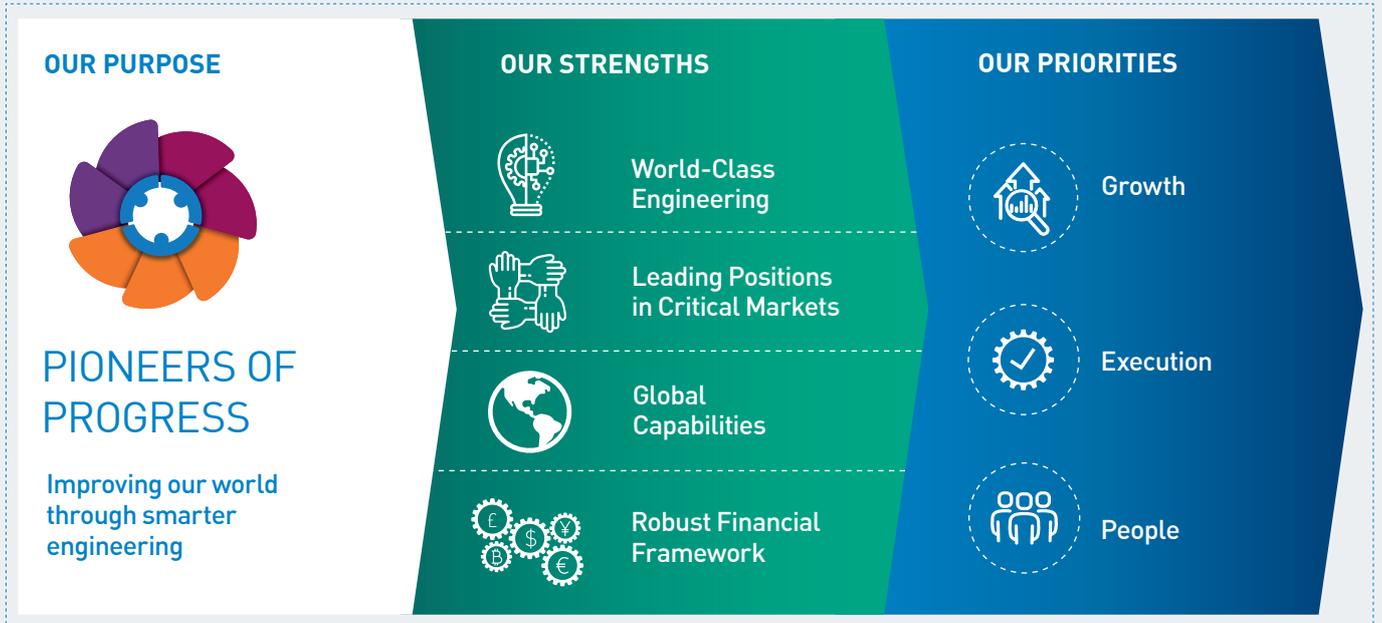


CHIEF EXECUTIVE OFFICER'S REVIEW

OUR BUSINESS MODEL

Our compelling business model leverages our world-class engineering, leading positions in critical markets, and global capabilities to help customers solve their toughest problems. The Smiths Value Engine is supported by a robust financial framework characterised by recurring revenues, high margins, and strong cash generation.

SMITHS VALUE ENGINE



OUR CULTURE

Our culture inspires and empowers our people. We live our Values of integrity, respect, customer focus, ownership, and passion every day, in each action and decision that we take. A strong culture grounded in Values is what has enabled Smiths to prosper for more than 170 years.

Our Leadership Behaviours provide a unified description of what leadership means at Smiths and a shared commitment to how we act in service of our stakeholders. Smiths Leadership Behaviours align to our three core priorities of growth, execution and people.

Growth

- Innovates for impact
- Sets vision to inspire

Execution

- Takes accountability and ownership
- Delivers results at pace

People

- Lives Smiths Values
- Develops self and others
- Leads inclusively and empowers

OUR STAKEHOLDERS

People

Our capable, dedicated and passionate colleagues are our greatest asset. We aim to attract and retain the very best by creating an environment for colleagues based on respect, personal growth, recognition and development of talent, and a sense of belonging and purpose.

