

Financial Progress

Chief Financial Officer

Clare Scherrer



Top investor questions

- What attracted you to Smiths and what are your early impressions?
- How is FY23 going so far?
- Do you remain confident in the FY23 guidance?
- What is management's view on cash conversion, and in particular working capital?
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A great opportunity in a great company



Growth

A unique opportunity

Market leading businesses with significant potential and strong growth levers



Execution

At an exciting time

Focused structure and clear priorities already helping to unlock that potential



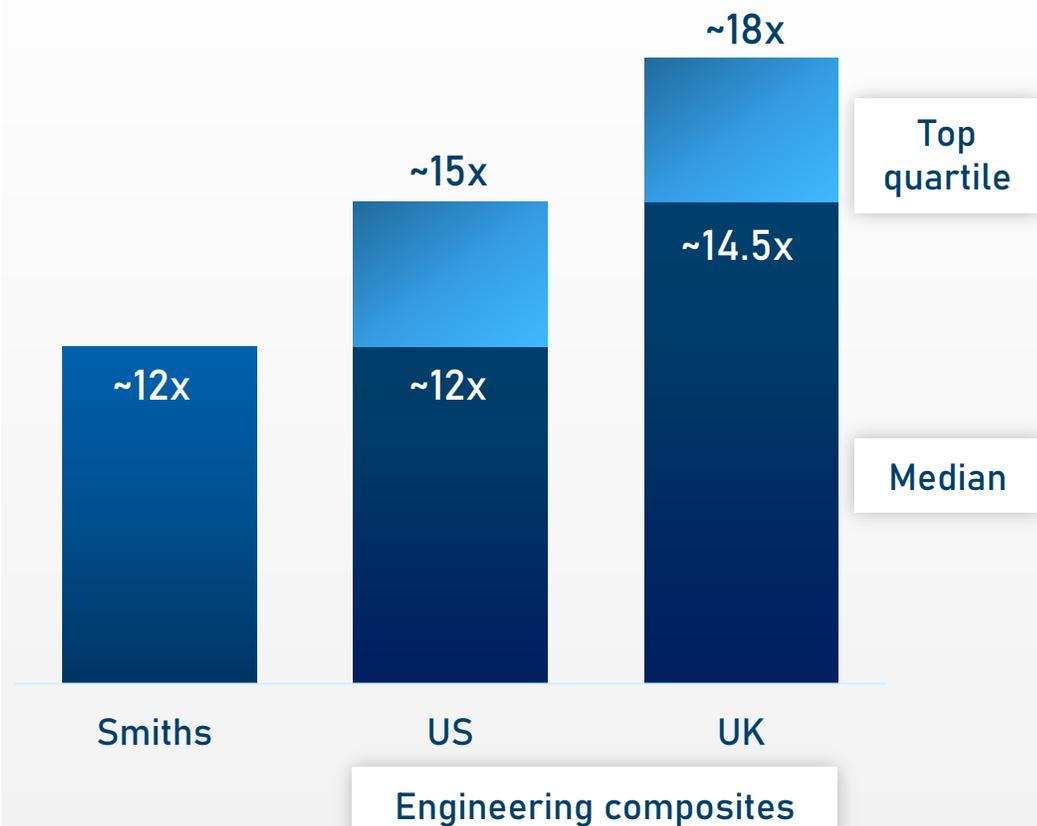
People

As part of a re-energised leadership team

Bringing my experience of a fast paced, dynamic culture to help drive further acceleration

Significant value creation potential

EV / Next 12 months EBIT



Key financial metrics

	Top quartile	Smiths medium-term targets
US mid-cap engineering peers		
Sales growth ¹	~5.5%	4-6%
EBIT margin ²	>20%	18-20%
Cash conversion ³	>100%	100%+
UK engineering peers		
Sales growth ¹	~6.5%	4-6%
EBIT margin ²	>20%	18-20%
Cash conversion ³	>100%	100%+

Source: Market data as of 2-Nov-2022. UK engineering composite includes Halma, IMI, Melrose, Rotork, Spectris, Spirax-Sarco, Weir. US engineering composite includes Carlisle, Dover, Fortive, IDEX, ITT, Pentair, Rexnord, Tectra. Financials calendarised to July year end.

¹ Sales growth represents 2024 vs. 2023 growth rate.

² EBIT margin represents 2023 EBIT margin.

³ Cash conversion represents 2023 cash conversion, defined as (EBITDA - Capex +/- net working capital movement) / EBIT.

