Interim Results FY2022

Friday, 25th March 2022

Opening Remarks

Paul Keel

Chief Executive Officer, Smiths Group

Okay. Good morning, everyone, and thank you for joining us today. With me here in London this morning is John Shipsey, our CFO. In terms of the running order, I'll offer a few thoughts to set the stage, hand it over to John to take us through the numbers, and then I'll come back to talk about the strategic progress we made in the first half. As always, we'll close with your questions.

Now, knowing that it may be top of mind for many of you, let me begin with an overview of our activities in Russia and Ukraine. Like many of you, we are shocked and appalled by the tragic events unfolding in the region, and we join in the broader international community in calling for de-escalation and peace. To give you a sense of scale, our business in the region represented less than 1% of sales last year. Over recent weeks, our priority has been ensuring the safety, security, and well-being of our colleagues in the region. All are safe and continue to receive full support from Smiths. In response to the invasion, we have suspended sales into Russia.

Executing Against Our Strategy

Moving now to results. Our first half performance demonstrates that we are executing well against our strategy. Organic revenue growth accelerated to 3.4%, and we converted that into even stronger profit and EPS growth, up 11 and 14% respectively. Our growth was underpinned by strong demand across most of our end markets, and order books continue to build. In January, we successfully completed the sale of Smiths Medical, several months earlier than expected. This was an important milestone for us, as it further focuses our portfolio. We now have four higher-performing, more strategically aligned industrial technology businesses, all with similar commercial, operational and financial characteristics. We are using the proceeds of the sale to invest in growth, to further strengthen our balance sheet and to return capital to shareholders by way of a buyback which is already 25% complete. The early completion and rapid capital return are examples of the faster pace and better execution that are fundamental to our plan.

The Smiths Excellence System is a central component of this, and we're making good progress on the next phase of SES, having set clear priorities, put leadership and resourcing in place, and settling into a tighter, more disciplined operating rhythm. We've also heightened our focus on ESG to multiply our sustainability influence and to maximise the accompanying growth opportunities that come with us. So we've had a good start to the year. That said, we face many of the same headwinds as the broader market, including supply chain challenges, rising inflation and ongoing geopolitical and macroeconomic uncertainty. We'll go into greater detail on each of these points in the coming slides.

Smiths Value Engine

At last fall's capital markets event, we laid out a plan to deliver performance in line with Smiths' substantial potential. The plan is summarised on slide 6 in what we call the Smiths Value Engine. It connects three key components of success: our purpose, our strengths, and our priorities. As a technology company that has had a hand in a number of the world's most meaningful advances over the past 170 years, our purpose is crystal clear. We are pioneers of progress, and we're committed to improving our world through smarter engineering. We leverage four fundamental strengths that create distinctive and compelling competitive advantage: world-class engineering, leading positions in critical markets, global capabilities, and a robust financial framework, of which John will say more in just a moment.

Our purpose and our strengths are then directed towards advancing three key priorities: accelerating growth, improving execution, and doing more to inspire and empower our wonderful people. We measure our progress by tracking five medium-term financial commitments: organic revenue growth, EPS, ROCE, operating margins, and cash conversion.

Progress Towards Medium-Term Financial Targets

Slide 7 details our performance in the first half against these commitments. We have included results from the same periods in the two prior years for reference. As you can see, we're making good progress. Organic growth of 3.4% approaches the 4-6% range we're aiming for, longer term. EPS growth was even more pronounced at 13.8%, a steep acceleration versus the same periods in both 2020 and 2021 and above our longer-term target of 7-10%. ROCE climbed 370 basis points to 14%, while margins expanded 150 bps to 15.9%. And operating cash conversion of 93% is a solid result for us, in light of our investments in growth as well as the supply chain constraints that I noted earlier. We're encouraged by our performance in the first half, and I'm grateful to my 14,000 colleagues around the world who make it happen. There is still much to do to reach the still higher levels of performance of which we're capable, but we're pointed in the right direction and we're clearly making progress.

Let me now hand it over to John to walk through the results in greater detail.

H1 2022 Results

John Shipsey

Chief Financial Officer, Smiths Group

Accelerated Organic Growth with Strong Conversion Into Profit And Cash

Thank you, Paul, and good morning, everyone. I'm pleased to be able to talk you through a good set of H1 results. Let me begin by referring back to what I said at our capital markets event in November. Our key financial priority is to accelerate top-line growth, because, with our strong financial framework, if we can turn the wheel of top-line growth faster, it will drive even higher profit growth, and that profit growth will in turn drive strong cash flow – cash flow which we can use to reinvest in future growth or, indeed, return to shareholders if it's surplus to our reinvestment needs.

H1 2022 – Good Progress in Executing Our Strategy

And that is precisely what we did in the first half, accelerating organic top-line growth to 3.4% and almost 1.2 billion of revenue, converting this into double-digit growth in operating profit, up 11.1%, 110 basis points of margin expansion, underlying EPS growth of 13.8% and continued good operating cash conversion of 93%. An increase of 5% in the interim dividend reflects the Group's strong performance and financial position.

Step Up in Revenue Growth

So, as Paul just highlighted, with top-line growth of 3.4% we achieved an important step up on last year, and this was driven by a strong performance in three out of our four divisions, as I'll come on to in a moment. We did see a minus 3.3% adverse FOREX impact, but we more than offset this with a 3.7% contribution from the Royal Metal acquisition. And as you know, our firm intent is to continue to enhance organic revenue growth with value-creative bolt-on M&A.

Strong Conversion of Growth into Profit

And we converted that revenue growth even faster into profit, up 11.1% to £189 million, as we increased operating margin from 14.4% to almost 16%. You can see on the slide how we did this. First and foremost, we drove higher volumes. We continued to reap the benefits of our restructuring programme. We also effectively managed price and inflation, as well as ongoing supply chain challenges, whilst at the same time continuing to invest in future growth, with R&D investment up 8%, and you can also see the positive impact of bolt-on acquisitions.

Delivering Strong EPS Growth

And it's the same picture at the EPS line, up 13.8% on an underlying basis, driven by the twin benefits of revenue growth and margin expansion. EPS was further boosted by accretive M&A, the absence of restructuring charges and the start of the share buyback. Overall EPS of 30.6p was up 18% on a reported basis, notwithstanding adverse FX. So you can see the Group financial framework in action. Organic revenue growth, complemented by accretive M&A, driving even stronger profit conversion, which in turn drives strong cash flow.

H1 Cash Generation

In the first half we generated operating cash flow of £175 million, with 93% cash conversion. It's a good result, particularly given the challenging supply chain environment. We took the decision to increase inventory and prioritise security of supply, even if this does mean a temporary increase in working capital. Below the operating level, we saw the benefits of lower pension contributions, and going forward we'll also benefit from early repayment of the $400 million bond which was completed just after the end of the first half. So, all in all, continued good cash generation.

