

## Strong now and for the future



The strength and flexibility we have built into our business, and the benefits of the Group's strategic positioning, underpinned a robust performance in challenging market conditions.

Our priorities remain the safety of our people and keeping the business running flawlessly to support customers. I'm incredibly grateful to our amazing people for their dedication in difficult times, which ensured we delivered in the year and continue to maximise opportunities for future growth.

We have continued to enhance the Group's strategic positioning, through execution of the restructuring programme, completion of three further bolt-on acquisitions and our unchanged commitment to separate Smiths Medical.

We are seeing a stabilisation of recent trends; but we are not complacent and are continuing to strengthen the business to deliver sustainable outperformance in the future.

I'm incredibly proud of the way Smiths has performed this year, including how we are responding during the unprecedented period of the COVID-19 pandemic. Our priorities throughout the pandemic have been the safety of our people, keeping our business running, and supporting our customers. Thanks to the amazing dedication and professionalism of our people, we have responded with great agility and demonstrated the strength and resilience we have built into our company and our ability to move fast and decisively, taking advantage of the opportunities which presented themselves.

Smiths entered the COVID-19 pandemic from a position of strength operationally, financially and strategically. While we remain vigilant, and are not complacent about the ongoing uncertainty, we are confident that we're managing today well and taking the right actions to continue enhancing the strength of the Group so that we're better positioned to deliver consistent market outperformance in the long term.

I convey my sincere and heartfelt thanks to everyone at Smiths, a formidable team. I could not have asked for more from anyone.

### Q How has Smiths fared during the COVID-19 pandemic?

A Our business has proven itself to be resilient by design during a period of unprecedented global disruption. Our market-leading positions, flexible business model and focused strategy have provided the momentum to support our performance in the short term and the agility to maximise opportunities for future growth. This has not been by chance, but part of the planned and strategic changes we have made to the Group over the last five years.

We have focused Smiths on businesses with the same core characteristics: technologically differentiated with increasing digitisation; a high proportion of aftermarket and services; and sustainably competitive and asset light. All things we do very well and make great business sense. These characteristics have supported our resilience with products and services that are at the forefront of their markets, with recurrent aftermarket revenues and an inherently low fixed cost base to maximise our flexibility.

Having defined the types of business we want to own and run, we have applied a consistent strategy to maximise value creation. The three pillars of our strategy are: outperforming our chosen markets; delivering world-class competitiveness; and maintaining our strong financial framework. We do this through a simple and clear approach to innovation, operational excellence and people.

We've actively managed our portfolio of businesses to be targeted in growing markets where we can sustainably achieve a position of top three leadership, with 90% of the Group now well positioned; up from 60% in 2016. It is these leadership positions that provided momentum for the business at the outset of the pandemic and that have helped us continue to win new business. This has resulted in Smiths achieving reported growth of 3%, despite significant global disruption arising from the pandemic in some of our end markets.

We are focused on consistent and flawless execution through our shared operating model (the Smiths Excellence System), and on driving sustainable competitiveness through targeted investment in innovation and disciplined M&A. This focus has enabled us to rapidly adapt our processes and working practices and to maintain exceptional customer service despite difficulties across the world in our supply chains. These adapted processes have come with higher consequential costs, which have temporarily impacted our operating margins, but we are laser-focused on mitigating these and improving operational efficiency as we move forward.

We've remained committed to delivering innovative solutions for our customers, driven by our technological differentiation and this, in turn, has led to new business wins, such as Smiths Detection's automatic baggage tray disinfection system using UVC light which has already been installed at two leading airports in the UK and is being trialled at multiple airports globally.

Underpinning our performance this year, and every year, is our strong financial framework. The cash generative nature of our businesses and the highly focused efforts of the team, day in day out, to manage cash during the pandemic drove strong cash conversion of 123% this year. We continue to have a strong balance sheet with more than £1bn of liquidity headroom and net debt to EBITDA of 1.7x at the end of the year.

**OUR STRATEGY AND AMBITION ARE UNCHANGED. WE CONTINUE TO EXECUTE AGAINST OUR PLAN, TAKING THE NECESSARY ACTIONS AND MAKING THE REQUIRED INVESTMENTS TO SHAPE THE FUTURE OF SMITHS AND DELIVER LONG-TERM GROWTH AND OUTPERFORMANCE.**

### Q What actions has the business taken in response to COVID-19?

A Led by our Smiths Group Crisis Core team, our response has been focused on keeping our people safe, keeping the business running, and supporting our customers. Infection control measures are in place right across our operations and I've seen some amazing examples of collaboration and innovation to support this; for example, colleagues at John Crane 3D printing elbow-operated door handle attachments and the in-house production of face coverings.

Supporting our team practically, nurturing wellbeing, and communicating comprehensively have been another important focus. With alternating shift patterns, no travel, and many people working from home, our strong enterprise IT response and bespoke COVID communication resources have kept our teams connected with universal access to guidance and support materials.

Since the start of the pandemic, we've managed our operational response through our Operations and Supply Nerve Centre (OSNC), helping over 90% of our manufacturing sites to remain in production through the pandemic. Our frontline workers have worked safely around the clock to create and distribute products and support our customers. We have continued to drive these new ways of working as the operational disruption has stabilised to ensure the great collaboration and best practice sharing continues globally.

We're especially proud of the collaborative efforts to produce products to help the fight against COVID-19. These include the significant ramp up in production of Smiths Medical paraPAC plus™ ventilators and other devices, and Smiths Interconnect and Flex-Tek's production of critical connectors and hoses for ventilators.

Maintaining continuity of service in our aftermarket activities, while keeping our people safe, has also been a vital part of our response. This has included finding new ways to deliver services, for example the introduction of remote inspection of seals at customer sites by John Crane using Augmented Reality.

