

## **START OF TRANSCRIPT**

### **Speaker 1 – Jean Vernet**

Hello, everyone, I am Jean Vernet, President of John Crane. I will spend the next few minutes talking through the positive current market dynamics, highlighting what makes our company great, and sharing with you our priorities for accelerating long-term growth. Our starting point today is that we have a really good business because we have predictable, high margin, sticky revenues, because we are a technology leader with scale to deploy globally, because we are leaders in attractive market segments, and also, we are so vital to our customers. We really matter to them. That value delivers high margins.

Then we have a key strength, more than any of our competitors, our products are certified and specified by all the key end-users around the world.

All of this places us in a very strong competitive position; however, I think our business will get even better as we already see this in the short-term as we benefit across the board from post-COVID recovery over the next two to three years. We will also gain traction from secular growth, especially in emerging markets, and we are expanding our presence in non-oil and gas industrial segments.

But it's more than the short term. We have a very exciting story to tell about our growth after the next five years to 2030 and beyond. We see a massive, continued growth in global energy demand over the long-term. John Crane has so much to offer, whichever way the global energy market plays out because our core competencies are needed across all energy sources.

We can provide the next-generation technology enhanced by the power of digital. We can support our customers as they seek greater efficiency and as they look to decarbonise by 2050. We have an exciting, innovative set of new products for non-oil and gas industrial segments.

Let me share all of this with you in more detail, starting with John Crane as a business. Our revenues are well balanced. Two-thirds come from stable aftermarket services where our focus is on the reliability of customers' plants. That's the reason behind our stable profit margin. We operate across eight industry verticals with roughly 60 per cent of our revenue coming from energy, while 40 per cent comes from a variety of industries such as chemical and pharmaceutical, or primary resource segments, such as water and mining.

We have a number of key strengths. First, we are a pioneer of technological progress. Since John Crane's first invention in 1917, our company has been a pioneer of progress, defining and

redefining the industrial seal over and over again. John Crane invented packing seals in the 1920s, then the industrial seals, right after the Second World War allowing for massive industrial scaling in developed economies which supported the post-war recovery.

In the 1970s we invented the dry gas seal, an engineering prowess, the realisation of the engineer's ultimate dream. A device that required no lubrication and could last forever. Few people know this, but the continued supply of energy, power, clean water, food, and safe medicine would not be possible without a reliable seal.

Second, our products are vital. The seal is like the heart in the rotating equipment. It is embedded deep into a pump or a compressor and is very hard to displace. A seal is a primary safety mechanism and if anything goes wrong with the rotating equipment, if it's not operated near its optimal curve, this is instantly felt by the seal. This sensitivity made us experts at optimising the operation of all types of pumps and compressors with the goal of increasing reliability and uptime.

The traditional way we grow share is to partner with all EPCs and pump and compressor OEMs when a plant is being newly designed. Our customers see us as the technology leader and as a trusted advisor. Winning these key strategic projects with OEMs is what grows our installed base in the aftermarket, resulting in annuity-like revenue streams over decades.

We have global capabilities. For over a century our business philosophy in the aftermarket was to operate close to the customer plant, wherever it is in the world, offering a 24/7 aftermarket proximity service under any circumstances. We never let the customer down. Through our network of over 200 sites around the globe, our footprint is second to none.

John Crane's internal network of talent extends across 50 countries with more than 2000 expert engineers. We are a company of intuitive entrepreneurial self-starters who like to solve complex problems under pressure and are dedicated to their craft. Over the last 100 years, John Crane has built the largest installed base and our products equip most plants globally. Our track record of 90 per cent aftermarket customer retention throughout the plant lifecycle is testimony to the bond of trust we have built with our customers.

### **Speaker 2 – Gabriel Lancaster**

Hello, my name is Gabriel Lancaster and I'm a Principal Machinery Engineer at ExxonMobil Research and Engineer. For over 20 years ExxonMobil has worked and partnered with John Crane and with the focus on maintenance reliability. We choose to work with John Crane because of their commitment to excellence, their ability to globally standardise processes and procedures to support our business, and partnerships with key original equipment manufacturers.