Divisional Update

So that's the overall picture. You're seeing a stronger, more focused Group, each division well-positioned in attractive growth markets, albeit with those markets at different stages of recovery. John Crane has shifted up a gear and is back in growth. Detection is managing challenges in aviation OE, and that market will not start to see recovery this year. On the other hand, Flex-Tek and Interconnect both continue to show strong momentum against a backdrop of favourable end market conditions.

John Crane – growth on all fronts

Let's look at each division in more detail, starting with John Crane, which delivered growth on all fronts. Revenue of £416 million was up 5.1%. Growth was primarily driven by energy, which was up 7.5%, and aftermarket, which grew 6.6%. Aftermarket accounted for 69% of John Crane revenues in the half, but we were also encouraged to see later-cycle OE return to growth, up 1.8%. Operating profit grew 6.3% and margin improved to 20%, achieved despite an increase of £3 million in R&D and headwinds from both inflation and supply chain disruption. John Crane has good commercial momentum, with strong order book growth in the first half spread evenly across aftermarket and original equipment and including a large number of projects that are critical to the ESG goals of its customers, especially in relation to emission reduction and energy transition.

Smiths Detection – Managing Expected Challenges in Aviation OE Market

Next, Detection, where it's important to set some context. Delivery of pre-COVID wins underpinned revenue in fiscal '20 and '21, but many of these programmes have now completed. Subsequent tender activity has been much reduced, especially in aviation OE, as customers have delayed capital investment. Order intake did start to recover in the first half, but we don't expect this to translate into revenue growth until calendar '23. Nonetheless, the fundamentals of the business remain strong and we're well positioned for when recovery does come. Detection revenues were down 7.2% to £313 million in the first half. Within the underlying decline of £24 million for the division, aviation OE was down 34 million, for the reasons that I just highlighted. On the other hand, it was encouraging to see aftermarket back to growth in both end-market segments of aviation and other security systems, which meant that aftermarket made up 54% of Detection revenues in the first half; and other security systems was also in growth, with revenues up 8.1%, driven by a good performance in ports and borders. Operating profit was down 13% to £36 million against a backdrop of both lower volumes and significant supply chain challenges, particularly in relation to electronic components. Managing the supply chain continues to be a key focus of attention in the short term. Looking further ahead, and more positively, we did see order book growth in the first half, and Detection is well positioned and in better shape for the recovery in demand in aviation OE which we expect to begin to see in 2023.

Flex-Tek – Firing On All Cylinders

Moving to Flex-Tek, which grew strongly in the first half and is firing on all cylinders. Revenues were up 10% to £297 million, reaping the benefits of a very positive US construction market, but also the aerospace business has turned around and was back delivering good growth of 16% in the half. Overall, operating profit was up 18.3% to £62 million. You can also see a very strong margin story, reflecting effective action to offset cost inflation. And on top of this, Royal Metal's profitability was well ahead of plan. Looking forward, Flex-Tek has good reasons to be confident about the future. We see positive medium-term indicators for the US housing market, and the commercial aerospace market will continue to recover, plus there's an exciting pipeline of new products, which Paul will be referencing in a moment.

Smiths Interconnect – A Step Up In Performance

Then Interconnect, which delivered another impressive step up in performance. Revenues were up 12.9% to £166 million, with good growth in all its end markets, particularly semiconductor test, space, and defence. Operating profit was £28 million, an increase of nearly 60%, and margins jumped to 16.9%, reflecting strong volumes and the realisation of restructuring benefits. We continue to see strong order momentum across all Interconnect's end markets. Differentiated technology is winning us high levels of orders across key markets like space and semiconductor test.

Sale Of Smiths Medical: A Stronger, More Focused Portfolio

So, you can see in the first half results a stronger, more focused Group. In January, we completed the sale of Smiths Medical, and so the half-year includes the profit on disposal of £1 billion. And, to remind you, we also have a liquid financial investment in ICU Medical with a current market value of £0.4 billion, and there's further potential value to come from a contingent earn-out of $100 million. All of that, combined with immediate cash proceeds of £1.35 billion, means that we have a strong balance sheet, and we're proceeding at pace with the return of surplus capital. We're already more than a quarter of the way through the share buyback and, at the current run rate, our average shares in issue for FY '22 will fall to 387 million and we will complete the program in early calendar 2023, with around 350 million shares remaining in issue.

The Smiths Financial Framework

So, the key point from these first half results is that we're demonstrating the Smiths financial framework in action, turning the wheel of top-line growth faster, converting that into even stronger profit growth, delivering free cash flow that we use first and foremost to accelerate organic growth, but also to add complementary M&A and to return to shareholders. You should expect to see this blend of capital allocation continue even after we complete the current programme. So, although this is just the first checkpoint in our new strategy, we are on track.

FY2022 Outlook

I'd like to finish by taking you through the outlook for the full year. As you've seen, we've delivered well in the first half, in spite of supply chain challenges. Looking forward, there are strong positives. We're seeing good demand in most of our end markets. We have a clear strategy, which we're executing well. We will continue to deliver positive operating leverage, and we're excited by further new product launches to come, but at the same time we can't pretend there are not real challenges in the external environment. We expect the aviation OE market to be more challenging in the near term. We also expect inflationary pressures to increase amidst continuing supply chain disruption, and all of the above is made more complicated by the geopolitical and macroeconomic environment. That all said, we expect to continue to make progress and to deliver on our clear strategy, and we are maintaining our guidance of 3% organic growth for the full year.

So, with that, let me hand back to Paul, who's going to talk about how we will build on this foundation going forward.

CEO Review

Paul Keel

Chief Executive Officer, Smiths Group

Our Priorities

Thank you, John. Smiths is an intrinsically strong company capable of a great many things. In the past, this sometimes led us to try and tackle too much and consequently deliver too little. We're now tightly aligned on three key priorities: growing faster, executing better, and doing more to inspire and empower our great people. These keep us laser focused on what specifically needs to be completed this month, this quarter, and this year in order to advance our progress and fulfil our commitments to key stakeholders.

We're Accelerating Growth with Four Actionable Levers

Let me bring this to light with some examples from the first half, starting with accelerating growth, our biggest upside to value creation. The faster growth we delivered in the first half came from four levers that you see here. First, strong execution to access the high demand we're seeing across most of our end markets. Layered on that, more aggressive new product development and commercialisation, leveraging the strengths I noted previously, to solve our customers' toughest problems. Third, building out the many attractive adjacencies that our strong core positions make uniquely available to Smiths. And, topping the stack, disciplined M&A to supplement our primary organic growth model.