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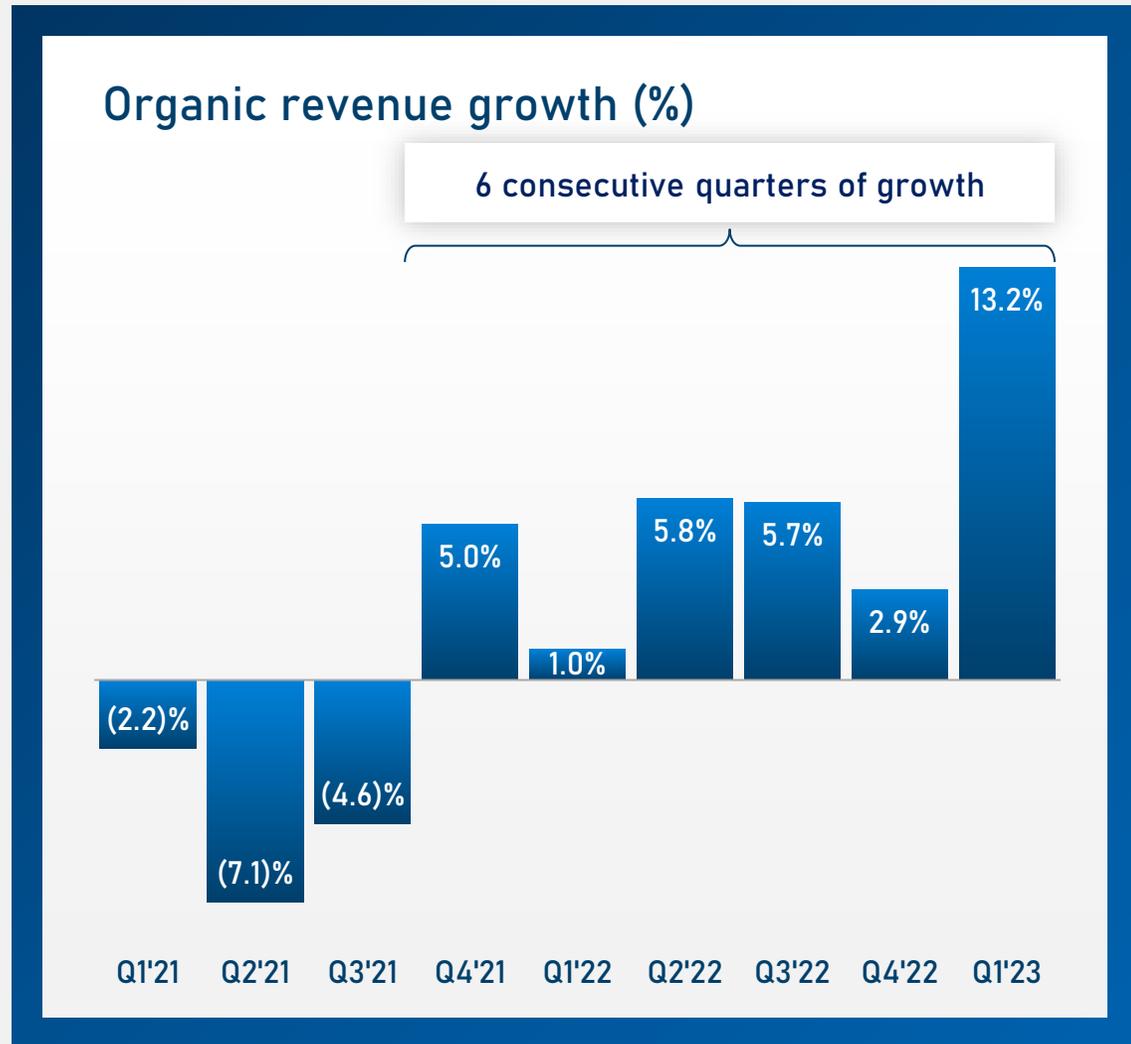
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Q1'23 – a very strong start to the year



- Q1'23: +13.2% organic revenue growth, our sixth consecutive quarter of growth
- John Crane posted steady growth and demand remains strong
- Smiths Detection benefitted from a strong Q1 orderbook to deliver growth, strengthening our confidence in its return to growth this year
- Flex-Tek continues its strong performance
- Smiths Interconnect contributed solid growth in the first quarter against a strong comparator

Strong balance sheet provides security and flexibility

Net debt : EBITDA¹



£107m share buyback in Q1

- Share buyback now 83% complete with £617m returned

Proforma leverage

- FY22 proforma net debt:EBITDA of 0.8x adjusts for the completion of the full £742m share buyback expected to complete in early CY23

Capital management

- Stated leverage policy is to operate under 2.0x as we've done in the past
- In the current environment <1.0x is appropriate but would consider increasing leverage for the right opportunities
- Strategy in line with capital management policy to maintain a solid investment grade credit rating