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Finally, being part of Smiths Group gives us access to a competitive advantage we would not benefit from as a standalone business. When it comes to digitising our products, we have leveraged the Smiths digital forge world-class capabilities in detection, digital technology, and artificial intelligence to develop a suite of digital products with our customers.

I am very excited by our drivers of growth. We see four main ones. First, we sell more of our products to more customers by expanding geographically and into other non-oil and gas industrial segments. Second, we sell more value to our trusted customers by addressing the evolving needs and stepping up core technology and innovation.

Third, we expand beyond our existing services by leveraging Smiths' core capabilities in measurement technology and asset reliability to address urgent needs such as reducing methane emissions. Fourth, we will continue to grow inorganically to support our business strategy.

Now, let me share our view on the rapidly shifting market dynamics which will redefine our future, and how John Crane is well-positioned under any energy transition scenario. Our customers are facing two conflicting trends which will define the market over the next several decades. I believe the energy sector is at the heart of the solution to climate change. Our customers are key to the future of a low-carbon world.

On the one hand, the first trend is that there is a significant and sustained global pull for a continued large increase in primary energy demand over the long term driven by population growth, urbanisation, and higher living standards. The growth all comes from emerging markets and China. Today's energy systems cannot cope with the demand.

The only way to meet long-term demand is for a sustained and relentless quest for efficiency in the supply and use of energy. Without sustained [yearly] efficiency gain, primary energy supply would have to grow 60 per cent by 2050.

The second trend, on the other hand, is that there is a climate crisis that could spin out of control, imposing pressure on our customers that will boil up exponentially. Our customers are often designated as the culprits, but they are the leading agents to a cleaner world. There is no silver bullet to reach a zero-carbon world. Investments in several renewable energies need a massive scale up, while in the mid-term cleaner nuclear energy and natural gas, as long as it eliminates its methane emissions, will be a critical bridge toward a zero-carbon future and to support intermittency of wind and solar. At the same time, the digital revolution, still in its early stage, will be a brutal disruptor and a formidable enabler of the energy transition.

Because of the large deficit of investments into the energy systems that are required to reach a zero-carbon world, the transition will be a series of expensive and painful crisis with an increasing level of urgency. We believe John Crane is very well-positioned to help our customers under any energy transition pathway because we have existing technology and services to more efficiently and sustainably meet the demand growth in conventional energy. We also have the technology to support the transition toward low-carbon energy sources. So, those are the very positive current market dynamics. Let me now talk about how we are going to grow our top line.

Our first focus is to sell our current products to more customers by growing geographically and into non-oil and gas customer segments. Geographical expansion is driven by high growth and high-volume segments where product costs and lead times are key elements of success, especially in emerging markets. We are leveraging innovative material science and manufacturing technologies to reach a lower product cost point. We also benefit from our leading expertise in existing country footprint to accelerate local content and expedite growth in these geographies while maintaining strong margins.

The same applies to non-oil and gas verticals. We have developed fit for purpose derivative products from our existing product families with higher performance, at lower cost, and shorter lead times. By using proprietary diamond coatings, unique filter media, and additive manufacturing these derivative products help us gain share in selected non-energy verticals, particularly, in the segments driven by secular super trends such as the mining, petrochemical, pharmaceutical and clean water.

Our second priority is to bring innovative new products to market and create more value. By July 2022 we will have introduced 24 new products over three years with revenue opportunities of £100 million in five years. For example, we introduced a full range of innovative seals for midstream pipelines, which extends the average time between repair by a factor of three and can ensure no impact to the environment in the event of a catastrophic failure of the primary seal in very remote places. We also offer fit for purpose products that solve longstanding customer problems within extreme operating conditions, at very high pressure and speed.

In 2022 we will launch a high performance, zero emissions seal that will eliminate methane emission from natural gas compressors, which currently generate 15 per cent of oil and gas fugitive methane. Similarly, across multiple customer applications our dry gas seals have proven they can withstand the high heat, high speed, abrasiveness, and pressure conditions needed for CO2 capture and storage.