Growth Lever 1: Strong Execution to Access Market Demand

Let me say a few words about each of these levers, beginning with market growth. Now, broadly speaking, we participate in four global end markets: general industrial, safety and security, energy, and aerospace. Our organic revenue growth in general industrial was nearly 6% last period. This was driven both by first-fit and aftermarket growth for John Crane in sectors like water, paper and mining, and demand for Flex-Tek's construction solutions and Interconnect's semiconductor test products was stronger still. In safety and security, we were down 3.5% as the aviation security sector continues to work through the impacts of historic air travel contraction during the pandemic. While Detection's order book did grow in the period, several of these wins are future-dated, underlying our view that this market is still a year or more away from recovery. Now, conversely, energy market expansion continues at a high rate. We grew 7.5% in this market during the first half, with strong demand across most geographic and end-user segments. Our fastest-growing market in the half was aerospace, where we were up almost 17% as increased aircraft builds drove strong demand for Flex-Tek and Interconnect's solutions in the segment.

Each of our four main markets is benefiting from a world reopening, albeit at different rates, which is incrementally beneficial to Smiths. Our balanced portfolio and broad market exposure dampen specific volatility in any one market. And we saw this play out in our half one performance: fast growth in aerospace, with consequent benefit to Flex-Tek and Interconnect; strong demand in energy markets, supporting accelerating growth for John Crane; and expected challenges in aviation security, leading to a decline for Smiths Detection. The aviation security market will return to growth, as longer-term macro forces remain quite strong. And conversely, our fastest-growing markets at present may eventually moderate. It's the breadth and balance of our portfolio that makes the difference. Our strong positions, in multiple large global critical industries, is a distinctive long-term advantage for Smiths.

Growth Lever 2: New Product Development and Commercialisation

Our second lever for faster growth is improved new product development and commercialisation. In support of this, we launched a number of high-impact new products in the first half. For example, in Smiths Interconnect, we introduced new connectors and transceivers for high-speed satellite communications. In John Crane, we introduced a novel solution for demanding pipeline applications. And in Smiths Detection, a high-volume faster throughput system for cargo screening. Equally exciting, as you can see on the right side of slide 28, we're set to launch a number of additional programmes in the second half. These include John Crane's zero-emission seal, the first of its kind; a potentially game changing innovation in the world's united effort to contain methane emissions. Also due to launch is Flex-Tek's Python platform of multi-layered refrigerant lines, designed to replace cumbersome copper tubing in HVAC systems. To fuel our growing new product pipeline, we invested more than £50 million in R&D in the first half, a year-on-year increase over 8%.

Growth Lever 3: Building Out Priority Adjacencies

In the same way that we're strengthening our new product capabilities, we're moving more quickly to build out priority adjacencies, several of which we featured at last fall's capital markets event. Two specific examples to illustrate. iCMORE is a Smiths Detection platform that uses advanced algorithms to automate suspicious item detection in cargo, baggage and palleted goods. Earlier this month we launched iCMORE Currency to detect rolled or stacked bills of multiple denominations and origins, supporting the fight against global money laundering. John Crane SENSE is a digital platform that leverages technology first developed in Smiths Detection. The system uses sensors and machine learning to monitor customer networks, flagging potential failure points before they occur. In H1, we launched SENSE Turbo, a sensor-enabled extension of our market-leading dry gas line of engineered seals. These are but two of the many examples of how we're improving our world through smarter engineering.

Growth Lever 4: Using Disciplined M&A To Augment Our Organic Growth Focus

Our fourth growth lever is using disciplined M&A to augment our organic growth focus. Our most recent acquisition is Royal Metal, which we purchased in February of last year for $107 million at a valuation just under 8x trailing EBITDA. Royal Metal is a provider of residential and light commercial HVAC products, primarily on the east coast of the United States. The deal is off to a good start, with revenue growth of 45% and profits more than doubling under our ownership. The strong growth is being driven by synergies with our Flex-Tek portfolio, good sourcing and price management, and the healthy construction market that I mentioned earlier. We have a solid pipeline of similar M&A opportunities across the Group that we're actively working.

Smiths Excellence System 2.0 – Beginning to Have an Impact

Having given you a flavour for what we're doing on the growth side, let me now say a few words about execution. In my experience, a common denominator amongst many high-performing companies is a strong continuous improvement culture. Our approach to this is centred around the Smiths Excellence System. While we've had the foundations of SES in place for a couple of years, we need to do more to translate theory into action and action into results. In support of this, we launched the second phase of SES last autumn, grounded in specific delivery targets aligned to the same three priorities we're walking through now. With respect to growth, we're leveraging SES to improve new product development, to build on our strong quality framework and to improve customer service.

On the execution front, we have projects under way in operationally intensive areas like our factories and distribution centres. And as regards people, we're taking advantage of the launch to accelerate talent development. In addition to a Group SES leader who reports to me, we've put in place Master Black Belts in each of our businesses, hard-lining to the division presidents. We launched over 40 new Black Belt projects in the last six months and are already beginning to see the benefits of this work here in the second half.

SES 2.0 Case Study: Improving Probe Testing Capabilities to Win New Orders

Let me give you an example of a typical project. Over the last five years we've reshaped our Interconnect portfolio to focus on the products, technologies and end markets where we're best positioned for profitable growth. Our leading semiconductor test business is one example. Several of the largest chip manufacturers – names you'll know well – are customers of this platform. As the business has grown, we've had success automating our manufacturing processes. This has helped us reduce process variability, expand capacity and lower cost. This particular Black Belt project was a continuation of that effort, automating the test procedures that take place prior to customer release. Previously, ours was a manual process, which resulted in longer cycle times and lower yields. So we chartered a project, resourced the effort and systematically worked through a Lean 6 Sigma process. The project yielded the following results. Sorting times were cut by 75%, test times were reduced by 90%, and customer acceptance levels increased to 99.99%. The project took about six months to complete and is representative of the sorts of high-impact results-oriented work enabled by the Smiths Excellence System. We're now steeply ramping the number of such programmes under way across the business.

Investing In Our People – Engaged, Experienced, Expert and Diverse

Certainly, SES is helping us execute better, which in turn supports the improved performance you saw in the first half. A good portion of continuous improvement comes down to leadership, another powerful element of our SES plan. By putting talented leaders into full time Black Belt and Master Black Belt roles, we accelerate development of our people. When they then re-enter into business leadership roles, we cement the cultural advances needed to sustain and amplify the gains. This brings us to our third key priority: people. Topping our list in this regard is safety. Smiths has a strong safety culture with recordable incidence rates in the top quartile of all manufacturing companies. And, as mentioned, we've had a particular focus recently on the safety and well-being of our colleagues impacted by the conflict. We're supporting the International Red Cross in the vital work they're doing for the people of Ukraine.

