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Speaker 1 – Pat McCaffrey

Hello everyone. I'm Pat McCaffrey, President of Flex-Tek Division. I started with Smiths 25 years ago. I've spent my time focusing on customers in operation and business leadership roles within the Flex-Tek organisation. Today, I'm really excited to share a brief history of Flex-Tek, the markets we serve and especially our growth and future direction. At the end, I want to help you to understand why I believe we sit in the best position today for future growth than we ever have in our history.

The key things that I'm going to show you is that we have high confidence in our growth prospects. We have a strong track record of growth and profits, five-year revenue CAGR of 11 per cent and a profit growth of 12 per cent. We enjoy great positions in multiple attractive markets. We're a leading innovator in our segments with significant opportunities to expand internationally. The key to our success is our people and our culture of high performance. All this is making us very confident in our future.

Let me explain in more details. Flex-Tek is a strong business with great positions in very attractive markets. What we do in Flex-Tek, provide safe and efficient movement and heating of liquids and gases. We operate in very diverse markets. About 55 per cent of our products go through the construction markets. We make flexible ducting for delivering clean air into the home, corrugated stainless steel tubing to safely transfer gas, and we produce heat kits to help provide efficient heating of a home.

About 25 per cent of our products go to the industrial segment where we produce a broad range of flexible hoses for medical and automotive applications and open core heating for industrial use. About 20 per cent of our products serve the aerospace market where we provide specialised tubing to safely and efficiently move hydraulic fluids and fuel to engines and airframes. About 60 per cent of our aerospace tubing serves the commercial sector while 40 per cent supports the defence sector.

We finished fiscal year '21 with a very strong financial performance. We had over £500 million of revenue with a headline profit of £97 million and a 19.1 per cent operating margin. Both our return on capital employed and our cash position are also very strong.

Our market growth drivers for our business include a high demand for new housing, the aerospace industry returning to pre-COVID levels by 2025 with further growth beyond that, there are growing demands for medical devices including CPAP machines and ventilator machines, which we produce hoses for, and the global need and desire to reduce emissions is providing us new project opportunities. So you can see a really strong business, attractive financial metrics and powerful market drivers.

At Flex-Tek, we are pioneering progress for the markets we serve. We're being the leaders in innovation, we're delivering safe and efficient products to our customers and we're making a difference. Flex-Tek has some great fundamental strengths which are really valued by our customers. We put our customers at the heart of everything we do. Our strength starts with our people and technologies they develop.

We have a world class group of engineers that work with our customers to develop innovative solutions to help solve their problems. Some of these solutions include our FlashShield+ product

for gas piping, our floating core duct product which reduces the amount of insulation required, our heated wire medical hoses that improves patient safety and our NZT wire which is a proprietary alloy for heat kits. We pride ourselves on strong customer intimacy. Everything we do revolves around our customers. We've built strong, long-term relationships with many customers which have partnered with us for decades.

Speaker 2 – Paul Johnston

Hello, my name is Paul Johnston and I'm the executive vice president of Watsco Inc. Watsco is the largest HVAC distributor in the America's with revenues exceeding \$5 billion US. We have 675 locations throughout the US, Canada and Mexico. Our relationship with Flex-Tek goes back many years and when we first began, it was under \$5 million worth of purchases. Today, that number is going to exceed \$100 million.

We work with them in a very transparent manner, sharing customer information on sales as well as inventory and forecasting. We began doing this well before the pandemic and before all the supply chain disruptions had occurred. Our relationship is very deep and long with the organisation, and we have conversations with Flex-Tek management concerning things such as new product introduction as well as competitive needs in the marketplace. I feel that that it's a very high integrity organisation to do business with. We enjoy our collaboration and I look forward to many years of successful growth. Thank you.

Speaker 1 – Being strong in North American markets, Smiths global capabilities can help us to expand internationally. We are currently expanding into APAC with heat, automotive and medical products. We are also expanding into Europe with our CSST gas delivery product. In Flex-Tek, we have a strong financial model. We're in highly competitive markets so we've developed a good discipline to maintain efficiency and cost control. This model has helped us to deliver a strong operating margin, a lean operation that operates with an SG&A of 8 per cent and a strong performance of cash and value creation. All this puts us in a great position for the future.