### Q Why was the separation of Smiths Medical postponed and when will it restart?

A The previously announced separation of Smiths Medical, that was on track to be delivered in the first half of calendar year 2020, had to be postponed. It was simply not practicable to complete the separation during such an uncertain time. We needed to focus on navigating the external challenges presented by COVID-19 – including the delivery of ventilators and other critical care devices.

Maintaining this operational focus has been validated by Smiths Medical's performance this year, with underlying revenue growth of 4%. The intention and rationale to separate remains unchanged and the process will be restarted later this year.

### Q Have there been any changes to your strategy for future Smiths?

A Our strategy and ambition are unchanged. We continue to execute against our plan, taking the necessary actions and making the required investments to shape the future of Smiths and deliver long-term growth and outperformance.

We are, however, very focused on ensuring we take advantage of the organic and inorganic opportunities which the crisis presents, including new business models and ideas for the new ways of working which are emerging around the world.

Targeted investment in innovation will remain a key driver of the business as we address new trends and meet the needs of a changing world, making it safer, more efficient and better connected. There have been some great examples of innovation across the Group this year including Smiths Interconnect's new laboratory with the unique capability to replicate the environmental pressures of deep space for product testing, as well as continued work from our Digital Forge centre of excellence on accelerating the digital transformation of the Group.

This organic capability will continue to be complemented by a parallel path of disciplined M&A to accelerate our progress. A recent example of this was Smiths Detection's bolt-on technology acquisition of PathSensors Inc..

This acquisition strengthens our biological detection capability, building on our existing expertise. The technology can detect the presence of a virus in an individual and the viral load in the air in confined spaces. It is a great example of externalising R&D investment, where it would have simply taken us too long internally.

In June, we announced an important strategic restructuring programme which brought together initiatives already under development across the Group aimed at increasing our flexibility and speed and helping accelerate progress towards our target margin range of 18-20%. While the programme was not a response to the COVID-19 situation, the resulting improvements will help us to emerge stronger and better positioned for consistent market outperformance in the long term.

The programme spans all of our divisions and includes a number of actions to improve the efficiency of our Group support functions, as well as optimising our global footprint and supply chains. It has led to some very tough decisions and, regrettably, some job losses across the organisation, although this has affected only a small percentage of our workforce overall.

These were difficult but necessary steps to build further resilience and ensure that Smiths is able to continue to deliver long-term growth and outperformance, while providing secure and stable employment to as many colleagues as possible.

### Q How important is the Group's environmental and social impact to your overall strategy?

A We believe that doing business responsibly is the right thing to do for our stakeholders. Through our innovative technology and services and our people, bringing solutions which serve sustainability and efficiency, higher safety and security, and the connectivity of the world in all its forms, is our driving purpose. It underpins our business performance and the long-term sustainability and resilience of Smiths and, rightly, is governed at the highest levels of our organisation.

We have a strong track record on environmental performance. Through an ambitious goal setting process in place since 2007, Smiths is proud to have achieved significant emission reductions from 2007 to present. We also support more transparency on environmental matters as a catalyst for driving change.

Innovation is at the heart of everything we do at Smiths and this is also true of our approach to our environmental and social impact. We have many examples in our portfolio of technologies and new product development that will enable a smarter, greener future, such as John Crane's dry gas seals that help to reduce methane emissions. We continue to look for ways to reduce our own emissions and use of precious resources such as energy and water, supported by ambitious targets. We are currently discussing our FY2022-FY2024 goals.

We also want to be positive contributors to our local communities, playing a beneficial role by supporting job creation, operating safely and ethically, and engaging directly through fundraising, charitable giving and educational initiatives. After a successful pilot by Smiths Interconnect in 2019, our planned Group-wide adoption of the Beyond Boundaries initiative, where colleagues are empowered to spend a working day supporting good causes in their communities, was unfortunately put on hold due to the pandemic. Strong relationships with our communities are both positive for business and promote a sense of pride in our people as they live our Smiths values.

The safety and security of our people and operations has always been our number one priority and has remained our key focus throughout COVID-19. We have a very robust safety culture and strive for a zero-harm workplace, with safety considerations fully integrated into all our activities. I'm extremely pleased to report that we recorded our best-ever safety performance this year.

I'd like to pay tribute to the amazing dedication, commitment and contribution our colleagues have made to keeping themselves and others safe while helping us to continue to operate and serve our customers. Much effort has gone into understanding, respecting and supporting individual circumstances and balancing these with the needs of the business. Through our actions and words, I believe we've truly demonstrated that we're one Smiths family living the Smiths Way culture and values every day.

### Q How is the Group positioned for FY2021?

A Guidance remains withdrawn, given the uncertain depth and duration of the COVID-19 pandemic.

We are seeing a stabilisation of recent trends, with Total Group underlying revenue of (5)% for May-August 2020 (continuing operations (8)%).

The first half of FY2021 will continue to cycle against pre-COVID comparators. The Group's seasonality normally results in a second-half weighted revenue profile.

It is anticipated that the restructuring programme will incur £(30)m of costs spread evenly through the year, whilst the matching savings will be 70% weighted to the second half.

This is all underpinned by the Group's strong financial framework and robust balance sheet, and supports confidence that we will deliver long-term sustainable outperformance.

**Andy Reynolds Smith**  
CHIEF EXECUTIVE

**I'D LIKE TO PAY TRIBUTE TO THE AMAZING DEDICATION, COMMITMENT AND CONTRIBUTION OUR COLLEAGUES HAVE MADE TO KEEPING THEMSELVES AND OTHERS SAFE WHILE HELPING US TO CONTINUE TO OPERATE AND SERVE OUR CUSTOMERS.**