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Speaker – Paul Keel

Hello, everyone, and thanks for turning in, to Smiths Group's 2021 capital markets event. I'm Paul Keel, CEO of Smiths. I joined the Company in May, having spent the better part of the last three decades at companies like 3M, GE, General Mills and McKinsey, where I accumulated a great many experiences directly relevant to the significant opportunity we have here at Smiths, which in a nutshell is to guide an intrinsically strong business to its full potential.

Across our 170-year history, Smiths has built distinctive capabilities in product development, commercialisation and customer support. We apply these strengths across a balanced portfolio, well positioned in secularly attractive markets. All this comes together in a robust financial framework, powered by recurring aftermarket revenues, high returns, low asset intensity and consistently strong cash flow generation. In the six months that I've been onboard thus far, I visited more than a dozen of our largest operations around the world. I've been in the labs with our scientists. I've been in our plants with our engineers, and I've been out in the field with our customers.

Few of the people with whom I've met have questioned Smiths' potential or our strengths. The fundamental questions I receive generally centre on two main things. First, in light of these many assets, why aren't we closer to our full potential already? Second, what are we doing differently to improve our trajectory? We'll answer both of these questions as we work through the presentations, but before we get to this, let me quickly walk you through the line-up for this event.

Now, like most things these days, we're conducting this year's conference in a hybrid fashion. As you've seen, the presentations are all electronic, so you can view them in the sequence that best suits you. Now, we recommend the order you see here, but have crafted each presentation to stand on its own. I'm going to kick us off by sketching the overall value creation framework, what we call Smiths' Value Engine.

John Shipsey, our CFO, will then take us through the financial framework that underpins this strategy. Each of our division presidents will walk you through how the Value Engine is implemented in their respective businesses. Sustainability is a key element across the group, so we have a focussed discussion on it, led by Amy Simpson, our EVP of Energy Transition. Q&A and a technology expo will take place on 18 November, and details for these have been shared separately. The live events will also be recorded and available for future viewing.

Okay, with that as a backdrop, let's get into the details. I've been in the chair just under six months now, but a couple of things are already quite clear. First, Smiths is an intrinsically strong company - serious world-class engineering, leading positions in critical and attractive markets, distinctive global capabilities and a powerful financial framework. Second, we have real and tangible opportunity for significant near and longer-term value creation. In my view, the key to unlocking this value is moving with greater pace and urgency and delivering more consistent performance in line with our vast capabilities.

Having seen similar disconnects between performance and potential at other companies, I know that closing this gap largely comes down to three things - growing faster, executing better and doing even more to inspire and empower our people. It's as simple and as hard as this. We have a focussed plan, the Smiths Value Engine, that connects our purpose, our strengths and our

priorities. We'll spend a good portion of our time across this event stress-testing key components of the engine and giving real-time examples of how we're propelling forward. When our engine is humming, the output is powerful - recurring revenues fuelled by high margins, generating a lot of cash.

Let's start our look forward with a nod to our past - 170 years of pioneering progress across multiple technologies, markets and geographies. We built the first accurate speedometer and guided the world's first transatlantic flight. We introduced the first PIN-controlled ATM, CT baggage scanner and retrofit dry-gas seal. Today, Smiths' technologies enable air travel, energy transmission and global communications. We heat and cool our homes, we light our cities and we protect our families.

We've been to the southernmost point on the global and the highest point on the planet, and now we're even out exploring Mars. For us, improving our world through smarter engineering isn't a catchy tagline. It's a job description. So, clearly, a deep and rich heritage, but what didn't make the chart are the times, especially in recent years, when we haven't fired on all cylinders - opportunities right in our wheelhouse that we failed to capture.

As you'll see quite clearly across the presentations, our gap is not one of opportunity. It's mostly one of execution. So let's get to the crux of it. What's working well and needs to be accelerated, and what needs to change to swiftly improve our trajectory? Let's start with the left side of this chart, as it's an encouraging list. We have an objectively strong portfolio, made even stronger with the sale of medical.