Another reason we're confident about the future is our impressive track record. Flex-Tek is a division that has a proven history of continuous, profitable growth. Our growth in the last five years has been a CAGR of 11 per cent and a profit growth of 12 per cent. Organically, we have grown at 4 per cent revenue CAGR and 5 per cent in profit. Our operating margin was over 19 per cent in 2021 and our trade working capital was 21.4 per cent. So, you can see a very impressive track record, but we are planning to accelerate this further as you can see on the next slide.

Our plan to accelerate growth is built on maximising the growth opportunities from our underlying markets, the addition of exciting new products, building attractive adjacencies and adding strategic, value creative, bolt on acquisitions to our business. Let me cover the first of these.

As I stated earlier, we are confident about our key markets. We play in some very attractive growing markets. In the first chart, it shows that aerospace recovery has begun with commercial aircraft production expected to return to pre-COVID levels by 2025. This is a strong indicator of increased demands for our airspace products.

The next chart shows the growth of housing from 2017 to 2021. We're at a point where housing inventories are at a historic low and there is greater than a 5 million home deficit versus demand. The demand for new house builds as well as increasing demand for commercial construction is closely correlated to the demand we see in the construction parts of our business, which is running

really red hot at the moment. The weighted underlining growth of our markets across construction, aerospace, industrial segment is expected to be 5 per cent over the next three years. We also see plenty of opportunities to expand geographically and increase our end-use markets. Let me explain.

In 2021, 84 per cent of our revenue came from North America. Our plans to expand internationally are focused on Europe with CSST gas piping, which represents an opportunity of approximately £150 million of revenue, and in China, where we experienced rapid early growth of our product launches of medical hoses and automotive hoses through our Changshu China operation, which represents a £50 million opportunity for us. To support these initiatives, we've been adding manufacturing capabilities in the existing sites in Europe and China, and regional capacity in the US, to get closer to both our markets and the customers we serve. We believe new product launches and innovations are what separates us from the competition. Let me discuss a few.

FlashShield+ has been a huge success. We have the most cost-efficient, most user-friendly solution and the safest product in the market. In our fiscal third quarter, we'll be launching a new product for refrigerant line sets. Based on product demonstration, the wholesale customers are very excited to get this product when it comes out. We're also developing a number of aerospace hoses that will reduce weight in aircrafts.

Based on our position in the HVAC system and our relationship with the wholesalers, we are in great positions to launch new products in the area of energy efficiencies and indoor air quality as we work closely to understand the needs of the market. Our current new product pipeline represents approximately £75 million of annual revenue opportunity over the next five years.

I want to share a perfect example of the strength of our relationship that we have with our customers, especially a wholesale customer in this case. Based on a new product request from our customer to replace copper tubing lines in a HVAC system and then building on our gas type multilayer pipe technology, we have developed a product that offers the customers several advantages.

First, much greater price stability than copper tubing. Secondly, it is easy to install. It is a very familiar system to our Gastite customers. Thirdly, it eliminates a kinking problem which causes flow blockage and leak issues. Finally, it reduces the risk of job site theft. We have targeted to launch this product in Q3 of this fiscal year and we expect this to be £150 million revenue served market. The product is designed for full size split HVAC systems but will be adapted to many split systems as well. We also believe this multilayer product could replace other rigid pipes in other applications.

Another project that we've recently become involved in was development of a system to use hydrogen in the processing of steel, which would significantly reduce CO2 emissions. This process would use one of our large format high temperature heaters. Our product helps in the direct reduction of iron, which makes it cleaner going into the blast furnace. We're working on this project for a pilot plant, and if successful, it would be duplicated in the use of other steel plants throughout the world. We have already successfully shown that we can accelerate our growth by acquisitions.

Our most recent acquisition is Royal Metal's Products. This adds metals deducting to a line of HVAC offering. We paid \$107 million for it. It's performing very well since we acquired it in February, with a fantastic return on investment. Also with this acquisition, we've picked up new

key wholesaler accounts. We're now expanding Royal Metal's operations to our existing Thermoflex sites, and we will soon be able to deliver both metal and flexible duct to the customer on the same truck from all of our sites. This is a huge advantage for our customers. This has been a great acquisition for us and is delivering ahead of plan.

In closing, I want to emphasise that we are very confident about continued growth. We have a proven track record of consistent growth and margin expansion. We're well-positioned with strong relationships in attractive markets. We're driven to innovate and to expand internationally and we're underpinned by a lean structure with an incredible culture of great people. We have a great future ahead. Thank you.

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