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Capitalising on opportunities and navigating headwinds

	Tailwinds	Headwinds
 <p>John Crane a smiths company</p>	<ul style="list-style-type: none"> - Strong demand reflected in record orderbook - Targeted actions to simplify end to end value chain - Methane remediation and energy transition underpinning medium-term growth 	<ul style="list-style-type: none"> - Supply chain disruption currently expected to continue throughout FY23 - H1'23 headwind from cessation of sales to Russia
 <p>smiths detection</p>	<ul style="list-style-type: none"> - Strong order book - Growth in Other Security Systems - Growth in aftermarket - Targeted restructuring actions 	<ul style="list-style-type: none"> - Critical electronic components shortage expected to continue throughout FY23 - H1'23 headwind from cessation of sales to Russia
 <p>FLEX-TEK GROUP</p>	<ul style="list-style-type: none"> - New product launches including Python Line sets and H2 Green steel - New facility in Houston generating sales from Q1 - Continued aerospace recovery 	<ul style="list-style-type: none"> - US housing slowdown expected but still not visible in our sales
 <p>smiths interconnect</p>	<ul style="list-style-type: none"> - Strong new product pipeline - Growing demand for our space products 	<ul style="list-style-type: none"> - Potential slowdown in semi-conductor market (~3% of Group sales)

Maintaining FY23 guidance

Tailwinds

- Clear strategy with better focused execution priorities
- Strong order books
- Pricing power across most of the portfolio (and improve in weaker markets through technology diversification)
- High impact new product launches
- SES projects beginning to yield results
- Energised and inspired organisation executing at a faster pace

Headwinds

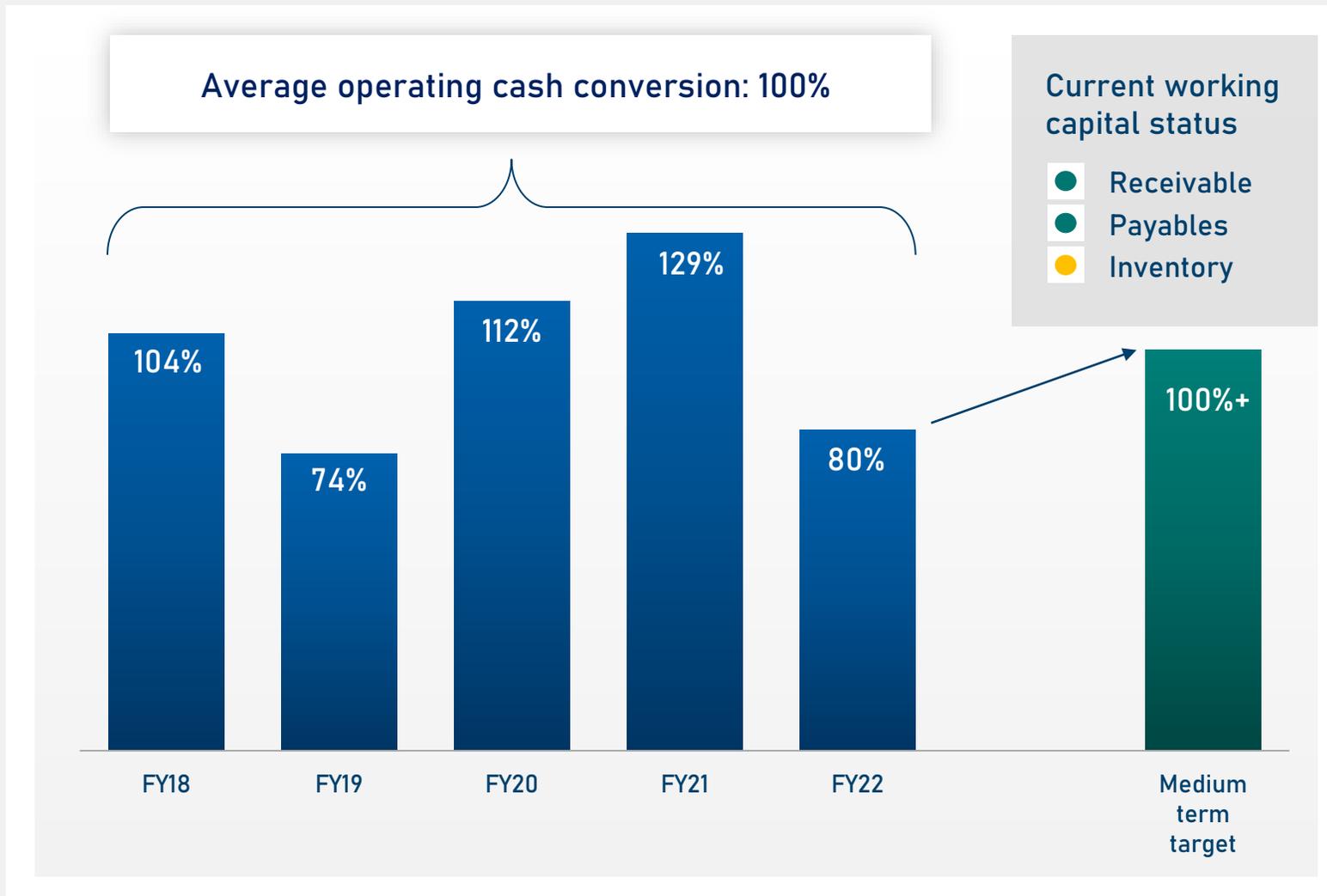
- Ongoing supply chain challenges
- Record inflation
- Geopolitical and macroeconomic uncertainty