We've built deep customer partnerships across multiple attractive end markets. We enjoy a robust financial framework, and our momentum is building. Our end markets are recovering, financial performance is improving, and the sale of medical is coming along nicely, with a good purchase price, quicker than expected satisfaction of the US antitrust condition, and just today, our shareholders approved the transaction, a major step towards closing. Now, reflecting all this momentum, we just announced that we'll begin share buybacks immediately.

So quite a bit is working well, but as I shared at the outset, there's still much to do to reach our full potential. First and foremost, on this list is accessing growth. I'll sketch four very actionable levers that we're deploying at pace to up our game. The division presidents then will bring these to life with concrete, real-time examples. Second on our list is improving execution. The seabed of this effort is a faster-moving, more execution-oriented relaunch of our Smiths Excellence System. You'll hear much more about this as we move forward.

Third is doing more to inspire and empower our people, and we're doing this through a heightened focus on diversity and inclusion and more urgently building on our strong ESG foundation. All of this needs to come together in a much more consistent delivery of our financial results, which I'll frame up and then ask John to build out.

Let's get to the meat of how we're doing this, with the Smiths Value Engine. As mentioned, it has three parts - our purpose, our strengths and our priorities. Let's cover each in turn, beginning with our values and purpose. We're passionate, customer focussed and respectful. We take ownership for our responsibilities and conduct ourselves with the depth of integrity, reflective of our almost two century history of doing business the right way. We are pioneers of progress, and we're committed to improving our world through smarter engineering. We'll share with you today numerous examples of how we're doing exactly this.

We have four fundamental strengths - world-class engineering, leading positions in critical markets, global capabilities and a robust financial framework. Now, with respect to engineering, the timeline I showed earlier well illustrates our pioneering past. The ingenuity you'll see in the coming examples bridges to our bright future. With respect to leading customer positions, our products manage airflow in over 50% of the homes in the US, and globally, we supply parts to all the major aircraft and jet engine manufacturers.

The vast majority of all satellites launched in Europe and North America contain Smiths technology. We're in over 90% of the world's 50 largest airports. Our global capabilities are unmatched by the competition. Across the Group, we have 1600 sales reps, 2000 service personnel and over 3000 engineers, collectively representing over 100 different nationalities. John Shipsey will take you through the gearing of our financial framework, highlighting the recurring revenues that come from our OEM and aftermarket model, our high margins and capital returns and our low asset intensity, all of which consistently combines for strong cash flow generation, which brings us on to the third component of Smiths Value Engine, our priorities.

While our purpose and fundamental strengths are stable and unchanging, our priorities focus on the nearer term, what specifically needs to be completed this month, this quarter, this year, in order to systematically advance our progress and fulfil our commitments to customers, to employees and to shareholders. We start with accelerating growth, our biggest upside to value creation.

Our plan centres on the four levers you see here. Given our broad positions, we're now experiencing market recovery across most of our portfolio. In general, the tide is rising, which of course is helpful, but for Smiths to continue separating from the pack, we'll need to execute better, accessing the opportunities we've not always captured in the past. As we just saw, new product development has long been a hallmark of Smiths.

Our near-term opportunity is to get these innovations to market more quickly and then to commercialise them more aggressively. Level three of our pyramid is building out priority adjacencies. Our Flex-T business, for example, has posted a consistent 11% CAGR over the past five years, driven by systematic expansion from their core in gas and fluid conveyance. They extended a strong base in construction into aerospace, and now they're working to expand from gas tubing into broader air quality management.

Complementing our focus on organic growth is disciplined M&A. Now, with mid-teens ROCE and low 30s return on tangible assets, the highest return for Smiths will always be organic. M&A is just a mechanism for us to move with greater pace, like the aerospace example I just gave, accelerated by buying United Flexibles in 2019, or our extension into air quality, quickened with the acquisition of Royal Metals earlier this calendar year.