Customers

Strong and enduring customer relationships will sustain Smiths into the future. Meeting customer needs and exceeding their expectations, not just with products, quality and service, but in the way we conduct business and pay attention to the things that matter to them – for example, ethics and environmental performance – is a fundamental part of our business model and our Values.

Suppliers

Developing mutually beneficial relationships with our suppliers and building resilience, quality and efficiency across our supply chain is a fundamental contributor to our customer offering and the long-term competitiveness of Smiths.

Communities and society

We aim to improve our world by contributing positively to our communities and society in general. Smiths products and services support critical global industries where we are pioneering progress in safety, efficiency and environmental performance. We play a beneficial role in local economies through job creation and skills development, procurement and generating tax revenues, operating safely, environmentally responsibly and ethically, and engaging directly.

Regulators and governments

We build relationships with governments, policymakers and regulators across the world. We do this so that we can operate effectively, to ensure our interests and those of the industries in which we operate are represented in decision-making, and in order to contribute our expertise on emerging national, regional and global needs.

Investors

We are committed to openness and transparency with all capital providers and the effective management of risk while we unlock value and returns for our investors.

OUR STRATEGY

We are committed to performing to our potential – growing faster to unlock enhanced value creation for the Group. We actively manage our portfolio of businesses and seek to optimise their performance through organic investment and disciplined use of capital for mergers and acquisitions. In FY2022 we made good progress in advancing our strategy.

MEGATRENDS

The strategy for each division is tailored to its individual circumstances and takes account of trends in overall demand, specific customer needs, relative competitor performance, and underlying business models. In addition, we track the evolution of key Group-wide secular themes and trends and their impact on our business.

Our Purpose and commitment to sustainability leadership are reflected in our intent to prioritise ESG performance at Smiths. As a result, whilst each of these themes is important, we place additional emphasis on our response to those megatrends which relate to the energy transition agenda and the overall reduction of waste and energy use. This will allow us to leverage our unique capabilities to enable our customers to meet their sustainability goals while we deliver on our own commitments.

General Industrial

- Efficient, cleaner processes
- Waste reduction, re-use/recycle
- Safe operations
- Equipment reliability
- Asset life maximisation
- Lightweight materials

Safety & Security

- Safe travel
- Secure trade
- Safe people
- Secure places
- Smart cities

Energy

- Environmental urgency
- Energy efficiency
- Lower emissions
- Energy transformation
- Air quality

Aerospace

- Faster/seamless connectivity
- Satellite applications
- Personalised integrated mobility solutions

OUR STRATEGIC PRIORITIES



Growth

- Taking full advantage of strong demand we currently see across most of our markets
- Improving new product development and commercialisation
- Extending our reach by building out priority adjacencies
- Supplementing organic growth with disciplined M&A
- Developing high-value green technology solutions for our customers

FY2022 progress

- Five consecutive quarters of organic revenue growth
- Accelerated organic revenue growth towards target range
- £51m of revenue from new products launched in FY2022
- R&D investment increased +14% to 4.2% of sales (+30bps vs FY2021)
- +1.8% additional growth from targeted M&A



Execution

- Embedding the Smiths Excellence System across the Group
- Accelerating pace and establishing a more consistent operating rhythm
- Continuously improving to deliver value for customers
- Executing against our environmental commitments

FY2022 progress

- Resilient operating profit margins amidst challenging macro environment
- Price offsetting inflation and mitigating other supply chain impacts
- SES fully embedded across the Group, with a well-resourced team and 25 high-impact projects underway
- New sustainability strategy launched
- Solid operating cash conversion achieved