Slide 35 illustrates a number of other actions we took in the first half in support of our people priority. In the interests of time, let me highlight just a few. Our latest employee survey demonstrated progress across multiple categories, including our innovative culture, being a great place to work and excitement about the future of Smiths. Consistent with the ramp-up in SES activity that I just described, we trained 30 new Black Belts and over 50 more Green Belts in the first half. In support of our commitment to diversity and inclusion, we conducted D&I focus groups with over 800 colleagues in 11 language and across 21 countries. And we established an extended leadership team comprised of the top 200 leaders in our company, with a third of this Group being female.

Our Longstanding Commitment To Sustainability

I'll wrap up my comments today with an update on our heightened ESG focus. Sustainability is central to all of our priorities. As those of you who've followed us over time will know, Smiths first implemented environmental targets back in 2007. Since that time, we've reduced water usage by 53%, greenhouse gas emissions by 60% and non-recyclable waste by 63%. Our energy usage is down almost 40% across that period, and over 60% of the electricity we use today comes from renewable sources.

Accelerating Growth and Multiplying Our Sustainability Influence

Building on this strong foundation, we took four additional meaningful steps in the first half of fiscal 2022. We established a Science, Sustainability and Excellence Committee on our Board of Directors. This Group oversees new product development, environmental stewardship, and continuous improvement. We put in place our first ever Chief Sustainability Officer, who sits on our Executive Committee. We added rigorous ESG metrics to our compensation programmes, and we published specific 2024 environmental goals, an important step towards delivery of our net zero greenhouse gas commitment by 2040. Aligned with this, we signed on to the Science Based Targets initiative and the UN Race to Zero pledge.

Now, on the right side of this chart, you can see a number of specific ways these commitments are contributing to growth. John Crane is playing a front-line role in helping our energy customers navigate the all-important transition to a zero-emission world. Flex-Tek is engaged with customers on solutions for cleaner air and lower-emission heat. Electrification is at the centre of much of many of our customers' decarbonisation plans, and Smiths Interconnect powers the types of systems that makes this possible. And Smiths Detection is absolutely central to the safe passage of people and products around the world.

Smiths Value Engine

I'll wrap up with a few closing thoughts. At last fall's capital markets event, we laid out a plan to bring Smiths' performance better in line with our vast potential. In the first half of fiscal '22, we demonstrated good progress in this direction with organic revenue growth of 3.5%, operating profit growth of 11% and EPS growth of 14%. In the same way, we're building capabilities aligned to our three main priorities of growth, execution and people. New product momentum is building, SES is up and running, and our commitment to building an ever more diverse and inclusive team is unwavering. Alongside all this, we're taking swift and decisive action to accelerate our progress on ESG.

In closing, I'd like to thank all Smiths' employees around the world for the hard work and dedication that makes this progress possible. In the same way, we're grateful for the strong support we enjoy from our customers and shareholders. With that, I'll pass it back to the operator for any questions that you might have.

Q&A

Andy Wilson (JP Morgan): Hi. Good morning, everyone. Thanks for taking the questions. I've got three different ones, so maybe if I take them one at a time. On John Crane and the order development and the expectation of the order development. I'm just trying to understand a little bit how, obviously, current events in Russia, Ukraine – what you see that meaning for longer-term demand for John Crane, on top of obviously everything you talked about at the capital markets day, and then, the expectation on the timeline for seeing potentially some of that benefit. What I'm trying to understand is, that might all be positive, but does it take a little bit of time to come through, and what should we expect in terms of orders turning into sales? So maybe quite a broad question on John Crane or the dynamics.

Paul Keel: Sure. Thanks for the question, Andy. With respect to Crane's order development, so more generally, as you've seen, it continues to ramp. At capital markets in the fall, we shared details on that with an expectation for the first half – basically, high teens order growth – and that's exactly what we saw play out. Now, specific to Russia, I would say in the near term, it's not helpful, but, as you indicate, in the medium term, it should be a net benefit. In the near term, the impact will come twofold. First, as you heard, we have suspended sales into Russia, so that has an impact. And then secondly, most of our large energy customers have activities in Russia, so, as they divert energy, attention, and resources to focus on managing that, that takes away attention from other programmes we might have underway with them. And in addition, they are all ramping up their non-Russian capacity, which might lead to near-term delays in scheduled maintenance. So, near term, consistent with what we said in our prepared comments, uncertainty has been increased here in the second half.

Now, medium, and long term, it should be helpful in a couple of ways for us. First is, in the same way that our customers are ramping up near-term supply on the non-Russian sources, they're adding capacity. That, coupled with the increase in energy prices, is a sustained rising tide here across energy markets and, as we're a big player in support of that, we'll benefit. Additionally, you know, while of course Russia is a big contributor to the global energy markets and we're well positioned there, you know, our penetration is even higher in some other markets. So, as supply shifts from Russia to other parts of the world, we'll do even better. So, near term unhelpful, medium to longer term favourable.

Andy Wilson: Perfect. I wanted to also follow up on John's comments around capital allocation and M&A, given the success particularly of Royal Metal, which obviously you can see in the numbers – interested what that pipeline looks like and if there's more of that Royal Metal-type businesses. Obviously, another one as attractive as that would be good, but just in terms of pipeline and thoughts on vendor expectations and whether they are shifting, it's maybe becoming a little bit easier or not?

Paul Keel: Yeah, three thoughts. The first is, Royal Metal is unique. Not a lot of deals grow 50% and double their profit in the first year of your ownership. We bought at the right time there. It was a proprietary deal where we knew the seller well, and paying 8x trailing for a business like that was really a good – really worked well. So that'd be point number one. Point number two is, there is a good pipeline of businesses similar to Royal – you know, the right size, synergies with our existing portfolios, and an opportunity for us to grow either in a geographic area, like what Royal does for us on the east coast, or in a particular end-user segment. And we're looking at a number of deals, both in Flex-Tek but across our portfolio. Point number three, is on pricing. We are continuing our very disciplined approach to doing bolt-on acquisitions. Of course, values are up and while we generated a lot of synergies from that transaction, again, a big piece of the success is buying right. So, we're going to stay disciplined. I think we have a good process in place to make sure we do that.

Andy Wilson: And the final one is on the vitality index number that you gave, apologies if this has been talked about before; I might have missed it – but do you have a target for what that vitality number should look like? I appreciate there must be a sweet spot in terms of the amount that you're spending in terms of R&D and how much, practically, revenues you would expect from recent product launches, but I just wonder if there's a target level or what you see as the right level for a group like Smiths?

