

smiths

SMITHS GROUP PLC

ANNUAL RESULTS



21 SEPTEMBER 2018

www.smiths.com

DISCLAIMER

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INTRODUCTION



ANDY REYNOLDS SMITH
CHIEF EXECUTIVE



STRATEGIC PROGRESS



FINANCIAL REVIEW



JOHN SHIPSEY
CHIEF FINANCIAL OFFICER



HEADLINE FINANCIAL RESULTS¹

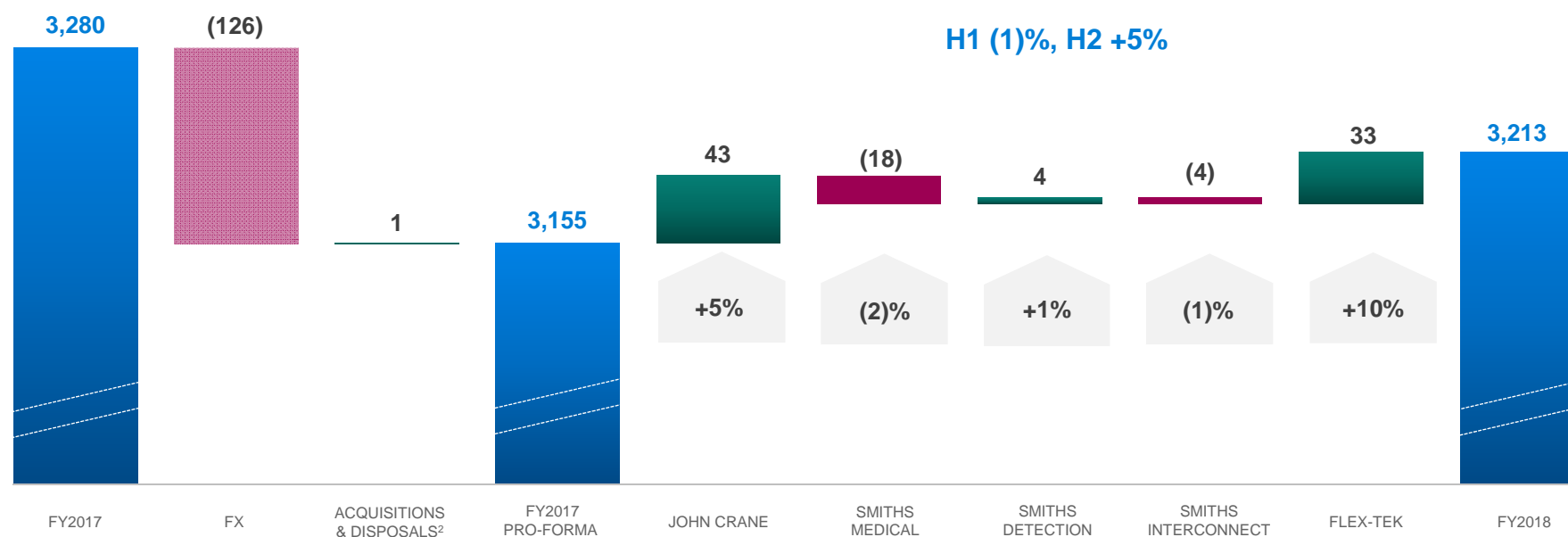
£m	FY2018	FY2017	REPORTED CHANGE	
REVENUE	3,213	3,280	(2)%	+2% underlying
OPERATING PROFIT	544	589	(8)%	+3% underlying
OPERATING MARGIN	16.9%	18.0%	(110) bps	+10bps underlying
PROFIT BEFORE TAX	487	528	(8)%	
EPS	90.7p	97.6p	(7)%	+4% underlying
FREE CASH-FLOW*	302	370	(18)%	99% cash conversion
ROCE	14.6%	16.2%	(160)bps	(110)bps impact of Morpho
DIVIDEND PER SHARE	44.55p	43.25p	+3%	

¹ Headline excludes non operating items as defined in note 3 of the accounts. Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.

