not really clear whether or not you’re saying that there’s a line drawn and the rest of the business would not be a target for separation?

Andy Reynolds Smith
No. What we’re clearly saying is that this enables us to through separating the business, focus very much on Smiths Group as a high-performing Industrial Technology business. It enables the Medical business to focus and accelerate its plan. So, we – that remains our strategic focus and will continue to be. We’ve got to the lot of shared characteristics across this business and we remain excited about all of them, including the potentially separated Medical business.

Okay, well, thank you very much, again, everyone for joining on this important day for the Group and for our Medical business.