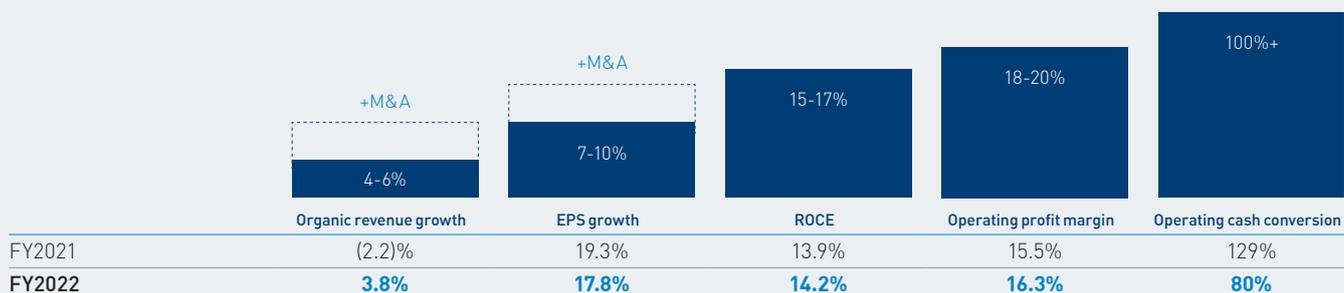
People

- Building upon our world-class safety record
- Accelerating talent development through the Smiths Leadership Behaviours
- Creating an ever-more diverse and inclusive environment
- Living Smiths Values each and every day

FY2022 progress

- Refreshed senior leadership team leading a faster pace
- Introduced Smiths Leadership Behaviours to accelerate cultural change
- More ambitious diversity goals in place
- >1,000 Lean Six Sigma qualifications through our SES Academy

FY2022 PROGRESS AGAINST TARGETS



CHIEF EXECUTIVE'S REVIEW OF THE YEAR



We continued to demonstrate strong progress in FY2022, executing at pace on our growth strategy. We delivered growth ahead of expectations, our fastest organic growth in nearly a decade. Along with accelerating growth, we further strengthened our company through increased investments in innovation, commercialisation and supply chain. Still more, we returned £661m of cash to our shareholders through dividends and share repurchases.

All of this gives us confidence for continued progress in FY2023. Despite an uncertain macro environment, we expect to deliver 4.0-4.5% organic revenue growth with moderate margin improvement. By focusing on our top priorities of growth, execution, and people, we are creating value for our customers, colleagues, communities and investors. Together, we're building an ever-stronger future for Smiths.

Many thanks to my colleagues around the world for doing what we do best – improving our world through smarter engineering.”

Paul Keel,
CHIEF EXECUTIVE OFFICER

FY2023 outlook

- Expect to deliver 4.0% to 4.5% organic revenue growth with moderate margin improvement
- Strong order books and leading market positions support sustained momentum
- Cost inflation being actively managed through productivity programmes and pricing actions
- Macroeconomic and geopolitical uncertainty as well as supply chain challenges continue

FY2022 business performance

Commentary refers to Smiths Group performance excluding Smiths Medical, which was accounted for as 'discontinued operations' before the sale completed on 6 January 2022.

Smiths delivered growth ahead of expectations with organic revenue up +3.8%. Growth accelerated to +4.1% in the second half, which built on the momentum we had achieved in the first half of +3.4%. We executed well in a challenging environment with positive pricing action covering the impact of elevated input costs, and maintained close management of our supply chain to mitigate other impacts.

As we strive to continually inspire and empower our great people, we launched our enhanced sustainability strategy and set out new Smiths Leadership Behaviours. These Behaviours provide a unified description of what leadership means at Smiths and a shared commitment to how we will act as employees.

FY2022 BUSINESS PERFORMANCE

| (£m) | FY2021 | FY2021 restructuring charges | Foreign exchange | Acquisitions | Organic movement | FY2022 |
|----------------------------------|--------|------------------------------|------------------|--------------|------------------|--------|
| Revenue | 2,406 | – | 26 | 42 | 92 | 2,566 |
| Headline operating profit | 372 | 21 | 5 | 11 | 8 | 417 |
| Headline operating profit margin | 15.5% | +90bps | +0bps | +20bps | (30)bps | 16.3% |

ORGANIC REVENUE GROWTH (BY BUSINESS)

| | H1 2022 | H2 2022 | FY2022 |
|---------------------|---------|---------|--------|
| John Crane | +5.1% | +2.5% | +3.7% |
| Smiths Detection | (7.2)% | (11.3)% | (9.4)% |
| Flex-Tek | +10.0% | +20.9% | +16.1% |
| Smiths Interconnect | +12.9% | +14.8% | +13.9% |
| Smiths Group | +3.4% | +4.1% | +3.8% |

ORGANIC REVENUE GROWTH IN OUR END MARKETS

| | % of Smiths revenue | H1 2022 | H2 2022 | FY2022 |
|--------------------|---------------------|---------|---------|--------|
| General Industrial | 42% | +5.7% | +16.5% | +11.4% |
| Safety & Security | 31% | (3.5)% | (8.9)% | (6.4)% |
| Energy | 21% | +7.5% | +0.3% | +3.5% |
| Aerospace | 6% | +16.7% | +14.2% | +15.4% |
| Smiths Group | 100% | +3.4% | +4.1% | +3.8% |



Growth

Growing faster is the primary driver of unlocking enhanced value creation for the Group. Through the year we delivered growth in each quarter and FY organic revenue growth of +3.8%, our best performance in nearly a decade.

