

CHAIRMAN'S STATEMENT

RISING TO THE CHALLENGE

FY2021 was one of the most eventful years since World War II for Smiths.

In addition to the normal business challenges, we suffered the ongoing consequences of the advent of the COVID-19 coronavirus crisis, the sale of one of our largest businesses, Smiths Medical and hiring a new CEO. Added to this interesting mix of challenges was further recognition of the vital importance of ESG and social equality.

The COVID-19 coronavirus pandemic got underway across the Western world in March of 2020. It quickly morphed into a full-blown economic crisis as well as a health care crisis right across the world. Many of us previously working in offices were forced to alter our lifestyles dramatically and work from home. The normal three-dimensional world became a two-dimensional one for many of us as we stared at computer screens in meeting after meeting. Changes that might have normally taken ten years to occur seemed to happen in ten weeks. Much of the work in factories, warehouses and logistics etc. cannot be done remotely, but those that could be, switched seemingly overnight. We paid especially close attention to our factory colleagues' safety and fully equipped them with appropriate protective equipment. As a Company, we are very grateful for the adaptability of everyone in these very strange circumstances.

We've yet to see the full effect of this change in our way of working, but I believe that what we gained in efficiency by not travelling, we likely lost in effectiveness and engagement by poorer communications and weaker onboarding of new colleagues. There is also growing evidence that innovation in most companies suffered during the pandemic.

The main beneficiaries of the pandemic were the electronics, logistics and pharmaceutical companies. The penalised entities were the travel industry, bricks and mortar retail, foodservice, healthcare workers and oil & gas. Pure play companies nearly always suffer worst in economic contractions, but a few verticals like pharmaceuticals and local logistics benefited hugely.

Smiths, along with many of its contemporaries, responded to the challenge magnificently. We never accessed our credit lines or took Government help. Our factories delivered reliably, and line workers did Yeoman's work to stay safe and deliver customers' products. Every day presented a new set of challenges driven by rapidly changing circumstances: supply chain disruption, attempted corruption in some parts of the world and shortages of personal protective equipment. There was the inevitable panic buying of food, disinfectants, and other household products.



Likely, COVID-19 will ultimately disappear into the background of infectious diseases, much like the cocktail of different flu viruses we see every year. The bottom line is that there is a good reason for hope, given time.



01	02	03	04
OVERVIEW 01-07	STRATEGIC REPORT 08-83	GOVERNANCE 84-132	FINANCIAL STATEMENTS 133-229

The ongoing tragedy of illness, death and fear from the coronavirus cast a pall over most people's lives in the Western world. Asia and South America were to see their world affected later in the year, but no less devastatingly. As the proverb says, necessity is the mother of invention and, notwithstanding background worries about side effects, pharmaceutical companies responded swiftly with the invention of vaccines in such compressed periods that could never have been contemplated previously. Innovation and speed of adaptation were again the winners in the pandemic.

Smiths has a relatively large presence in the airline travel industry, particularly that related to airports and aeroplanes. Those industries contracted rapidly as most forms of travel ground to a halt. Demand fell, and the pandemic effect rippled its way through engine manufacturers, airframe producers, airlines, airports, and every service business associated with them. We saw contractions in oil & gas-related businesses too as energy needs fell, with all the natural consequences that it brought with it. But the Company adapted well, and the results we posted were good when set against the background of significant turbulence in the markets we served. The Company also made substantial contributions to the ventilator challenge as one of only two ventilator manufacturers in the United Kingdom.

Perhaps the thing that has surprised society most is the persistence of the disease and its mutations. History has many lessons to teach us on this topic.

Various forms of plague, including pneumonic, bubonic and septicaemic plagues, have occurred throughout recorded history. Though not the first, the most well-known, the bubonic plague, began in Europe in 1340. It reoccurred about every ten years until 1670, with each outbreak lasting for about two years. It killed roughly half the population of Europe at the end of the Middle Ages. Even today, there are around 3,500 cases of bubonic plague recorded annually. Modern antibiotic drugs prevent these outbreaks from growing further.

The 1918 Spanish flu was the first of three flu pandemics in the 20th century, triggered by the Influenza A virus subtype H1N1, which caused up to 80 million deaths, though nobody is sure of the exact number. The virus disappeared until 1957 with a small outbreak in China and reappeared in the so-called Russian flu episode in 1977 that killed about 700,000 people, though it was mild compared to the 1918 outbreak. The most recent Influenza Virus A H1N1 outbreak was the 2009 swine flu pandemic which was also mild and, thankfully, caused few deaths. Sixty seven million Americans were infected with H1N1 in the 2009 outbreak, which caused about 240,000 hospital admissions and approximately 13,000 deaths. Yet this is the same virus that caused such devastation in the early 20th century. This appears to be the pattern of pandemics, initially severe then gradually becoming milder over the years as the broader population becomes more immune or drug treatments emerge. The current pandemic of COVID-19 is caused by the Severe Acute Respiratory Syndrome (SARS) coronavirus 2 and is the deadliest pandemic since the Spanish flu. At today's time of writing, it has caused about 4.5 million deaths globally.

Each of the pandemics in the last 100 years also lasted for about two years. So, if those historical observations are a pattern we can rely on, which we don't know for certain, we still have some time to live with COVID-19, perhaps another six to eight months or so. And we can't accurately predict what might happen with virus mutations over the years, though later mutations seem to be less severe, just as they were with the Virus A H1N1 variant. Likely, COVID-19 will ultimately disappear into the background of infectious diseases, much like the cocktail of different flu viruses we see every year. The bottom line is that there is a good reason for hope, given time.