Expect to deliver
4.0-4.5% organic
revenue growth with
moderate margin
improvement in
FY2023

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Strong operating cash conversion



Return to 100%+ operating cash conversion over time as we:

- Manage inventory levels as supply chains stabilise through FY23/FY24
- Continue to manage other working capital
- Remain true to our asset light model (capex 2.5-3.0% of sales), being an assembler not a vertically integrated manufacturer

Managing growth and supply chain whilst maintaining inventory discipline

FY22 inventory composition

	Raw materials	WIP	Finished goods
John Crane	▲	▲	▲▲▲
Smiths Detection	▲▲	▲▲	▲▲▲
Flex-Tek	▲▲▲	▲	▲
Smiths Interconnect	▲▲▲	▲	▲

Supporting growth →

← Navigating supply challenges

Current situation

- FY22 increase in inventory of £154m a result of:
 - Supporting revenue growth
 - Securing supply
 - Inflation and FX

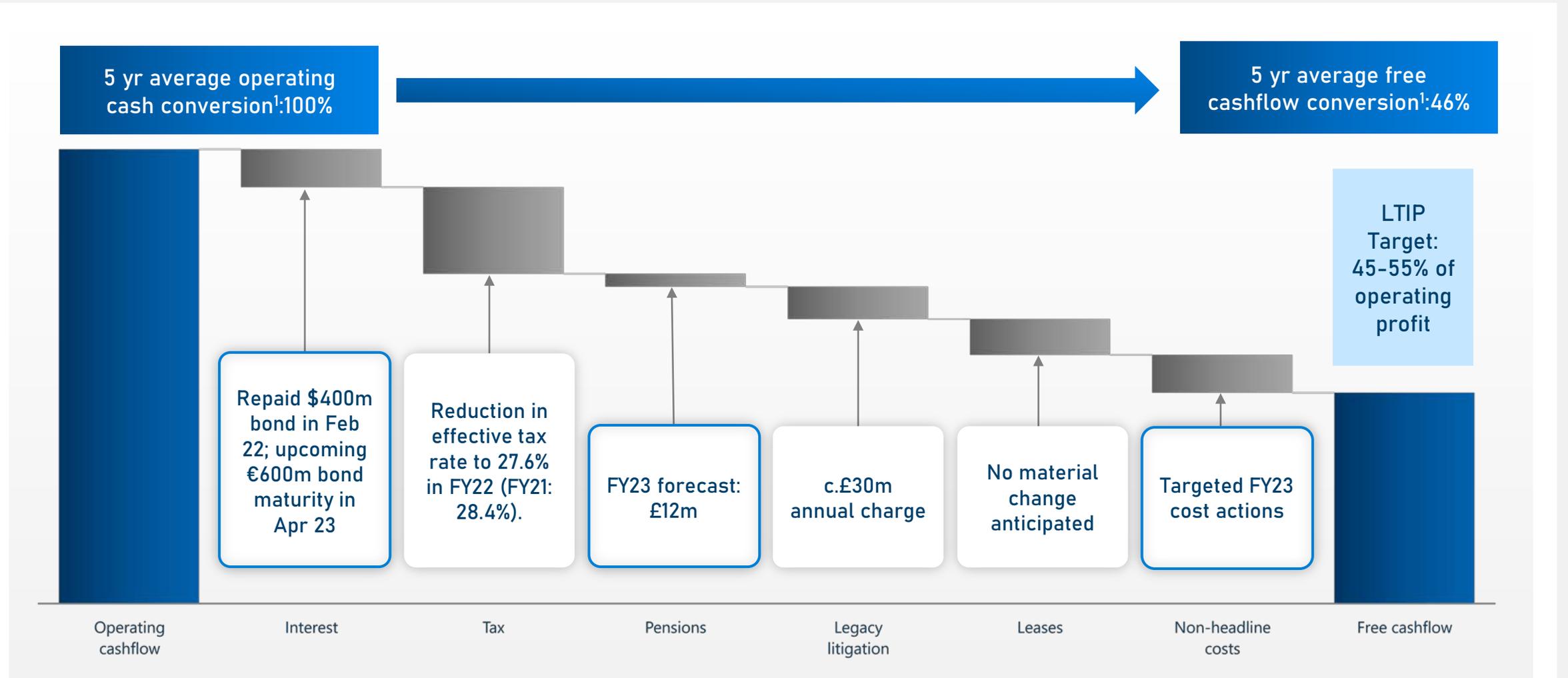
FY23 action plan

	Examples of SES projects