* Statutory

UNDERLYING¹ REVENUE UP 2%

£m



- 1 Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.
- 2 Includes disposals and FY2018 performance from acquisitions that do not have comparators for the prior year

REVENUE¹ BY DIVISION

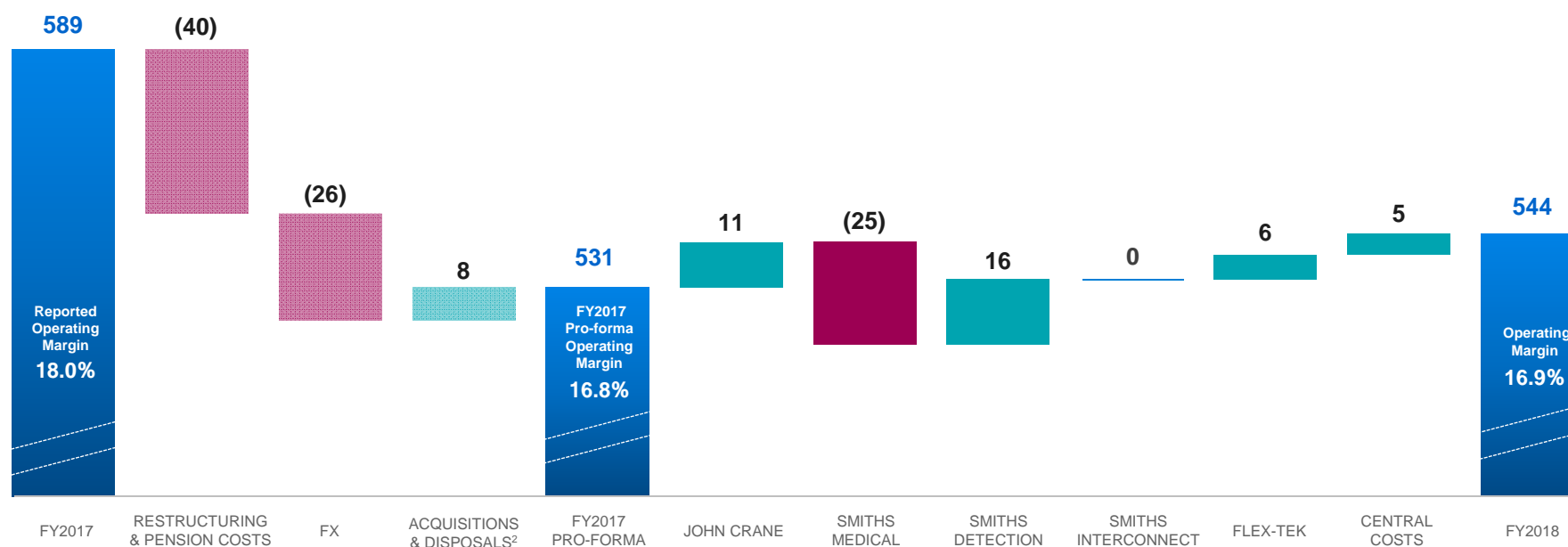
JOHN CRANE			SMITHS MEDICAL			SMITHS DETECTION		
+5% £881m Good growth	Oil & Gas	c.+7%	(2)% £885m Impacted by disruptions	Infusion Systems	+4%	+1% £793m Strong Air Transportation	Air Transportation	+20%
	Non-Oil & Gas	c.+3%		Vascular Access	(4)%		Ports & Borders	(43)%
	OE	+1%		Vital Care*	(6)%		Defence	(46)%
	Aftermarket	+8%					Urban Security	+3%
AFTERMARKET: 67%			CONSUMABLES: 82%			AFTERMARKET: 44%		
SMITHS INTERCONNECT			FLEX-TEK					
(1)% £300m Improving trend			+10% £354m Continued strong growth					

¹ Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.

* Vital Care includes Specialty Products

UNDERLYING OPERATING PROFIT¹ UP 3%

£m



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² Includes disposals and FY2018 performance from acquisitions that do not have comparators for the prior year

OPERATING PROFIT¹ BY DIVISION

JOHN CRANE		SMITHS MEDICAL		SMITHS DETECTION	
OP £202m +6%	Margin 22.9% +10 bps	OP £156m (14)%	Margin 17.6% (250) bps	OP £134m +16%	Margin 16.9% +240 bps
• Improving volumes • Strong aftermarket growth		• Loss of contracts • Change of Notified Body in Europe		• Favourable aftermarket mix • One-offs items associated with long term programmes	
• Adverse geographic mix • Higher ramp up costs		• Investing in new product launches with higher R&D costs		• Morpho synergies ahead of schedule	

SMITHS INTERCONNECT			FLEX-TEK		
OP £42m (2)%	Margin 14.1% (10) bps	• Higher investment in R&D • Restructuring	OP £67m +10%	Margin 18.9% flat	• Continued strong performance • Integration of acquisition completed