Growth accelerated in the second half for both Flex-Tek (+20.9%) and Smiths Interconnect (+14.8%). John Crane delivered +2.5% growth in the second half impacted by cessation of sales into Russia and supply chain disruption, which impacted our ability to convert strong order intake into revenue. As expected, Smiths Detection continued to be affected by the softer Aviation original equipment (OE) market through the second half, but good order growth underpins our confidence in the medium-term prospects for this segment.

Revenue grew +6.7% on a reported basis, to £2,566m (FY2021: £2,406m). This included +£26m of favourable foreign exchange translation, and +£42m from the acquisition of Royal Metal Products LLC (Royal Metal) in February 2021. Since February 2022, Royal Metal results have been accounted for as organic growth.

Strong execution to maximise market recovery opportunity is the first of the four actionable levers for accelerating growth.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace. Our strong market positions, coupled with the balanced market exposure we have across our businesses, are distinctive long-term advantages for Smiths.

Smiths organic revenue growth in our largest end market, General Industrial, was +11.4% in FY2022, with growth accelerating in the second half. This was driven by John Crane's growth in segments like chemical processing, water treatment and life sciences, demand for Flex-Tek's construction products and Smiths Interconnect's semiconductor test solutions which remained strong throughout the year. Smiths organic revenue in Safety & Security was (6.4)%, reflecting continued contraction of the Aviation OE market. This was partially offset by growth in Smiths Detection's other segments as well as growth from Smiths Interconnect's defence-related products. The +3.5% growth in the Energy segment reflected strong demand in John Crane. As mentioned above, second half growth was impacted by cessation of sales into Russia and supply chain disruptions. Our fastest growth in FY2022 came in Aerospace +15.4% as increasing aircraft builds drove strong demand for Flex-Tek and Smiths Interconnect's aerospace solutions.

As part of our growth strategy, we have introduced a new approach for our business in China. From the start of FY2023, the Smiths China leadership team now has lead responsibility for our operations in the country (excluding Smiths Interconnect's semiconductor business unit which will continue to report globally). To reflect this, Ted Wan, President of Smiths China, has joined the Smiths Group Executive Committee.

Our second lever for faster growth is **improved new product development and commercialisation**. During FY2022, we launched 21 high-impact new products including Flex-Tek's Python line sets, a flexible, multi-layer pipe used in various heating, ventilation and air conditioning (HVAC) applications; Smiths Detection's iCMORE automated detection algorithms; and Smiths Interconnect's space qualified connectors. Gross Vitality, which measures the contribution of products launched in the last five years increased to 31% (FY2021: 25%), demonstrating our successful commercialisation of new products.

As an industrial technology leader, continuing to invest in R&D ensures we capitalise on the wealth of opportunities in our pipeline, with increasing demand for our sustainability-related products. During FY2022, we invested £92m in R&D (FY2021: £84m), of which £80m (FY2021: £76m) was an income statement charge and £12m capitalised (FY2021: £8m). Our customers and third parties contributed a further £15m (FY2021: £10m).

To support new product launches, and the strong demand for existing solutions, we increased capex +14.5% in FY2022 to £(71)m (FY2021: £(62)m). This represents 1.5x depreciation and amortisation (FY2021: 1.2x).