John Crane	<ul style="list-style-type: none"> • Improved demand and capacity planning • Continued reduction of single source supply
Smiths Detection	<ul style="list-style-type: none"> • Improved forecasting, global standardisation and best practice alignment
Flex-Tek	<ul style="list-style-type: none"> • Capacity expansion for high demand products
Smiths Interconnect	<ul style="list-style-type: none"> • Improved demand and capacity planning • Capacity expansion and automation

Ongoing actions

- 15 SES projects currently underway focused on inventory management
- Supplier diversification reduced single sourcing across the business
- Anticipate continued supply chain disruption through FY23 in John Crane and Smiths Detection

Continued active management of free cashflow



Top investor questions

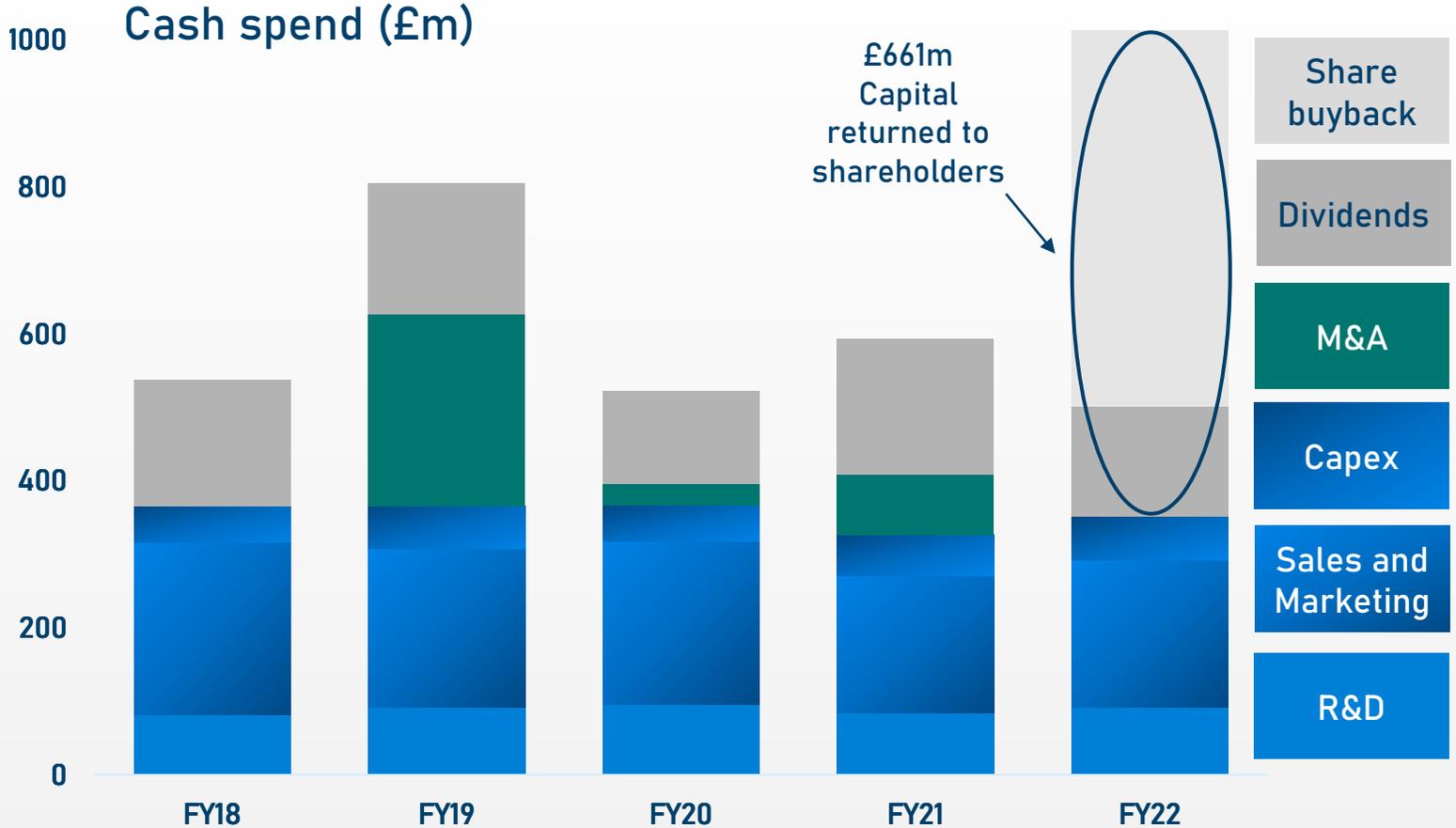
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Capital allocation priorities: driving growth and shareholder returns