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CASH-FLOW

£m	FY2018	FY2017	Comments
OPERATING PROFIT ¹	544	589	
CAPEX & DEPRECIATION AND AMORTISATION	(8)	3	Asset light
WORKING CAPITAL	(16)	85	Working capital % sales ² : 26% (FY2017: 27%)
OTHER	18	18	
OPERATING CASH-FLOW¹	538	695	99% cash conversion
INTEREST & TAXATION ¹	(129)	(142)	Headline ETR 25.8% - FY2019 expected at c.25%
PENSION	(45)	(103)	
OTHER INVESTMENT AND NON-HEADLINE	(62)	(80)	
FREE CASH-FLOW	302	370	
DIVIDENDS	(172)	(167)	
ACQUISITIONS & DIVESTITURES	(42)	(118)	
FX AND OTHER	(14)	(74)	
MOVEMENT IN NET DEBT	74	11	

¹ Headline excludes non operating items as defined in note 3 of the accounts

² Working capital as a percentage of sales is calculated as the 12 month rolling average of inventory, trade receivables and associated provisions, unbilled receivables, trade payables and deferred revenue as a percentage of total annual sales

ORGANIC GROWTH: R&D INVESTMENT

CASH COSTS¹



■ John Crane ■ Smiths Medical ■ Smiths Detection ■ Smiths Interconnect ■ Flex-Tek ■ Central

Income statement costs (expensed and amortised)¹

£131m



£125m



8% underlying growth

1. Reported – FY2017 includes disposals

DIVIDEND



Proposed final dividend of 30.75p, bringing full year dividend to 44.55p, up 3%



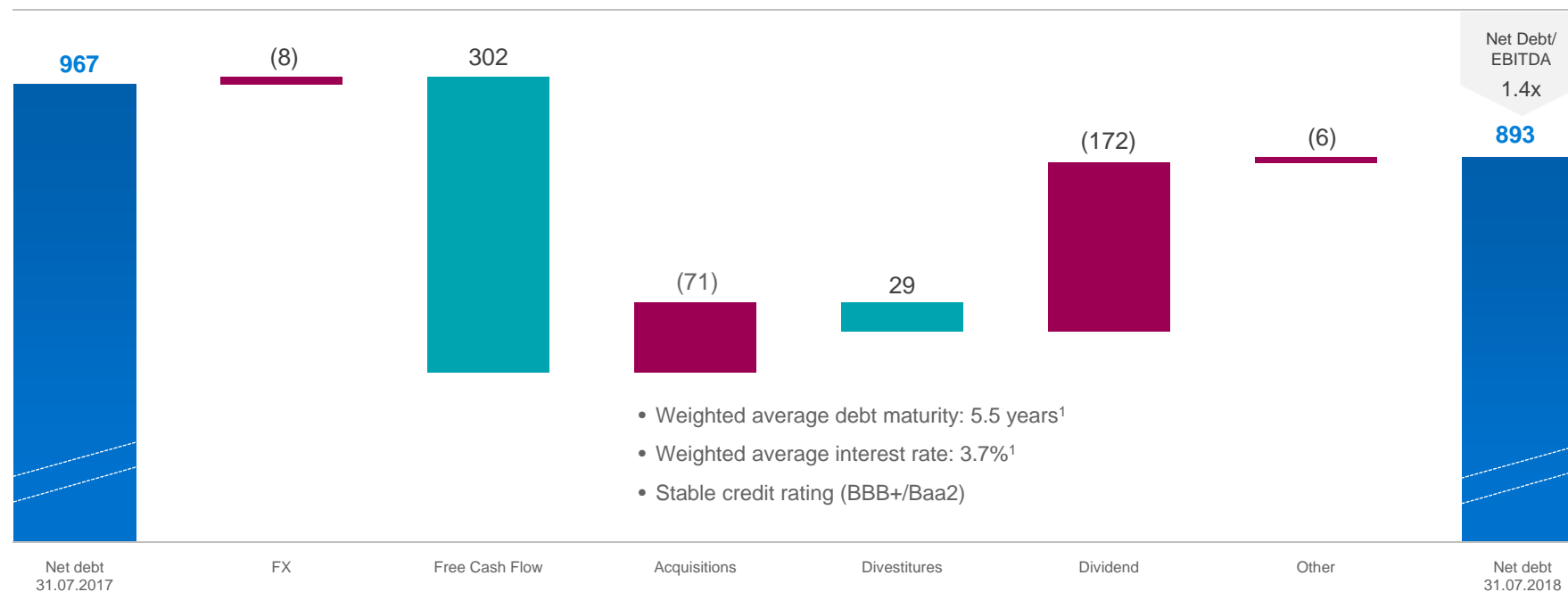
Strong cash-flow supporting dividend growth



Free cash-flow covers the dividend payment

STRONG BALANCE SHEET

£m



¹ Refers to gross debt

PENSION - CONTINUOUS IMPROVEMENT



Reduction in cash contribution

- £49m in FY2018 (FY2017: £105m)
- c.£45m expected for FY2019



Accounting surplus increased to £381m (FY2017: £224m)