Paul Keel: Yeah, we think about it on three levels. At the highest level, what matters is organic revenue growth. We have multiple contributors that we walked through here to it. We think new products is one where we can do even better. The second level, then, is, as you note, the vitality index. That is the proportion of our period revenues that come from products introduced in the previous five years. And that number was good in the first half and we feel, going forward, should continue because of those new product launches I talked about in half one and even more coming here in half two.

The third piece of the puzzle, Andy, is erosion, so it's what proportion of your new products no longer contribute to the revenues, and that's a piece that we're trying to work on as well and didn't talk about in the call. So, in some of our businesses, lifecycles are very long. When you introduce a high-impact seal system, like dry gas seals, it's a good example where it's been decades of benefit to John Crane, and we expect the same with our zero-emission seal platform as that now starts to gain installed base. Conversely, some of the programmes in Interconnect have shorter life cycles. They'll be specific to a customer need, and because the electronics world moves so quickly, the generations can be shorter there.

It's really the combination of those two things, the Vitality Index, how much is going into the pipeline, and then it's erosion, how much you lose, and then that result we care about most is organic revenue growth.

Andy Wilson: Perfect, thanks Paul.

William Turner (Goldman Sachs): Morning everyone. I have a handful of questions. The first one just a follow up on John Crane. I'll be just interested, how much exposure does John Crane have to LNG terminals? I know, obviously, predominantly the biggest exposure is downstream refineries, but is LNG terminals a big market and opportunity for John Crane?

John Shipsey: Good morning Will. Yes, indeed, LNG and particularly our technology around dry gas seals is really important and really leading. We do participate in the transport and the storage of gas. The issue with LNG terminals is that they take an awfully long time to design, let alone build, and we know that the world will be moving very, very quickly to increase capacity in the light of recent events. So, we will participate in that, but it will be a matter of years ahead, not months ahead.

William Turner: Okay, great. And on Interconnect, obviously some very strong results from that division, but this has been one of the divisions where, historically, it's been a bit more difficult to forecast, with a relatively high degree of lumpiness. How sustainable is this improvement in both the growth and the margins?

And then in terms of the performance, was it due to one particular product category or customer order which resulted in such a strong quarter, or was it quite broad-based? A little bit more colour on how you're seeing the outlook for Interconnect would be particularly interesting.

Paul Keel: Thanks for the question Will. Our Interconnect business revenues are principally in three areas: there's the semiconductor test business, I gave an example of a Six Sigma project there; there is the fibre-optics business, which contributes to some of those high-speed satellite communications advances that I mentioned; and then the third part of their business is a general connectors business, which benefits from broader electronics growth. All three of those categories are doing well for us right now.

In terms of forward visibility, we were awarded a number of sizable contracts in the first half and those will take months and even, in some cases, years to service. So, while the near-term performance of Interconnect is quite strong, our outlook for the second half and heading into the next fiscal year remains quite robust as well; we feel good about that business.

William Turner: Okay, great. And then just a final question on cost inflation. Obviously, it's a super-challenging environment and certain cost items are moving and can move pretty rapidly, especially in the last couple of months. I'm just wondering what are your thoughts on cost inflation; are there any risks here to profitability? How comfortable do you feel with managing in this and what are the initiatives that you're taking to help manage this environment?

Paul Keel: You saw, in the first half, we had a good result in that respect. While we're impacted by the same general inflationary headwinds as everyone else, the delta between our price performance and our inflation, both raw material and wage inflation, was a net positive in the first half, and that's because the business has got after it early. Of course, we knew inflation was coming as the world started to reopen and demand across our portfolio increased, it's only a matter of time before that played out in the supply. So we got after it quickly.

Now, moving forward, we expect to see continued ramping of inflation. A number of countries now are tightening their money supply, that will hopefully damp down inflation, but that balanced with the Russia situation, certainly for the second half, we think inflation will be even higher.

So what are we doing to combat it? For us, our suppliers, and our customers, we're all on both sides of this equation. We're both facing supply inflation for what we buy and we're all working collaboratively with our customers to try to strike a balance in terms of what we can attract for our offerings.

So the first way that you focus on this is making sure your operations are running as efficiently as possible, so there's less waste in the system for the suppliers, for us and for customers to try to absorb.

The second way you do it is having very open communication lines up and down that supply chain, again with those from whom you buy and those to whom you sell. We're all managing the same two things and if you do that in that collaborative way you can steer through it.

And then the third is you need to have very good visibility. You need to have systems that let you see specific raw material changes and you need to have good visibility into what the net pricing is for your products, and then you need to have a process in place where you review it and manage it consistently. That's the better execution that we've talked about now for a couple of months here.

William Turner: Okay, great. Thanks.

Andre Kukhnin (Credit Suisse): Good morning. Thank you very much for taking my questions. Can I start with one on Detection, just to follow up on your comment of order book starting to be rebuilt, but not to see benefit this year. Obviously, clear that the benefit's for 2023, but could you give us some idea of where the orders are running now versus the sales level and, hence, should we think about 2023 as a recovery year, sort of, this is the rate of rebuilding the order backlog, or more of a stabilisation year?

John Shipsey: Good morning, Andre. What I can say is that the order book did grow in the first half, so orders recovered, and we actually took more orders than we depleted in sales out in the first half in Detection. I think that's encouraging and it's consistent with our view that there are signs of recovery. The aftermarket is probably the leading indicator; whether you look at John Crane or whether you look at Detection, aftermarket will recover first and we're seeing that. We saw that in the first half with 4% growth both in aviation aftermarket and other security systems.

OEs, it will take longer. It takes longer in John Crane, it takes longer in Detection. We won't see recovery this year, but we expect that we will see it in calendar 2023.

Andre Kukhnin: Great.

Paul Keel: Andre, there's three leading indicators that we're encouraged by in the aviation security market. The first is, as John mentioned, the underlying OE order book, that's growing. The second is aftermarket service, which, as we mentioned in our comments, is also growing. And then the third is the broader security markets that John just referenced – ports and borders, urban security, etc. – also growing. The leading indicators are now all turned to the positive and that is certain to drive the underlying OE demand here in this coming calendar year.

Andre Kukhnin: Great, thank you. As you said, very encouraging indeed. Could I have another two questions on John Crane? One is, and sorry to dig into the detail here, but on the drivers of margin and operational leverage there. Thank you for the number on R&D acceleration of £3 million, but against that we should have had some portion of around £10 to £12 million of restructuring savings coming in as well. If I were to take these – the three versus, maybe, six for savings then it does imply that there's not a huge amount of operational underlying gearing in John Crane in that growth, which is a little bit surprising given it's coming from aftermarket, which is supposed to have a decent drop through ratio.

I just wanted to check through these numbers and see if there's anything else that we're missing in there; and, more importantly, how do you expect that to play out for the second half, is that £3 million step-up in R&D the run rate or should we think about a different number?