Our third growth lever is **building out priority adjacencies**. Each of our four businesses are executing strategies to expand their growth beyond their existing core market positions. Examples in FY2022 include the launch of Smiths Interconnect's medical cable assemblies, and John Crane's multi-purpose filter; an efficient water-saving solution for the treatment of process water in pulp & paper, mining, power generation plants and refineries.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. Flex-Tek's acquisition of Royal Metal in February 2021 is an excellent example of this. Acquired for \$107m (7.6x trailing EBITDA), FY2022 revenue and profit growth were +48% and +70%. During H1 2022, the acquisition contributed £42m of revenue and £11m of operating profit, adding 1.8% on top of organic revenue growth for FY2022. For H2 2022, contribution from Royal Metal was included in our organic results. Royal Metal brought a complementary HVAC portfolio, distribution synergies, and positive pricing. While driving sustained organic growth remains our priority, we continue to explore value accretive M&A opportunities across the Group.

In January 2022, we successfully completed the sale of Smiths Medical to ICU Medical, Inc. (ICU), several months earlier than expected. This was our largest portfolio move in over a decade and positions the Group even more strongly to access the growth available in our industrial technology core. The sale generated a profit on disposal of £1.0bn, with immediate net cash proceeds of £1.3bn and further value to come from a potential \$0.1bn earnout and our stake in ICU, which is recognised as a £0.4bn asset on our balance sheet. For more information on the divestment, please see note 27 of the financial statements.



Execution

Stronger execution is our second key priority.

In FY2022, headline operating profit grew +1.7% (+£8m) on an organic basis, and +12.0% (+£45m) on a reported basis to £417m (FY2021: £372m).

Headline operating profit benefited from strong profit leverage in Flex-Tek and Smiths Interconnect. This was partially offset by the impact of supply chain disruption on John Crane and Smiths Detection, lower volumes in the Aviation OE segment of Smiths Detection, and our continued investment in growth. On a reported basis, headline operating profit increased given £21m of restructuring costs booked in FY2021, favourable FX translation of £5m and H1 2022 contribution from Royal Metal.

Headline operating profit margin was 16.3%, down (30) bps on an organic basis and up +80bps on a reported basis.

Headline EPS grew +17.8%, driven by headline operating profit growth, a reduction in the effective headline tax rate and the benefit from the ongoing share buyback programme. The headline tax charge for FY2022 of £104m (FY2021: £96m) represents an effective rate of 27.6% (FY2021: 28.9%).

ROCE increased +30bps to 14.2% (FY2021: 13.9%). This reflects the higher profitability of the Group, more than offsetting the temporary increase in working capital. For further detail of the calculation, please refer to note 29 to the financial statements.

Smiths has a strong track record of operating cash conversion, having averaged 100% over the last five years. This year, we delivered solid operating cash conversion of 80% (FY2021: 129%) while navigating supply chain disruption and the associated investment in working capital. Headline operating cash-flow was £332m (FY2021: £510m).

In FY2022, we embedded our Smiths Excellence System across the company. SES is a step change in approach and operating rhythm; executing with greater pace, urgency and consistency in support of our priorities.

SES is well resourced with six full-time Master Black Belts (MBB) and 23 Black Belts (BB) in place and the first high-impact Black Belt projects now underway. Both the MBBs and BBs are dedicated resources leading continuous improvement projects across the organisation. Their current projects are focused on improving lead times, order book conversion, increasing capacity and cost reduction, which are helping to both navigate the immediate short-term disruptions and support more efficient margin expansion as we grow the top line. SES links our actions to our strategy, prioritises for high impact and creates full-time continuous improvement career paths.

We have also identified some targeted savings projects to drive enhanced efficiency and agility in responding to our end markets. In John Crane, the focus is to simplify the organisation to better serve our customers and maximise growth opportunities.

In Smiths Detection, we are restructuring the operations to be more resilient and improve efficiency in response to market conditions. The non-headline charge for these savings projects is expected to be £35-40m in FY2023, with annualised benefits of £25-30m, of which approximately 50% is expected to be delivered in FY2023.



People

Inspiring and empowering our people is our third key priority.

Safety and well-being are always foremost of our priorities.

We have a strong and robust safety culture and strive for a zero harm workplace, with safety considerations integrated into all of our activities. Our Recordable Incident Rate for FY2022 was 0.54 and continued to track below the industry average and in the top quartile of industry performance, reflecting the importance of safety in everything we do.

We continue to support our colleagues in the Ukraine/Russia region amidst the ongoing conflict. As communicated at the interim results, we stopped all sales into Russia following the invasion and are in the process of exiting our operations in Russia. An associated non-headline charge of £19m is included in the accounts, further details can be found in note 3 of the financial statements. We made a Group-wide donation to the Red Cross to support the vital work they are doing for the people of Ukraine, and implemented a donation matching scheme for our colleagues.