Continue to de-risk schemes: buy-ins and lump-sum offerings



On track to achieve our common goal of self-sufficiency for both the main UK schemes within the next 10 years

FX SENSITIVITY

Currency	2018 average rate	2017 average rate	% change	Current rate
USD	1.35	1.27	6%	1.32
EUR	1.13	1.16	(3)%	1.13

- For each \$0.10 move, the annual operating profit impact is c.£25m
- For each €0.10 move, the annual operating profit impact is c.£10m
- At current rates, FY2018 operating profit would have been increased by 1% (c.£5m)

2019 OUTLOOK

- ➔ Sustained growth
 - John Crane maintaining growth rate
 - Smiths Medical back to growth in H2
 - Growth in Smiths Detection driven by Air Transportation, further H2 weighted
 - Smiths Interconnect returning to growth
 - Flex-Tek continued good growth

- ➔ FX tailwind at current rates

- ➔ H2 weighted

- ➔ Continued focus on operational excellence and cash generation

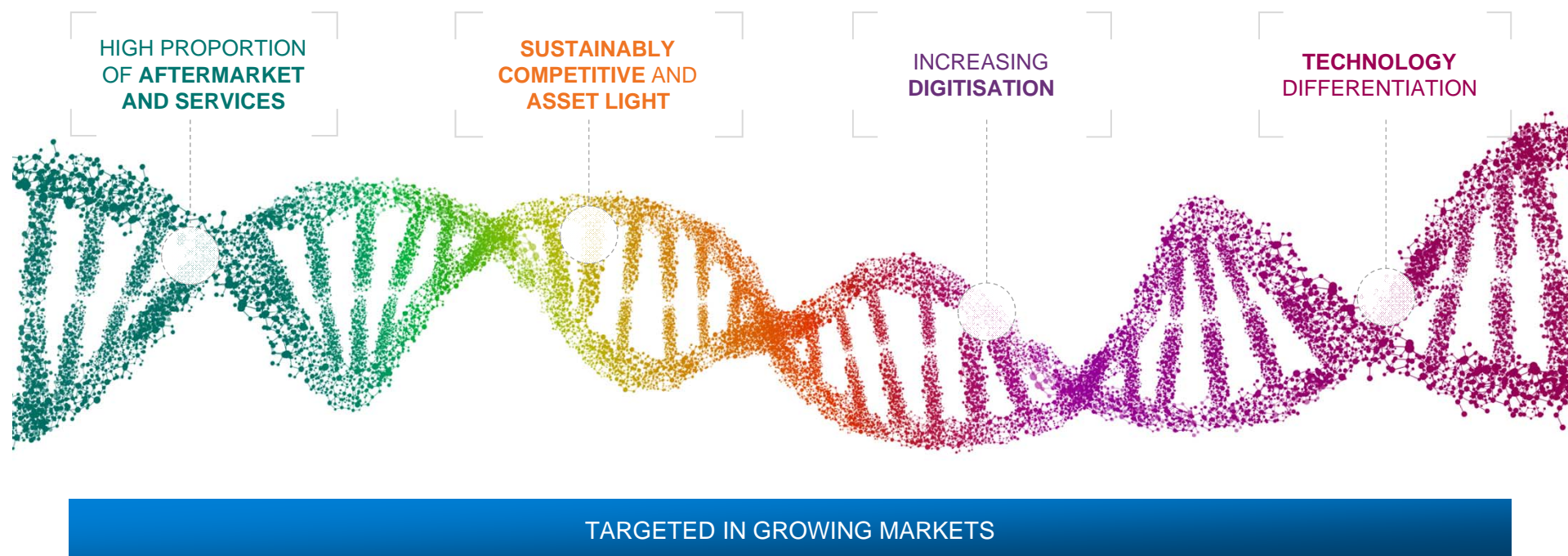
STRATEGIC UPDATE



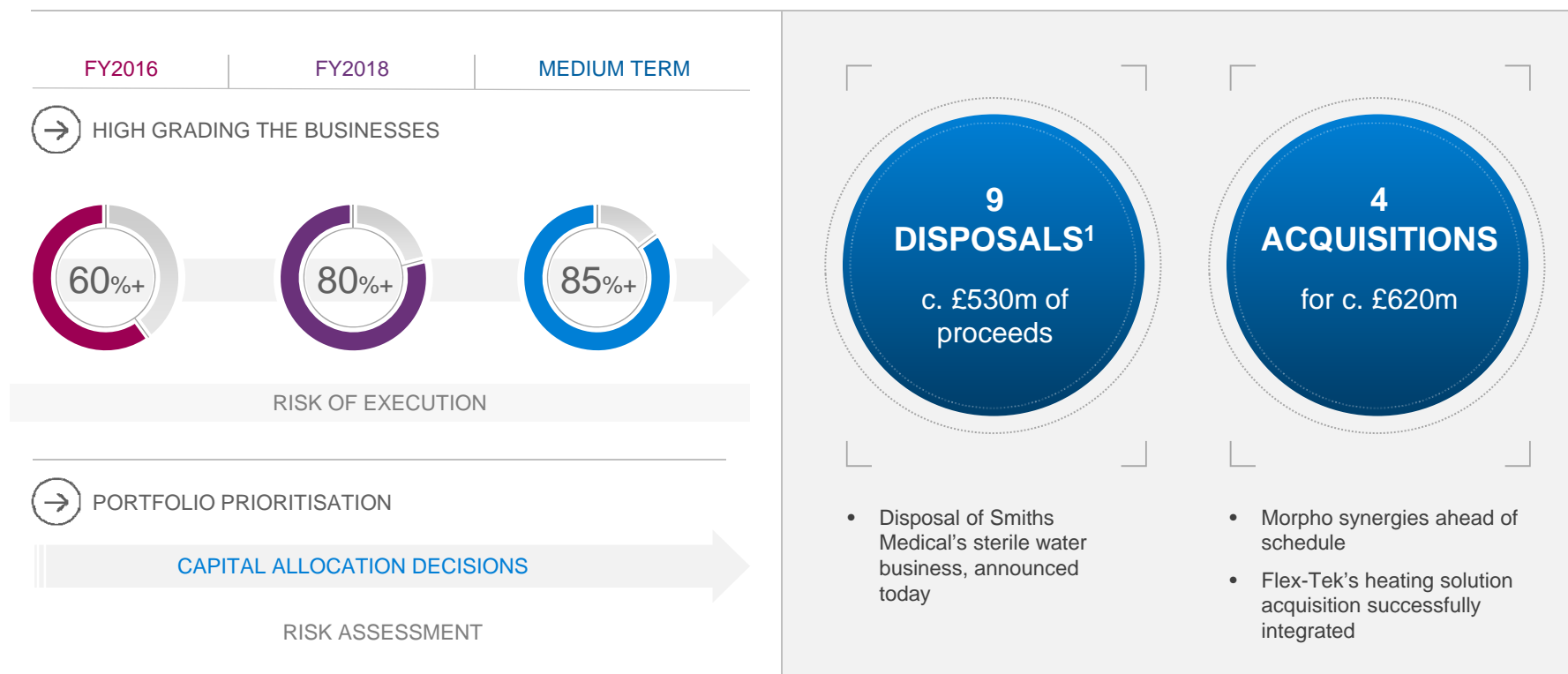
ANDY REYNOLDS SMITH
CHIEF EXECUTIVE



CHARACTERISTICS OF A SMITHS BUSINESS – OUR DNA



STRATEGIC PROGRESS



¹ Includes the signed agreement to dispose of our sterile water bottling business announced today

SMITHS MEDICAL

- High quality business in attractive markets
 - Strong brands and positions
- Strategic progress
 - R&D up c.40%¹
 - > 20 new products launched this year
- Disappointing H2 performance
- Confidence in medium term delivery
- Parallel path

¹ Average of R&D % sales between FY2011-2015 vs FY2016-FY2018

OPERATIONAL EXCELLENCE



Centre light with framework and capability development led from the centre



Execution and entrepreneurialism in the businesses



SES in action

- **Inventory optimisation in John Crane**

- 28% improvement in stock turns in 2 years

- **Supplier development programme in Smiths Interconnect**

- Collaborative approach with key supplier
- Delivered €800k of savings (14% of spend)

INNOVATION



John Crane
dry gas seal



Smiths Detection
Checkpoint CT scanner



Smiths Medical
blood-draw safety device




Smiths Medical
Smart ambulatory pump



Smiths Interconnect
edge card contact for medical applications



Flex-Tek
floating core duct



DIGITAL FORGE



PEOPLE

LEARNING

- Leadership programme
- SES Academy
- Central graduate apprentice programmes

DIVERSITY

- D&I programme

CULTURE

- Shared values
- Enhanced employee communication and brand
- First Smiths Day celebrated 7th June 2018