Priority 1 Organic investment: R&D, sales & marketing and capex

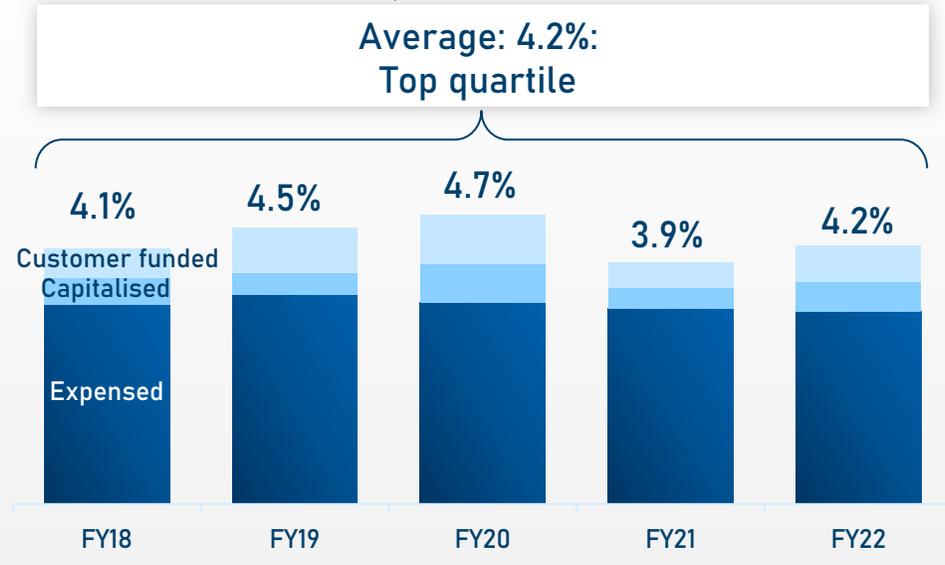
Priority 2 M&A: acquisitions

Priority 3 Capital returned to shareholders via dividends and share buyback



Priority 1: Organic investment

R&D investment (% sales)



R&D framework

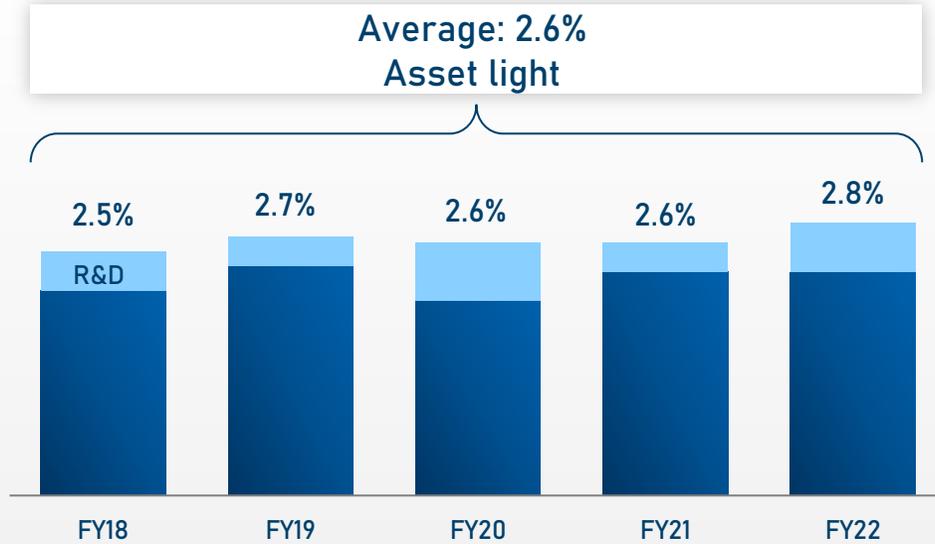
- Maintain 4-5% of R&D investment including customer funded projects
- Focus on high return investments
- Compensation linked to commercialisation of new products