Across the pyramid, these are all activities we know well and have credibly completed countless times. It mostly comes down to how urgently and forcefully we move forward. Now, let me go a bit deeper into each layer of the pyramid, beginning with the current dynamics in our customer end markets. Broadly speaking, we participate in four - general industrial, safety and security, energy and aerospace. These markets are all huge, global and populated by sophisticated, demanding customers who choose Smiths because of our differentiated technology and service capabilities.

Each of these markets is benefiting from the world reopening and doing so at different rates, which is incrementally helpful to Smiths, as it naturally dampens the volatility of each individual market. As Pat McCaffrey, who leads Flex-Tek, will show, parts of industrial are already quite strong, with US housing starts, for example, at near-record highs. Energy and aerospace are in the early stages of what looks to be a multiyear run. Jean Vernet, President of John Crane, will report order growth that is ramping quickly. Julian Fagge will share similar themes for Smiths Interconnect.

Conversely, recovery in safety and security and in particular the airport segment is still a few years out, but the mega-trends and macro forces underpinning long-term growth in this segment - things like complex and volatile geopolitics and ever-increasing regulatory requirements - dictate that when recovery comes, it will arrive with force. The strong demand we currently see on the industrial side will eventually, inevitably subside. Smiths' balanced portfolio will allow us to offset this with recovery in detection. Roland Carter, who leads this business, will lay it all out for you.

This slide illustrates how our staged recovery is playing out across our portfolio. Broadly speaking, our business falls into three camps - several end markets for Flex-Tek and Interconnect, on the left side of the chart, are more than a year into the recovery. Taking good advantage of this, Flex-Tek posted organic growth of 6% in fiscal '21, while Interconnect came in at 7%.

John Crane, in the middle, is in the early stages of what looks to be a promising resurgence in their markets. Crane's top line contracted 5% in fiscal '21. However, we're now in the early stages of an upcycle, and to illustrate this, we're sharing order volume, which we expect to be in the teens for the first half, supporting a solid return to revenue growth for fiscal '22.

On the right side of the chart, you see the order trend for Smiths Detection, a similar share to John Crane's, but without as sharp a drop-off nor as steep a ramp up. Yet revenue growth in detection was down 7% last year, the softest of the Group. The positive order momentum we expect for the first half, though, gives us confidence that recovery is coming, although with the longer cycle times in this business, it could take several more periods for this to convert through to the P&L.

In the same way that our portfolio is well balanced by industry segment, we have a meaningful presence across all major geographies. Because of their faster growth, we have a particular focus on expanding our developing markets penetration. As you see on the right side of this chart, we've made steady progress in this regard, going from 19% in 2017 to just over 20% last year, despite all the pandemic-related challenges. Our India business has grown at a compounded rate of around 7% across this period, while China has grown over 16%.

New product development and commercialisation is the second tier of our growth pyramid. As you can see from this chart, we're not short on opportunities, with quite a bit of activity underway. The key again is converting this potential into performance, by prioritising our most promising programmes, advancing them at pace through our development process and then confidently resourcing their launch and commercialisation. We know how to do this, as several of our recent launches are already making meaningful impact for our customers.

For example, we launched our CTiX line of computed tomography scanners in 2019. This line of products has fundamentally improved safety in air travel for all of us. It has the fastest throughput levels and highest detection standards on the market, and in just two years, it has already grown to over £30 million in annual sales and continues to ramp.

FlashShield+ is a multilayer tubing solution used in all modes of construction. It utilises a metallic shield to handle high voltage risk associated with lightning strikes, as well as dielectric jackets for lower-voltage household current. With the flexible, lightweight base layer and specially engineered fittings, the system installs up to 70% faster than traditional offerings. This platform has already grown to over £50 million, and as Pat McCaffrey describes in his presentation, we're now extending this exciting technology to other adjacent markets.

We have a number of additional programmes set to launch this fiscal year. John Crane, for instance, will introduce the world's first fully contained zero-emission gas seal. As you'll hear from Jean Vernet, eliminating methane emission leaks is a game-changing opportunity for both our customers and the broader environment. Seals are absolutely integral to this effort. As John so passionately describes, seals are the heart of a system. Just as John Crane revolutionised their market with the invention of a no-friction dry gas seal, we have the opportunity to do this again, with our zero-emission programme.