MEDIUM TERM AMBITION

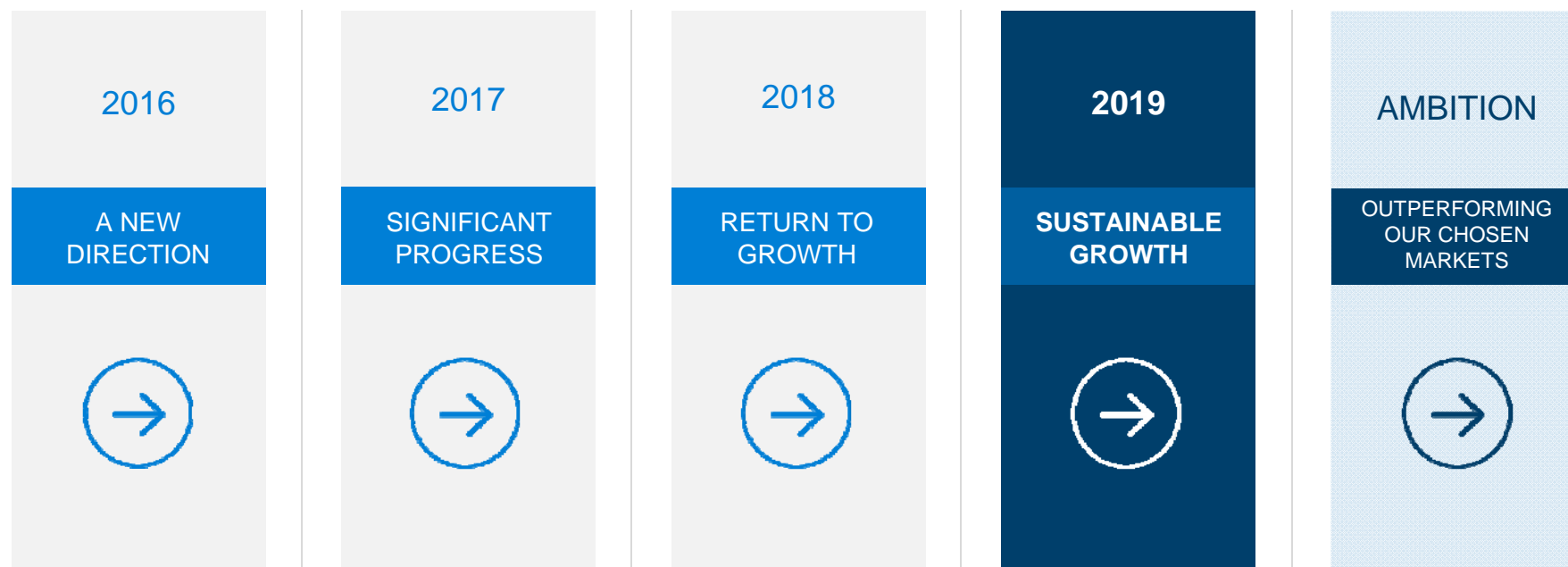
OPERATIONAL PERFORMANCE

	FY2018		Ambition
Portfolio strength	~80%	→	85%+
R&D % sales	4.6%	→	5-6%
Vitality index	13%	→	~20%
Stock turns	3.7x	→	~6x
Aftermarket %	57%	→	60%+

FINANCIAL PERFORMANCE

	FY2018		Ambition
Underlying revenue growth	+2%	→	Outperform our chosen markets
Operating margin	16.9%	→	18-20%
ROCE	14.6%	→	16-18%
WC % sales	26%	→	~20%
Cash conversion	99%	→	100%+

SUSTAINABLE GROWTH



QUESTIONS & ANSWERS



APPENDIX



INCOME STATEMENT

£m	FY2018	FY2017	Change
Revenue	3,213	3,280	(2)%
Headline ¹ operating profit	544	589	(8)%
Restructuring costs (Fuel For Growth)	-	(33)	
Morpho integration costs	(19)	(4)	
Legacy liabilities	(8)	(5)	
Pension administration costs	-	(7)	
Pension settlement gain/(losses)	4	(2)	
Amortisation of acquired intangibles	(29)	(17)	
Unwind of fair value uplift on Morpho inventory	(2)	(3)	
Acquisition costs/ provision release	(3)	(19)	
Profit from divestitures	7	175	
Total non-headline items	(50)	85	
Statutory operating profit	494	674	(27)%
PBT - Headline ¹	487	528	(8)%
- Statutory continuing	435	601	(28)%
EPS - Headline ¹	90.7p	97.6p	(7)%
- Statutory continuing	70.0p	144.1p	(51)%

¹ Headline excludes non operating items as defined in note 3 of the accounts

RESTRUCTURING AND PENSION ADMINISTRATION COSTS

FY2017 - £m	John Crane	Smiths Medical	Smiths Detection	Smiths Interconnect	Flex-Tek	Central costs	Group
Headline ¹ operating profit – reported	204	209	103	56	65	(48)	589
Restructuring programmes	(7)	(16)		(2)	(1)	(7)	(33)
Pension admin costs						(7)	(7)
Headline ¹ operating profit – pro-forma basis	197	193	103	54	64	(62)	549