John Shipsey: Thanks Andre. On John Crane, the restructuring benefits, actually we got pretty much all of the restructuring benefits in John Crane immediately in FY21, and we've overdelivered on our target of the restructuring benefits. That's because we took action at the end of FY20. You're right though that we should see operating leverages as volumes recover. We've already taken the restructuring benefit, but we should see the volume effect of positive operating leverage in John Crane. What has offset that is not just the R&D that I spoke to, the £3 million, but also we have incurred higher costs in managing these supply chain challenges. So that, in John Crane it's less about electronic raw materials, it's more about critical surface technologies, polymers, and incurring freight etc. So that's the reason why you've perhaps seen less operating leverage in the first half, and, clearly, what's important to us going forward is to take out that inflationary and supply chain cost and deliver that operating leverage going forward.

Andre Kukhnin: Great. And R&D, that's a similar £3 million step-up in the second half as well?

John Shipsey: Yes, as I think you know Andre, we are investing heavily in our digital product offering and in quite a broad range of new product launches coming out of John Crane, much more than we've seen in the last five years. And although we're increasing the level of spend, we're still around 2% or 3% in John Crane as a percentage of sales.

Paul Keel: You know, at the enterprise level, Andre, the gearing is so strong – 3.5% top-line growth, driving 14% EPS growth – that we're in a good position to be investing for the future. You see that in R&D, you see that in resourcing of key priorities like SES and ESG, and you see it in terms of the pipeline that we're commercialising. We're in a good spot right now where the first half was strong, and we have an ability to fund future growth and that should continue to accelerate here over the medium and longer term.

Andre Kukhnin: On John Crane, just final question I have is on the role it has to play in energy transition that you talked about at the capital markets day and I think we're all looking forward to more details on. Specifically, on that, we've seen some hydrogen projects going ahead recently and including a particularly large one in Dubai. Could you comment on whether you are getting work on those projects and how does that compare to your normal shipset value or content density, if we can think about it that way, on, say, more standard oil and gas-related work?

Paul Keel: Yeah. The energy transition is a clear benefit to John Crane short, medium, long term. In the short term, all energy companies are upgrading their infrastructure – having them run more efficiently, fewer leaks, etc. – all that plays to our advantage. And then, as we mentioned, the situation in Russia will further contribute to that.

In the medium term, the focus on methane emissions is quite pronounced and Crane is ideally positioned to help customers with that. The zero-emission seal we're going to launch in the second half is the first of its kind on the market and that'll be a game-changer for our customers.

In the longer term, there's transitions to other energy sources, like the ones you referenced with hydrogen. Many of those are more sophisticated solutions, operate at higher pressures and have requirements for more highly engineered solutions. All that plays directly into John Crane's benefit. We're quite encouraged about energy transition, sure, in terms of how that benefits our own business, but, really, in terms of the opportunity to help customers. This is at the very top of every energy company's priority list around the world.

Andre Kukhnin: Great. Thank you very much to both of you.

Mark Davies Jones (Stifel): Detection. Can you talk about the medium-term outlook on the OE side? I can quite see we should see some recovery through next year as passenger numbers recover and airports get back to life, and so on. But on the OE piece you're also fighting the headwind of the end of that big upgrade cycle in Europe on the move to CT. So, what's coming down the pipe in terms of the next technology cycle that gives you comfort over the medium-term growth prospects?

John Shipsey: Thanks Mark. Very good question on Detection OE. As I said earlier, we are seeing all the right leading indicators coming through in terms of aftermarket first, shorter cycle, ports and borders also coming through, and then, longer term, aviation OE. And just to stress that, as I spoke to Andre, we are seeing order recovery in the first half, it's just that for OE that cycle is longer.

We are very confident about the long-term fundamentals of this business. We feel it's very strong as a market long term and our position within it; we are the leading provider of aviation security. And we are continuing to invest in our technology, a technology that supports today's products and a technology that supports the next generation. There isn't a cliff edge on regulatory upgrades, so we have had and we are through, for example, most of the regulatory upgrade for hold baggage in Europe. As you know Mark, very well, we've had a big delivery in these last 18 months, a big programme with Aena in Spain, and that is coming towards a conclusion. But what we also see is different waves. By geography, for example, in Asia or in the US different cycles of upgrade, and across both checkpoints. So, as you'll have seen our big win with Heathrow on CTiX, on the passenger checkpoint, which hasn't yet translated into deliveries of sales, but will in the near future.

We see wave upon wave of either regulatory-driven upgrade, step-change upgrade in technology, or replacement cycles in other geographies. So, for us, more of what we have seen, it's less about a regulatory cliff edge, it has been much more about depressed activity over the past two years in airports, which has forced our customers to postpone capital investment programmes that they want to do, but which they have had to push out both in terms of tender and in terms of delivery. Encouragingly, and when you look at aftermarket, we see that tide turning, but as I say, it will probably take through to calendar 2023 for that to really start flowing through into sales.

Mark Davies Jones: Thank you, that's very helpful. On the M&A side and the bolt-ons, would it be fair to think that most of the opportunities there might sit in Interconnect and Flex-Tek? Given the size of the current market positions you already have in areas like Crane and Detection, it's harder to see quite as many opportunities there. Is that fair or are there still opportunities, even in the bigger divisions?

Paul Keel: No, I wouldn't take that away if I were you. We have strong positions in all four businesses. Indeed, our two largest businesses, of course we would like to allocate a commensurate amount of M&A capital to. We're pursuing M&A pipelines across all four businesses. It's the Royal Metal example from Flex-Tek being so exceptional; I think that has a lot of people thinking there's a longer-term fundamental shift, M&A to Flex. I would like to invest in all four of these businesses.

Mark Davies Jones: Okay, great. Thanks very much.

Denise Molina (Morningstar): Thanks so much for taking the question. I just wanted to follow up on the CT demand and the differences and the cycle globally, and ask for a little bit of colour. I know it's just one half, but a little bit of colour on the order book you're seeing in terms of the geographic spread. Just anecdotally, I was just in the US a couple of weeks ago and I was in a smaller city, St. Louis, and I saw one of your scanners at the airport and was, kind of surprised that it went that deep because it's not a very busy airport, it's really a hub.

So just wondering if there's any competitive differentiation or advantage you might have in getting the US orders?

My second question was do you have an equivalent process to SES for green-lighting R&D spend? You have a lot of different markets, a lot of different opportunities, but you need one that is a growing market and one where you have a differentiated product, so what's your process for that?

Paul Keel: A lot of questions in there. I think the first was about Detection in the US, is that correct?

Denise Molina: Yeah, that's right. What do you see your competitive edge is there, if possible.