One more example. Better securing the enormously complex global rail network is an exciting opportunity for Smiths Detection. Every year, two billion people travel close to four billion kilometres on trains. Almost 10 trillion freight tonnes of cargo are moved by rail every year. There are opportunities to take the learnings from aviation and utilise these to augment the security and efficiency of rail transport, and we have new products that do exactly this.

Building out priority adjacencies is the third tier of our growth pyramid. Each of our four businesses has well-scoped plans in place to grow beyond their strong core positions. Examples of some of these adjacencies that we can talk about publicly are shown here. All are described in more detail in the individual business presentations, and you'll be able to touch and feel each of these at the live technology expo on the 18th.

Now, in the interest of time, I'll only highlight two, environmental protection in John Crane and high-speed satellite communications in Interconnect, two critical priorities for our customers that we're helping them address. Environmental protection tops the priority list for all customers, but especially for John Crane, who serves water, pharmaceuticals and chemical markets, as well as energy. In the near term, this means upgrading existing infrastructure, replacing current components with higher-performing, tighter-tolerance products.

In the medium term, it means leveraging sensors and machine learning to monitor networks in real time, preventing leaks before they even occur. At COP26, just earlier this month, world leaders announced sweeping changes to address methane pollution, which has 80 times the warming potential of carbon dioxide. In the longer term, protection means helping the world transition to cleaner energy solutions. While it's still too early to know exactly what this path might look like, we can be certain that it'll be paved with technology, with trust and with global reach, the absolute sweet spot for John Crane.

High-speed satellite communications is an adjacency of similar scale and scope. We're all familiar with the dizzying rates of data propagation and the accompanying need for ever-faster bandwidth. The high-frequency radio signals that carry this data are obstructed by the curve of the Earth. Geosynchronous satellites are one way to get around the problem, as they transmit at extremely high rates of gigabytes per second per beam, roughly 1000 times faster than conventional terrestrial networks.

Last year alone, 1200 satellites were launched, the majority in Europe and North America, and as mentioned, a significant portion of these contained Smiths technology. Over time, we've done a good job of continually refining our portfolio to advance our already-strong competitive positions. Shown here is what our portfolio looked like previously. It's organised along the axes of financial and strategic attractiveness. The blue bubbles are our core industrial technology businesses, and the red ones are dilutive positions.

Across the last five years, we've divested 11 businesses, the largest of which are shown here. I'll say more about the pending sale of medical in just a moment.

Shown in green are the new positions that we've established over the same period. The bubble size gives you a relative feel for the scale of opportunity. In some cases, we use M&A to accelerate these strategies, like our acquisition of PathSensors to expand our capabilities in pathogen detection, or our purchase of Reflex Photonics to accelerate our position in satcom. In total, we have completed 10 acquisitions in the past five years, and John Shipsey goes into much greater detail on M&A in his comments.

A quick update now on Smiths Medical, our most significant portfolio move in over a decade. As you'll remember, we announced the sale to ICU on 8 September for an enterprise value of \$2.7 billion. This includes an equity stake in the buyer that has appreciated notably since announcement and is now moving towards the share price threshold needed to reach an incremental \$100 million US earnout. Should ICU shares reach this level, and we view it to be probable, total deal value will be around \$3 billion.

Now, since the announcement, two major conditions precedent to closing have already been satisfied, those being the satisfaction of the US antitrust condition and approval by our own shareholders. There are some remaining conditions and procedural steps to complete, but we now expect the deal to close as early as practical in the new calendar year.

As closure is now both sooner and more certain, commencement of a \$1 billion share buyback plan will begin immediately. The benefits of selling medical are numerous. First and foremost, it enables us to reallocate our attention, resources and capital to our much stronger industrial technology core. In addition, we'll further strengthen our balance sheet, bringing our debt to EBITDA ratio below one times. While the cash flows of our business are sufficient to fund the organic growth we're detailing today, retained proceeds will provide additional flexibility for us to move swiftly as opportunities arise.