Another example of innovation is John Crane Sense, our digital platform, starting with instrumented dry gas seals for compressors, an industry first. We are the first to provide customers with a powerful solution that embeds sensors inside an advanced seal to monitor the health of the seal and of the asset.

Our commercial launch of John Crane Sense digital product in FY22 will expand over a full range of products, seals, filters, couplings, by placing sensors inside the seals and the other physical devices. Sense generates never seen before, unique data sets and analytics when combined with the artificial intelligence capabilities of the Smiths digital forge. Our platform creates asset-specific signatures for which we build unlimited bespoke applications. We have run over one million hours with digital seal field trials at customer sites, where they help us prioritise software applications using agile development.

Applications provide insight for predictive maintenance, asset optimisation, benchmarking, and health management to prevent failures, maximising efficiency, and minimising downtime. For example, thanks to Sense Turbo, our solution for compressors, a major LNG player avoided \$4 million of production losses on a critical compressor train through accurate prognostics and proactive recommendations from our digital algorithm. John Crane Sense pumps allows detection of suboptimal operating conditions, with failure mode prognostics and self-healing, increasing equipment uptime and life expectancy while enabling the avoidance of redundant backup assets.

Then John Crane Sense monitor offers a scalable, easy to deploy, wireless, high frequency, real-time, industrial IOT platform building unique asset signatures and condition-based maintenance applications driven by our world-class AI capabilities.

Another key R&D priority for growth is the energy transition. We are dedicated to helping a faster path to a net zero carbon world and have allocated a significant share of our five-year R&D investments into low-carbon technologies. These efforts build on our core expertise in high-performance flow control which we extend through external partnerships.

This makes John Crane a trailblazer in the field of hydrogen, carbon capture at scale, renewable fuels, solar, and next-generation nuclear power. For example, in the domain of carbon capture and storage the challenge is to be efficient at scale and bring the cost of blue hydrogen from the current \$2 per kilo down to \$1 per kilo. Part of the problem is the stickiness and the abrasiveness of CO<sub>2</sub>. The durability of our seals and their ability to handle debris, extends the average time between failures and is the reason we are now equipping 80 per cent of the carbon capture and storage projects around the world.

Our third growth driver is expanding to a broader scope of services to meet our customers' evolving needs, such as their quest for higher asset efficiency in the aftermarket with a particular focus on methane emission reduction. Fugitive methane represents 15 per cent of the gap to a net zero carbon world. Over the past couple of years, we have been testing the well to wheel one-stop-shop methane remediation service that gives customers quantified methane maps to their infrastructure. We will then offer abatement services, prioritise on largest impact. For example, upgrading all leaking compressors with our new zero emission seals, or deploying methane capture and recycling systems, and fixing leaking valves.

We then propose post-remediation, permanent monitoring, industrial IOT solutions. We expect that within three to five years ESG reporting requirements could impose quarterly emissions disclosures for our clients, making our services a repeat business with increasing technological differentiation as leaks get fixed and become harder to detect. When it comes to efficiency, producing more with less is imperative for our customers to meet global energy demand. With climate change becoming centre stage, the value case for asset management has grown exponentially.

Energy efficiency can bridge a third of the gap that society must close to reach net zero by 2050. Waste avoidance in the use of primary energy resources is the most effective path to a lower carbon world. Over the past decade we have championed an outcome-based engagement model with our customers, increasing their plant reliability where we are incentivised to maximise equipment uptime. We have now expanded the model into a condition-based maintenance service called John Crane Asset Management that spans beyond pumps and compressors and look at entire plants. Producing more output with fewer, more reliable assets provide huge opportunities to increase energy capacity sustainably.

In closing, I would like to leave you with a few simple facts. John Crane is a very attractive business today, with predictable high margin and sticky revenues. We are the technology leader with mission critical products and services at global scale, benefiting in the short term, two- or three-year horizon from post-COVID recovery and growth opportunities across geographies and secularly attractive industrial markets. We have exciting opportunities to accelerate growth to 2030 and beyond due to the massive increase required in the global supply of energy and a relentless focus on efficiency.

Finally, John Crane is perfectly positioned across any energy transition pathway, now and well into the future. Thank you