During FY2022 a number of senior appointments were made to the leadership team including Clare Scherrer as Chief Financial Officer, Bernard Cicut as President of John Crane, Vera Kirikova as Chief People Officer and John Ostergren as Chief Sustainability Officer. All of these individuals bring a wealth of experience which will help accelerate our progress in executing our strategy.

Under this refreshed leadership, as we continue to strengthen our culture, we have introduced a set of behaviours: the Smiths Leadership Behaviours, to bring our Values to life. These seven Behaviours describe how we work with one another and take ownership and accountability for our actions. They apply to everyone at Smiths – from the shop floor to senior executives.

We developed the Smiths Leadership Behaviours through a robust process of focus groups, which gathered the views of colleagues from 21 countries and 72 sites across the organisation. These were followed by workshops with our Executive Committee to create and refine a set of behaviours that would be relevant and compelling for the whole organisation and support future growth.

The Behaviours will become foundational to processes including recruitment, development, career progression and reward. We believe that they will enable the Smiths culture to be even more dynamic and inclusive.

An important step in embedding an inclusive and diverse culture is increasing our gender diversity. We are focused on proactively increasing the number of women in leadership roles at Smiths. We have 45% female representation on the Smiths Board, and we welcomed three new female members to our Executive Committee in FY2022 (31% female). Women make up 28% of our global employee population, but only 24% of our senior leaders are female. We are working to change this with a programme of activities designed to identify, support and advance the careers of women at Smiths.

Our ESG approach

Environment, Social and Governance (ESG) performance is at the very centre of our Purpose, and fundamental to each of our priorities.

During FY2022, we established a Science, Sustainability & Excellence Committee of the Board, chaired by Dame Ann Dowling, to provide guidance and supervision of our sustainability strategy. We put in place the company's first Chief Sustainability Officer who is leading our sustainability strategy and targets throughout the business. This strategy (which will be set out in full in our inaugural Sustainability at Smiths report in October), describes how we are embracing and prioritising ESG performance at Smiths to deliver on our Purpose and create genuine and significant value for all our stakeholders. To support the delivery of our strategy, executive compensation is now linked to our sustainability targets, with ESG metrics (GHG reduction and energy usage) included in our annual and our long-term incentive compensation programmes beginning in FY2023.

Delivering sustainable **growth** means leveraging our unique capabilities to develop and commercialise green technology that will help transform industries and provide our customers with solutions for their operations, enabling them to meet their own environmental targets across climate risk, energy transition and other environmental needs. Examples include methane abatement; more energy efficient critical safety infrastructure; electrical heating solutions; transmission and storage of alternative fuels; carbon capture; and next generation electrical connectors that will safely and reliably support the digitisation and electrification of infrastructure.

Delivering our ESG commitments, which include targets for reduction in water, waste and packaging, and our Net Zero GHG emissions commitments for Scope 1, 2 and 3, will improve the environmental **execution** of our operations, our products and our supply chain. In preparation for setting science-based targets aligned to our Net Zero commitments, we made further progress understanding and categorising the underlying data. In FY2022, normalised GHG emissions reduced by (7.2)%, normalised water usage reduced by (4.5)% and normalised non-recyclable waste reduced by (11.5)%. These reductions are on top of significant progress already made since FY2007, when we first implemented environmental targets.

We have set and communicated FY2024 environmental goals, an important step to support the delivery of our commitment to Net Zero GHG emissions for Scope 1 & 2 by 2040. We have a clear roadmap for how we will achieve this, published on our website. It details the path we are taking to achieve Net Zero Scope 1 & 2 emissions by 2040 and, furthermore, our ambition to achieve Net Zero Scope 1, 2 and 3 emissions by 2050.

Our **people** are a key asset in delivering our ESG commitments. We know that great things happen when we protect, respect, and support our teams. We nurture our people and develop their talents so that they flourish and can help build the Smiths of tomorrow. We are supporting our teams to strengthen our local communities and we are working every day with our unwavering commitment to strong governance and ethical practice.

 **24** [READ MORE](#)
Sustainability at Smiths