Still more, the sale of medical significantly strengthens our portfolio. As you see on the right side of this chart, medical has been dilutive to our growth, returns and cash generation. Medical's revenue growth has trailed the core by almost four points, and profit CAGR has been around 11 points behind. Capital returns are 200 basis points higher in our core and cash conversion is four points stronger. Our Board made the correct decision to separate medical just over three years ago. The process took too long, and it consumed too much energy, but our actions over the past few months demonstrate the pace and execution that our organisation is capable of.

Speaking of execution, let's turn to that now. Execution is the second critical priority for Smiths as we move more urgently to crystallise our potential. As I've mentioned now a couple of different ways, this is a fundamentally strong business. When the engine is firing and traction is good, we move forward powerfully. The opportunity is to do this with greater pace, urgency and

consistency, and all of that comes together with a more focussed, results-oriented operating rhythm. In a word, execution.

Execution begins with customers. We serve market-leading global players in critical industries where uptime is everything. When airports, communication networks or energy grids go down, entire communities are disrupted. Our global service network allows us to deliver real-time, mission-critical support in demanding operating environments. John Crane, for example, has 200 service locations across 50 countries. Smiths Detection has 100 in close to 20. The trust and confidence that comes with this has helped us build large installed basis which in turn drive predictable aftermarket revenues, now close to half of Smiths Detection sales and almost 70% of John Crane's.

Across my career, the single best mechanism I've seen for buildings capabilities and culture central to consistent execution are continuous improvement methodologies like the Smiths Excellence System. I saw the impact of Lean Six Sigma first-hand at both GE and 3M. Now, we introduced the Smiths Excellence System in 2018, and it's another good example of where we were pointed in the right direction but not moving quickly enough or with a sufficiently sharp eye towards execution.

Over the last three years, we laid the groundwork. We launched the SES academy and certified 70 blackbelts. This is a good start, but it's just the beginning. We introduced Lean, for instance, in 40% of our plants. I've now visited several of these sites, and progress is encouraging, although in most cases, we're still in the early stages. We're a bit further along with procurement, having centralised indirect purchasing, and we're now capturing good savings as a result.

The next step here is to look for opportunities in the larger, typically direct commodity categories, and we're working on that. Now, the next phase of our SES journey is all about advancing from learning to doing. Last month, we created a new role on our Corporate Executive Committee, focussed exclusively on SES. We named Tony Tielen, a Smiths veteran with experience at other industrial technology companies, like Honeywell and ABB, to lead the effort.

We're now in the process of establishing specific delivery targets tied directly to our external commitments. Unlike in the past, we'll resource this effort with dedicated, full-time resources in key businesses and functions. SES is an outstanding vehicle to develop talent across our organisation. This is another enhancement we're building into our new approach. Let me wrap up my comments on execution by noting that margin expansion and cash conversion are two pretty good measures of an organisation's capabilities, and we're building a credible track record on each.

Operating margins expanded by 70 and 50 basis points respectively in the two years leading up to the pandemic. We picked up right where we left off in fiscal '21, with a 150-basis point uptick from the lows of fiscal '20. We have a similarly good record building with respect to cash, exceeding our target in four of the last five years, and posting an average of 108% across the period.

We're now working to strengthen our capabilities in other operational areas, like working capital management, manufacturing productivity and supply chain effectiveness. Now, let's turn to our third priority, doing even more to inspire and empower our people. Let me start with a snapshot of who we are - an engaged, experienced, expert and inclusive group. In terms of experience, average tenure is just over nine years, and half our team has been with Smiths for five or more.

We're committed developers of our own people and promote from within more than 80% of the time.