Paul Keel: Substantial is what I would say. We're the largest player in the US aviation security market, as we are in most large markets, and our competitive advantage is cemented in three areas. The first is technology. So many of the big technology breakthroughs in the aviation security market were led by Smiths over time. First one to introduce CT scanning and we're working on a next-generation product right now in partnership with one of the bigger, more secure airports in the world using a technology called diffraction. The technology is a big advantage for Smiths.

Second big advantage is the installed base, the largest of the competitive set. And not only does that give you strong reference for winning additional tenders, it has the aftermarket stream that John referenced earlier. Now more than half of Detection's revenues come from that aftermarket stream.

The third is the service infrastructure. We have the largest service network globally because we need it with that big installed base, and so we're in airports every day working with our customers. I'll have to get to St Louis and see what you found there, but we're doing well in the US.

Oh, second question about –

John Shipsey: SES and equivalent for R&D.

Paul Keel: We have three important processes for how we allocate resources and they're all similar, they're all gate processes. SES is for operational black belt projects, and we've talked a lot about that. Now, for R&D there's a rigorous gate process where you advance from concept to scale-up to launch, etc., and there are deliverables for each of those gates and you make a decision where – whether to, you know, continue investing in that programme.

The third process, with similar characteristics, is our M&A process, where we have gates going from strategic assessment of the opportunity and then engagement with the potential target, and then moving to negotiating a potential transaction, and then integration and execution of the plan.

So strong process in place for R&D and I think that contributes to what we've talked about here in the first half, and I'm looking forward to the fall when we talk about the second-half launches because we have some pretty big programmes here that are set to go.

Denise Molina: That's very comprehensive, thanks so much.

Edward Maravanyika (Citigroup): Thank you very much. Good morning, Paul. Thank you for just talking through Flex-Tek and where the points of strong activity are and the outlook. Could you please just do the same for Interconnect? I think I've got that the other way around, actually. You spoke on Interconnect, could you just please do the same on Flex-Tek? Because that you had a double-digit, strong first half to the year.

Paul Keel: Yeah. As I mentioned, Interconnect, three pieces all in. Growth, Flex-Tek two big pieces, the construction business and then a smaller aerospace business. Now, importantly, you know, we sometimes conflate our aerospace businesses. We have an aviation security business, detectors in airports, then we have an aerospace business where we sell components to commercial, military aircraft and then also to satellite systems for communication. Flex-Tek competes in the airframe piece of that; we sell components to airplanes for fluid and gas conveyance.

Right now, the largest piece of that Flex-Tek business is the construction business, in very strong growth and amplified by the Royal Metal acquisition that we've now talked about a couple of times. The smaller piece of that business sits on our fastest-growing segment in the first half; our aerospace portion of Flex-Tek is growing even more quickly than the construction part. Eventually as the US construction growth moderates, these are typically multiyear builds on the aerospace side. Somebody asked me, what I felt, how confident I was in the future of our two fastest-growing businesses. Both Interconnect and Flex-Tek have current and forward visibility for continued growth, so we feel good about both those businesses.

Edward Maravanyika: All right, thank you very much.

Jonathan Hurn (Barclays): Good morning, guys. I just had a few questions, please. Firstly, can we just come back to Interconnect, please? Obviously, if we look at the end market today, defence is one of the end markets. Could you just give us a feel for how important that is for Interconnect, also which platform it sits on and, essentially, what the growth outlook would be?

Paul Keel: Defence is a small piece of Interconnect; Interconnect is a small piece of Smiths in total. They are important customers and we have some very nice programmes, multiyear, in some cases decades long, programmes that we've participated in, and we won a couple of tenders in the first half. So, a small part of our overall business, but like everything else in Interconnect, growing nicely right now.

In terms of the future prospects for the defence industry, regrettably I think they're probably pretty good right now in the world.

Jonathan Hurn: That's very clear. The second one was just on John Crane. Obviously, it's good to see that the OE side of the business is starting to pick up. I think historically the OE contracts there have been secured at quite low margins. Is that still the case or are you starting to see better margins for your OE wins now?

Paul Keel: Well, they're probably narrower margins for John Crane, but we still make good money on the OE first-fit business for Crane. Our strategy there is not to be penny-wise and pound-foolish. The first conversation is always doing the right thing for the customer: what is the solution? Of course, price plays into it, but if we can help an important customer on a critical OE component, that's going to lead to many years of attractive aftermarket. So we're seeing growth, both on the OE side, as you noted, and then even stronger growth on aftermarket.

With the situation in Russia and the implications that we mentioned earlier for that, the focus on methane-reduction and the zero-emission seal coming, and the longer-term energy transition opportunity, that's going to be a lot of OE business opportunity and even more aftermarket.

Jonathan Hurn: That's very clear. And the final one just on inflation. Sorry if I've missed this, but if we look at the input inflation across the divisions, is it easier to pass on that inflation at certain divisions than others?

Paul Keel: Yes. It comes under two things. First, it's the supply agreement. In some contracts, it's a straight pass through that we don't take risk on the underlying commodity costs, so we just communicate what it is and there's no discussion. Some of those contracts exist in Interconnect, some exist in Flex-Tek. Those are probably an example there.

The other question then is in terms of your ability to value price, so where do we have a relative stronger competitive position in terms of our technology installed base service offering? And while we don't typically have specific – as many specific pass-through contracts, say, in Crane or Detection, our technology market position and service networks are particularly strong in those two businesses, so that gives us some value pricing advantage.

Jonathan Hurn: That's very clear, thank you guys.

Robert Davis (Morgan Stanley): Thank you for taking my questions, I had a couple. The first one, you mentioned something earlier around the older products within your portfolio. I'd just be curious, do you have any sense of what percentage of your group sales are coming from more dated or legacy products? I'm just trying to figure out the potential growth uplift from exiting some of these older legacy products. Is that an opportunity to help push your growth above and beyond the incremental R&D spend you're putting in right now?

John Shipsey: Hi Robert. Tough to answer and probably specific to individual divisions. If I take John Crane, our business model is to install a seal in a refinery and to potentially service that for, 40, even 50 years. It's a very long-term, it's a very sticky, installed base.

At the other end of the spectrum, the cycle for Interconnect products are very, very short and we constantly invest in technology to improve and deliver the next generation. I'm probably not able to answer your question with a direct number. But what I would say, the important thing about what we do as a total group is that we are investing in organic, R&D-led growth and it's about taking advantage of market recovery, but also, as Paul highlighted, it's about delivering these exciting new product launches to replace older technology and deliver more value and more performance to our customers, and that's what we're continuing to do across every division.

Robert Davis: That's great, thank you. My second one was just on some of those longer term projects or contracts that you have. Do you have hedging in place or cost-escalation clauses on multiyear contracts? I guess, just the obvious question is on the back of inflation. I mean, if it's a book and a turn business, you can put prices up relatively quickly, and I saw that you've done that in – on a net-positive basis – in your bridges. But just on your longer-term contracts, are there price-escalation clauses if raw materials creep up? I know they're being delivered over a, two, three, four-year period.