Representative R&D projects



Priority 1: Organic investment

Capital expenditure (% sales)



Capex framework

- Demonstrating our asset light model with capex spend of ~2.5-3.0% % of sales including R&D
- Targeted capex to support growth
- Compensation linked to ROCE, cash and free cash conversion

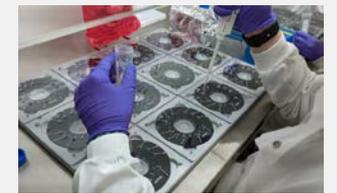
Representative capex projects



Investment in CNC capabilities and in quality management systems



Investment in chem-bio technologies facilities



New duct plant in Houston facility



Medical cable assembly expansion and automation

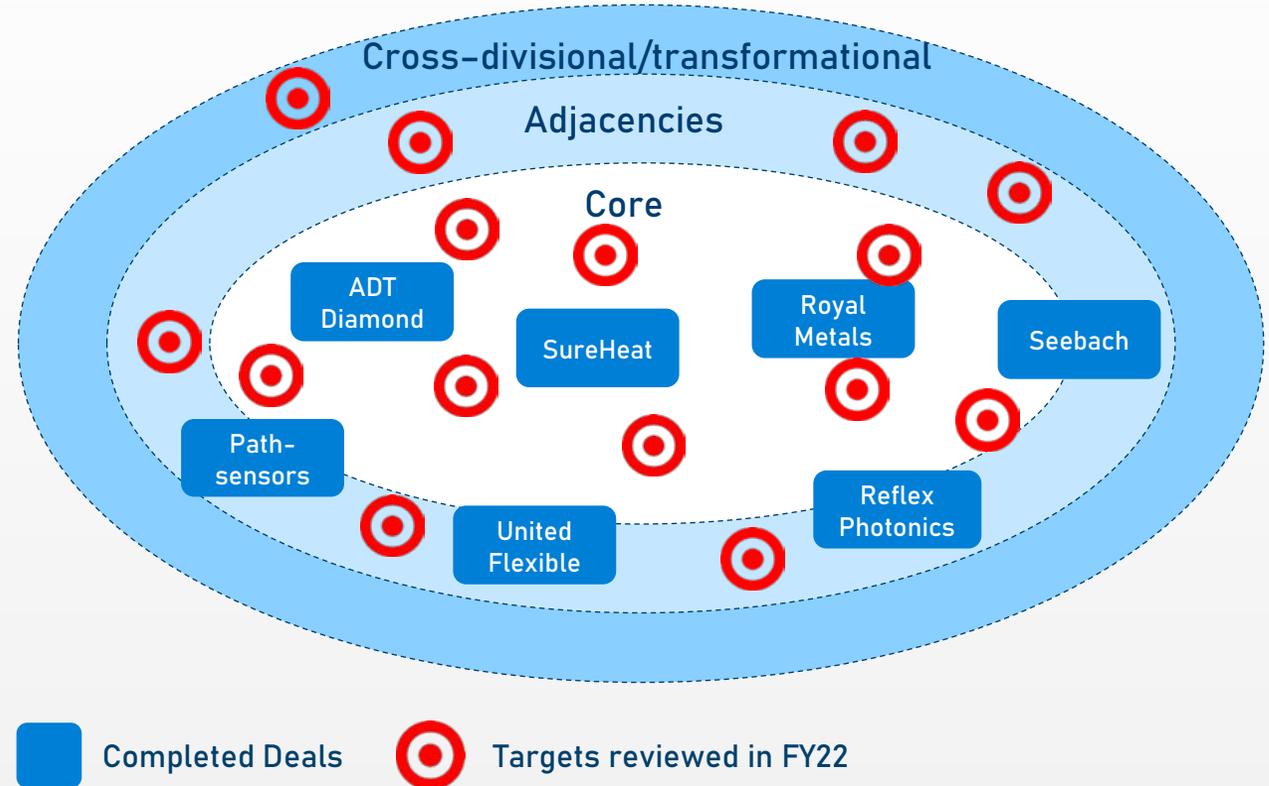


Priority 2: Targeted M&A

Accelerate organic strategy

- Focus on our core and adjacencies through bolt-ons and selective larger strategic opportunities
- Strengthen market/ geographical positions
- Enhance technology roadmap
- Access priority/new adjacencies with attractive characteristics
- Accelerate growth and create scale