In terms of engagement, nearly 85% of us participate in our annual surveys, with this year's underway as we speak. In my experience, one of the best indicators of employee engagement is an organisation's safety record, and as I'll show in a moment, ours is pretty good. We are experts in our fields and invest eagerly in further building our skills - 94% of us have completed Lean training, and we work with Oxford University on Six Sigma certification, having already qualified 350 greenbelts and 70 blackbelts thus far.

Each year, we conduct over 50,000 hours of online training and more than 800 employees complete one or more of our leadership programmes. We're a diverse team. We're an inclusive team, and a third of our leadership roles are held by women. Consistent with my previous comments, this is a good start, but not yet good enough. Safety is a great indicator of employee engagement, as well as operational effectiveness. Smiths' recordable incidents rate has been at or below 0.4 for five straight years, roughly 20 basis points stronger than even the top quartile of global manufacturers.

Our purpose is to improve our world through smarter engineering. Smarter engineering means the type of game-changing innovations that Smiths has contributed across our history and continues to invent today. Smarter engineering means the kind of global capabilities that our customers rely on for their most mission critical needs, and smarter engineering means helping to solve the toughest problems for ourselves, our customers and our communities, many of which are environmental, social and governance in nature.

We first implemented environmental targets back in 2007, and in the period since, we've reduced our energy usage by 38% and water consumption by 53%. Greenhouse gas emissions are down by 60%, and non-recyclable waste by 63%. Around 60% of the electricity we use today comes from renewable sources. Now, in the last six months, we've moved swiftly to build on this foundation by signing up to the UN's Race to Zero, committing to net zero emissions from operations by 2040. We've now added ESG metrics to our long-term compensation programmes, and we've established a new Science, Sustainability and Excellence Committee on our Board of Directors.

With respect to social, in addition to keeping our own people safe, we're playing a frontline role in battling the pandemic. We were a leader in the UK's ventilator challenge, ramping quickly to contribute to the cause, and our direct economic contribution to our communities around the world is £2.5 billion annually. Regarding governance, we have a strong culture of transparency, supported by a global 24/7 speak out hotline that has been in place now for over a decade. We're committed to inclusion, with diverse slates for all leadership roles and active employee resource groups.

Our Board sets the tone from the top, with 25% of our non-executive directors being ethnically diverse, and 50% being women. Again, much more to do, but we're headed in the right direction and moving swiftly to build on this strong ESG foundation. Having now met with nearly all of the top three layers of our Company, as well as a solid sampling of our broader global team, I can tell you that this is a talented group.

If there's a gap here, it's the risk that inconsistent play in the past might lead to some to believe that we belong in the middle of the pack. That is simply not the case, and exactly why inspiring and empowering these good people is a foundational element of the Smiths Value Engine.

Let me close out my comments with a look at our medium-term financial targets. Operating margins and cash conversion are unchanged from what we shared with you previously, as both put us already in pretty good company. We've moderated our ROCE target slightly, from 16% to 18% to 15% to 17%, as we work to recover from the nearly five-point drop we suffered during COVID.

We replaced working capital as a percent of sales with EPS, as we feel this is a more complete measure of our performance, and we're targeting 7% to 10% on this metric, with upside from M&A. Finally, and most importantly, we're committing to a more specific growth target of 4% to 6%, rather than our previous more general ambition of outgrowing our markets. John Shipsey goes into greater detail on each of these metrics in his presentation.

Here you have the full picture of Smiths Value Engine, grounded in our purpose, powered by our four fundamental strengths, directed by our three main priorities of growth, execution and people, and resulting in the financial commitments we just walked through. Let me leave you with a few closing thoughts.

Smiths is an intrinsically strong company with the potential for significant near and longer-term value creation. The key to unlocking this value is moving with greater pace and urgency, delivering performance reflective of our vast capabilities. The Smiths Value Engine outlines how we do this, by connecting our purpose, our strengths and our priorities, and the financial output of this engine is quite powerful - recurring revenue growth, fuelled by high margins, converting through low asset intensity and resulting in exceptional cash generation.

Thank you for investing the time to learn more about the tremendously exciting opportunity we have available to us. I hope you enjoy the rest of the event.

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