¹ Headline excludes non operating items as defined in note 3 of the accounts

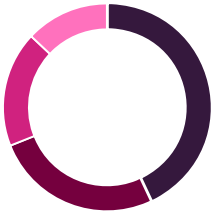
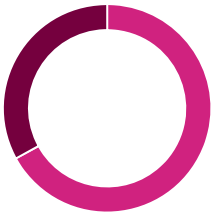
REVENUE AND OPERATING PROFIT¹ H1/H2 SPLIT

£m	H1 Revenue	H2 Revenue	2018 Revenue	H1 Operating profit	H2 Operating profit	2018 Operating profit
John Crane	428	453	881	91	111	202
Smiths Medical	451	434	885	82	74	156
Smiths Detection	367	426	793	59	75	134
Smiths Interconnect	135	165	300	14	28	42
Flex-Tek	168	186	354	31	36	67
Central costs				(30)	(27)	(57)
Group	1,549	1,664	3,213	247	297	544

¹ Headline excludes non operating items as defined in note 3 of the accounts

JOHN CRANE: Mission-critical solutions for global energy and process industries

Revenue £881m (27% of Group)	COMPETITIVE STRENGTHS <ul style="list-style-type: none"> • A global leader in flow control for rotating equipment • Strong proprietary technology and expertise in applied engineering • Broad installed base in Oil & Gas and Non-Oil & Gas • Strong aftermarket service offering with c. 200 sales and service centres • Long-term customer relationships 	GROWTH DRIVERS <ul style="list-style-type: none"> • Need for operational improvements in non-oil and gas process industries • Pent-up demand for maintenance and upgrades in oil & gas and petrochemical • Expansion in high-growth markets • Disruptive innovations including material science advancements and digital transformation 	COMPETITIVE LANDSCAPE <ul style="list-style-type: none"> • Flowserve • EagleBurgmann
Headline OP £202m (34% of Group)			
Margin 22.9%			
R&D % sales 1.3%			

GEOGRAPHIES <ul style="list-style-type: none"> ■ Americas 43% ■ Europe 26% ■ APAC 18% ■ RoW 13% 	OE/AM <ul style="list-style-type: none"> ■ Aftermarket 67% ■ Original Equipment 33% 	END MARKETS <div> c.56% OIL & GAS <ul style="list-style-type: none"> - 85% downstream - 15% midstream </div> <div> c.44% NON-OIL & GAS <ul style="list-style-type: none"> - Pharmaceutical - Chemicals - Pulp & paper - Water treatment </div>
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SMITHS MEDICAL: High-quality, cost-effective medical devices and consumables that are vital to patient care globally

<div>Revenue</div> <div>£885m</div> <div>(28% of Group)</div>	<div>COMPETITIVE STRENGTHS</div> <ul style="list-style-type: none">• Category leader in our chosen markets• Trusted brands with a reputation for quality and safety• Strong, defensible intellectual property• Over 80% of revenue is from single-use devices and proprietary consumables• Strong customer relationships and extensive global sales network	<div>GROWTH DRIVERS</div> <ul style="list-style-type: none">• Ageing populations with increasing personalised healthcare and patient expectation/quality of life• Increasing incidence of chronic diseases• Increasing need for connected systems and data analytics• Growth of alternate site and home-based healthcare• Growing healthcare spend in developing markets	<div>COMPETITIVE LANDSCAPE</div> <ul style="list-style-type: none">• Medtronic• Becton-Dickinson• Baxter• B Braun
<div>Headline OP</div> <div>£156m</div> <div>(26% of Group)</div>			
<div>Margin</div> <div>17.6%</div>			
<div>R&D % sales</div> <div>5.8%</div>			



<div>GEOGRAPHIES</div> <div><div>Americas 56%</div><div>Europe 25%</div><div>APAC 17%</div><div>RoW 2%</div></div> <div></div>	<div>OE/AM</div> <div><div>Consumables 82%</div><div>Original Equipment 18%</div></div> <div></div>	<div>END MARKETS</div> <div><div>Infusion systems 34%</div><div>Vascular access 33%</div><div>Vital Care and Specialty products 33%</div></div> <div></div>
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SMITHS DETECTION: A global leader in the detection and identification of security threats and contraband