Cultivate an attractive M&A pipeline

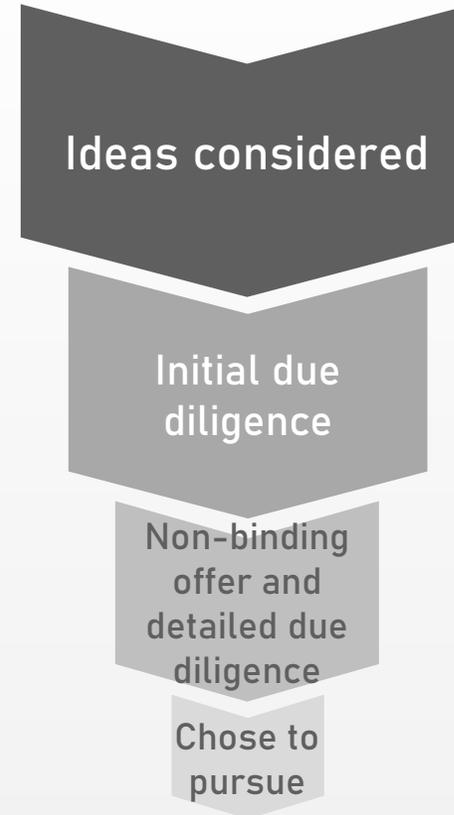


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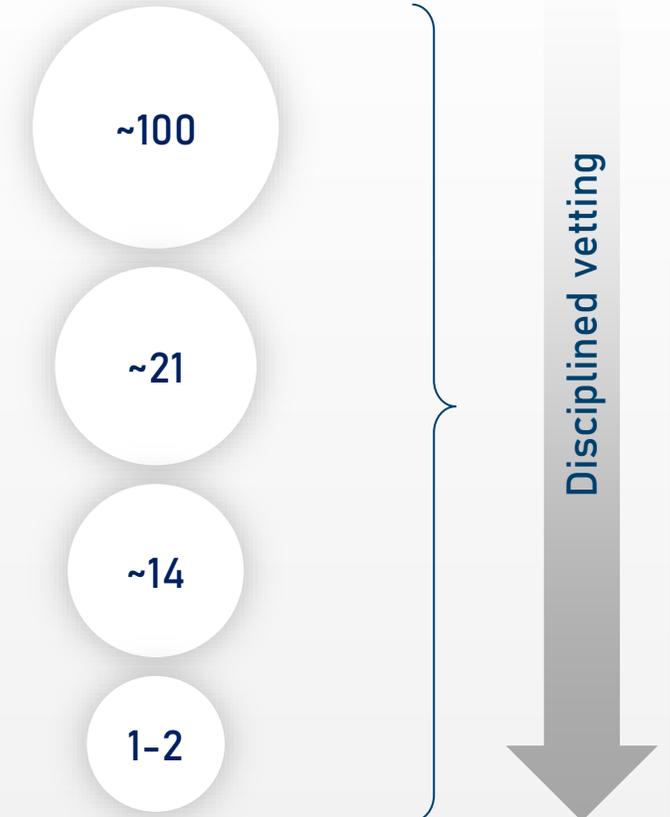
Disciplined approach

- All division generate opportunities aligned to the strategy
- Group expertise supports prioritisation, review and progression of opportunities and integration
- Focused on value creation, synergies, and return on capital
- Targeting opportunity that further solidifies strong core positions or accelerate penetration of adjacencies

Structured process



Average # of opportunities reviewed per year¹



Priority 3: Capital returns to shareholders

Progressive dividend

- Target to increase dividends in line with long-term growth in earnings
- While maintaining dividend cover of at least two times
- FY22 dividend yield of 2.6%, attractive relative to peers
- 70 years of uninterrupted dividend

Surplus capital return via share buyback

- Return of Smiths Medical proceeds reflected shareholder input
- Currently 83% complete as at end of Q1'23
- Programme expected to complete early CY2023



Well positioned for the near and longer term

	FY2023	Medium-term
 Organic revenue growth	Maintain guidance of 4-4.5% organic growth, with a very strong start in Q1	Strong positions in attractive markets supports medium-term target of 4-6%
 Operating margin	Moderate margin improvement in FY23 as we continue to navigate macro challenges	SES delivering stronger execution to drive margin expansion to 18-20%
 Cash conversion	Priority remains delivering for customers as supply chains remain challenging	Working capital discipline to deliver 100%+ cash conversion
 EPS and ROCE	Growth of top line and moderate margin improvement will deliver better returns	EPS growth of 7-10% and ROCE of 15-17% through growth and stronger execution