Because of uncertainty in the financial markets during COVID-19 and our much-needed operational focus, we postponed disposing of our medical business. We restarted that work around the beginning of 2021. The decline in margin and sales in the medical business had continued, and management's attempts to rectify this decline were unsuccessful. This decline in margin and sales naturally led to disappointing financial offers for Medical, though ultimately a successful agreement with ICU Medical, Inc. emerged at much more attractive pricing. This transaction is subject to regulatory approval which is in process. I remain convinced that in the right management hands, Medical is a good business with fine prospects. The challenge now in Smiths, more broadly, is to rebuild.

In the spring of 2021, the Board elected to make a change in CEO. Andy Reynolds Smith stepped down from his position as CEO. The Board wishes to express its gratitude for Andy's contributions to the Company over the past six years. We were fortunate enough to attract a very able and experienced leader in Paul Keel, a former McKinsey, GE and 3M executive, to become Smiths CEO. Paul has brought renewed vibrancy to the CEO position, and his immediate challenges are finishing the sale of the Medical business and outlining a new Company strategy. We are scheduled to conduct a Capital Markets Day in mid-November, where early versions of these ideas will become public.

We are indeed fortunate to have a range of high-quality businesses in the remaining parts of Smiths. However, despite the innate quality of these businesses, historically, their growth has been patchy. The reason is quite simple; as I've mentioned in previous Chairman's letters, the core of every company is dying. The management team's essential job is to replace that core attrition with new products, market penetration, line extensions and geographic expansion. Most companies add acquisitions to this pile to turbocharge growth. Finding the unlock codes to that growth puzzle has been the most stubborn problem we've had to solve at Smiths in the last 20 years. The answer has not changed; it requires dynamic leadership, creativity and imagination in the divisions and, along with it, relentless execution.



Paul has brought renewed vibrancy to the CEO position, and his immediate challenges are finishing the sale of the Medical business and outlining a new Company strategy.



The much better news is that the two largest businesses, John Crane and Smiths Detection, have large service components and, so far, the value of this recurring revenue has been undervalued. But it is indeed harder to grow above the market rate when a large percentage of your sales are your own service parts. Additionally, the Flex-Tek business has begun to grow in ways we always believed were possible. The huge increase in construction, particularly in the United States and Western Europe, has driven demand for many of Flex-Tek's products, easily outweighing the contraction in the aero engine components section of their business. It's also been the source of innovation in forced air-conditioning that we expect will lift growth rates and expand the company's reputation for innovation.

The huge expansion in the semiconductor business has led to a great platform for growth in the coming years for Interconnect. Perhaps it is our most advanced technology business; many satellites are launched that contain connectivity components from Smiths Interconnect.



In the battle to enhance our support of ESG, John Crane is one of the most powerful defence weapons at our disposal. We are blessed in Smiths to have such an able contributor to this global mission.



The John Crane business has rightly been seen as a powerful asset but is often described as a company mainly positioned in an industry with dark clouds, i.e. oil & gas. This is an unfortunate and incorrect assumption. In our internal conversations about the opportunities for John Crane, I've used the analogy of the human skin to describe John Crane's core business. The human skin is an organ that has two primary responsibilities, the first is to keep the inside in, and the second is to keep the outside out. The same is true for a seal. Its purpose is the same, to keep the inside in and the outside out. So, in a strange twist of irony, John Crane's seal business is not a participant in one of nature's greatest challenges. Instead, it is one of the primary defenders against pollution in a world increasingly aware of pollution and rightly sensitive to it. The 'inside', in our case, is often high-pressure gases such as methane, a leak of which would cause pollution. John Crane seals are the primary defensive mechanism against pollution, so its main role has been mischaracterised. In the battle to enhance our support of ESG, John Crane is one of the most powerful defence weapons at our disposal. We are blessed in Smiths to have such an able contributor to this global mission.

Moreover, almost 40% of John Crane's business is not in oil & gas but other turbomachinery applications like those we see in pharmaceuticals and energy utilities. We intend to keep on growing that percentage. And, as I mentioned earlier, it has the financial bulwark of high recurring revenues in its service businesses. We have every intention of growing that too.

Smiths Detection is likely to be our biggest near-term market challenge. Although it has significant service businesses, its core platform is explosives and contraband detection in airports and border crossings. The business is largely project-based, driven by airport passenger volume. We have been working for several years on important breakthrough technologies unlike any seen before and aimed not just at explosives, but at contraband detection more generally. We also have several other technologies in development designed to detect viruses in a wide variety of environments. Smiths Detection is rapidly becoming a superb source of technology for the rest of the Smiths portfolio.



We are firmly committed to doing our part to contribute to solutions in each part of E, S and G.



Despite suffering some contraction in its aero engine-related markets, Flex-Tek has grown rapidly off the back of the construction boom around the world. Smiths purchase of Royal Metal in February can also contribute to the ESG-related quest for a cleaner and safer environment inside our homes and offices. Smiths already has available Ion Mobility Spectroscopy (IMS) technologies to detect chemical weapons for the military that can be redirected to 'sniff' for harmful contaminants inside our homes and offices. We have new virus detection technology inside Smiths Detection, and they are a fruitful source of technology applications outside the core explosives detection business.

My final remarks will be on the topic of ESG. We are at the cusp of the greatest change in society and the environment since the Industrial Revolution. Renewable energy, compostable plastics, the electrification of everything, advanced genetics, artificial intelligence, robotics, telematics, clean air, clean water, safe food, advanced telecommunications etc., to name just a few, are vital technologies for the future. Engineering, mathematics, physics, medical science and materials technology are the keys to the door that will increasingly open onto solutions. Our capabilities are firmly planted in several of these areas and offer tremendous growth opportunities. We are firmly committed to doing our part to contribute to solutions in each part of E, S and G.

Thank you very much for your continued support of our Company. It is very much appreciated.

George W Buckley
CHAIRMAN OF THE BOARD