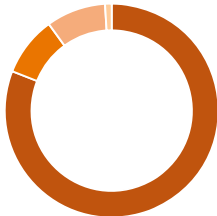
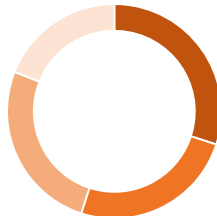
<div>Revenue</div> <div>£793m</div> <div>(25% of Group)</div>	<div>COMPETITIVE STRENGTHS</div> <ul style="list-style-type: none">• A global market leader with differentiated technologies leveraged across markets• Significant R&D capability• Operating in several regulated markets requiring product certification• Increasing digitisation and aftermarket revenue• Long-term customer relationships	<div>GROWTH DRIVERS</div> <ul style="list-style-type: none">• Persistent and evolving terror threats• Changing security regulations for air cargo and passengers• Growing urbanisation and need to protect people and assets• Global trade, e-commerce and passengers numbers• Equipment replacement cycle, typically 7-10 years• Growth of security infrastructure in emerging markets	<div>COMPETITIVE LANDSCAPE</div> <ul style="list-style-type: none">• Nuctech• Rapiscan• L3-SDS
<div>Headline OP</div> <div>£134m</div> <div>(22% of Group)</div>			
<div>Margin</div> <div>16.9%</div>			
<div>R&D % sales</div> <div>7.4%</div>			

<div>GEOGRAPHIES</div> <div><div>Americas 39%</div><div>Europe 27%</div><div>APAC 17%</div><div>RoW 17%</div></div> <div></div>	<div>OE/AM</div> <div><div>Original Equipment 56%</div><div>Aftermarket 44%</div></div> <div></div>	<div>END MARKETS</div> <div><div>Air transportation 68%</div><div>Ports and borders 7%</div><div>Defence 4%</div><div>Urban security 21%</div></div> <div></div>
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SMITHS INTERCONNECT: Solutions for high-speed, secure connectivity in demanding applications

<div>Revenue £300m <small>(9% of Group)</small></div> <div>Headline OP £42m <small>(7% of Group)</small></div> <div>Margin 14.1%</div> <div>R&D % sales 7.0%</div>	<div>COMPETITIVE STRENGTHS</div> <ul style="list-style-type: none">• Innovative and technically differentiated offerings• Ultra-high reliability solutions used in demanding applications• Strong research and engineering capabilities• Customer intimacy, responsiveness and product customisation• Global presence, reach and support	<div>GROWTH DRIVERS</div> <ul style="list-style-type: none">• Increased connectivity• Growing urbanised population requiring transports and infrastructure• Increasing geopolitical uncertainty• Ageing population and rising need for healthcare services	<div>COMPETITIVE LANDSCAPE</div> <ul style="list-style-type: none">• Competitors range from large multinationals through to small, more focused companies across the product portfolio• Examples include Amphenol, TE Connectivity, Molex, Yokowo and Cobham
<div>GEOGRAPHIES</div> <div><div>Americas 61%</div><div>Europe 22%</div><div>APAC 14%</div><div>RoW 3%</div></div> <div></div>	<div>END MARKETS</div> <div><div>Defence 40%</div><div>Semi-conductor 17%</div><div>Medical 11%</div><div>Space 8%</div><div>Commercial aerospace 10%</div><div>Rail, Industrial, Other 14%</div></div> <div></div>		

FLEX-TEK: Innovative components to heat and move fluids and gases

<div>Revenue £354m (11% of Group)</div> <div>Headline OP £67m (11% of Group)</div> <div>Margin 18.9%</div> <div>R&D % sales 0.6%</div>	<div>COMPETITIVE STRENGTHS</div> <ul style="list-style-type: none">• High-performance products• Leading capability in design and manufacture• Market leading residential gas tubing products• High performance flexible tubing for aerospace• Strong customer relationships	<div>GROWTH DRIVERS</div> <ul style="list-style-type: none">• Steady growth of US housing construction market• Expanding international market for corrugated stainless steel tubing for residential housing• Continued increase in large commercial aircraft production• Growth of medical devices, especially for the treatment of sleep apnoea• Expansion in higher-growth markets	<div>COMPETITIVE LANDSCAPE</div> <ul style="list-style-type: none">• Fluid management – Parker-Hannifin and Eaton for flex assemblies and numerous smaller competitors for metal products• Construction – c.7-8 competitors• Flexible solutions – c.5-6 competitors for industrial ducting and medical• Heat - numerous smaller competitors for specialty products including Zoppas and Nibe
<div>GEOGRAPHIES</div> <div><div>Americas 81%</div><div>Europe 9%</div><div>APAC 9%</div><div>RoW 1%</div></div> <div></div>	<div>SEGMENTS</div> <div><div>Construction 30%</div><div>Fluid Management 25%</div><div>Heat Solutions 26%</div><div>Flexible Solutions 19%</div></div> <div></div>		