John Shipsey: Yes, indeed. We're focused on a wide variety of different contracts. As Paul referenced, some of them, for example, if there's a very high-value commodity in them, we have straight pass through; we don't take a risk on that commodity. We're clear about what it costs in terms of the product, and we pass – the benefit of it goes down, but the cost, if that goes up, goes through to the customer.

We then do have a number of long-term contracts that might renew, for example, every three years or longer, and those will typically have an inflation-based uplift within them. And if they renew at the end of three years then we'll be looking at, you know, taking advantage of the three-year inflation for the next round.

Robert Davis: That's great. Just on the Crane business, we can see what's going on in the market in terms of publicly-listed companies in their commentary around CAPEX and the impact of oil prices, but just be interested, how heavy is your involvement with some of the national oil companies? And just be curious there what the feedback is in terms of their intentions and spending plans. Do you see any obvious differences or divergences between the national oil company spending and the publicly-listed companies?

Paul Keel: In general, right now the story is the same. It's the early days of a sustained energy market recovery; the oil price increases, the situation in Russia/Ukraine, all those things are adding to an already buoyant market. Any nuances between state-run or publicly-listed would be overturned by the – just the broader rising tide right now.

Robert Davis: That's great, thank you. That was all my questions.

Bruno Gjani (BNP Paribas Exane): Thank you for taking my question. I was just wondering whether you could flesh out, talk about more recent trends that touch upon what you've seen on the ground or heard from customers over the last six weeks. Are customers more hesitant to place orders now or, conversely, are they pulling forward orders as they're concerned about securing supply? What have you seen over the last six weeks and how does this compare to what you were seeing in the first two months of this calendar year?

Paul Keel: Yeah. I would say two things in that respect. Our higher-performing customers right now – have an answer to your question similar to what we said on the call. There's this balance between very strong demand they're seeing, good execution that they're delivering, improved, accelerating growth that they're finding, and they feel good about that. But they read the same newspapers as you and I, and so they look ahead and all the same things that John talked about in our outlook, they see. Now, the flipside is, some of our customers need us more right now, they're having some challenges, operational or competitive, or otherwise. And I would say the balance there tips more to the cautious; if they were already losing before uncertainty went up, this amplifies their concern.

Taking a step back, I would still say 60/40 the world is more encouraged than nervous right now because of the underlying macro effects that drive the demand that we're seeing through most of our portfolio. So similar to what we said, on the one hand numbers are generally pretty good, demand is strong, growth continues to open up. On the other hand, you have central banks tightening, macroeconomic geopolitical uncertainty, inflation, so people are feathering the clutch a little bit.

Bruno Gjani: Got it. And I'd just be interested to get some further comment on what underpins your confidence that you'll still be able to deliver 3% underlying sales growth this year in light of the current macro and geopolitical uncertainty that you just touched upon? Is it order book strength? If so, could you talk about how much of H2 revenue is currently covered by the order book today.

Paul Keel: Yeah, I'd say it's two things. First is we're now halfway through the year. We grew 3.4% in the first half. To deliver 3% for the full year, of course mathematically would require a bit less in the second half, so we're already ahead of the game. Secondly, the work that's underway to deliver the 3.4% and a 14% EPS growth will continue. So, all of those efforts were beneficial, whether the underlying macroeconomy continues a very brisk pace or just a fast pace.

The third is the point that you mentioned, the order books in all of our businesses, they're strong and, in some cases, continuing to get very strong. I'd break them into three categories for you. Flex and Interconnect, very strong, strong near-team visibility. We expect them to have a very, very strong second half. Crane, demand growing, accelerating, and that's going to be a multiyear cycle of expansion for them. And then Detection. Detection's going to have continued pressure here in the second half, probably the first half of our fiscal 2023. But the longer-term fundamental characteristics for that market, they're very clear, and all of those leading indicators we spoke about, that's just straight math. We've seen this model before, so we're encouraged by that. And when you put those three categories together, it comes back to why we feel so good about the current portfolio for Smiths. Frankly I wouldn't want each of our four businesses all at the same point in the cycle because that would not portend well for when those markets turn.

We have four different businesses all benefitting from recovery, all at different rates, across a balanced portfolio where you have strong positions in each. That's going to serve us well.

Bruno Gjani: Got it. And just a quick clarification on Flex-Tek and Interconnect if I may? You talked about strong near-term visibility. Does that mean we should expect a typical H2 over H1, is there no uplift despite the very strong growth that you've just seen in H1?

Paul Keel: You know, we don't give forward guidance by division. Are they going to have a bigger second half than first half?

John Shipsey: I think what we're saying is that we see continued performance from Interconnect and Flex-Tek. Smiths as a whole tends to have a bigger second half than the first half. That's not actually particularly driven by Flex-Tek and not so much driven by Interconnect. I think my message would be continuation of growth in Flex-Tek and Interconnect broadly.

Bruno Gjani: Got it. Thank you, guys.

Alasdair Leslie (Société Générale): Yeah, thanks. And good morning. I think you've been very clear about your view on the full-year organic growth. I was just wondering if you could calibrate, maybe, a little more your expectations for full-year margins, maybe with some more colour around some of the divisions, particularly as what we've seen is both positive and negative surprises across some of your businesses in H1. So, fundamentally, are we still confident of a strong improvement in H2, in terms of the margins, relative to H1? Thanks.

John Shipsey: Thanks very much Alasdair. You'll have seen in the first half that we did deliver a very strong margin performance, a very encouraging 110 basis points underlying. With the benefit of Royal Metal, actually, 150 basis points on a – including M&A, on a reported basis. We do still expect to continue to improve margin in the second half. We don't give guidance at a divisional level, but at a Group level you'll see that we have volume growth. It's our whole financial framework is if we can drive that top line, we know that we will convert it faster into operating profit growth and then into cash. Growth will reinforce our margins as a general rule. If we deliver growth at 3% for the full year, we should see beneficial impact in operating profit and we feel good about that.

The one thing I would also draw attention to, just while we're on, is I'm talking about underlying organic growth. Clearly, you've seen the reported growth on the benefit we got from Royal Metal in the first half. Royal Metal will drop out of the reported comparison and move into underlying in the second half because we bought it right at the start of the second half of FY21.

Alasdair Leslie: Okay, thank you. And maybe just on Detection. Thinking about a 100 basis points, year-on-year improvement in the margin this year, despite, obviously, the market headwinds or being nearer the bottom of the cycle there. Is that still feasible? Should we still think about underlying margin improvement of around about 100 basis points for this year?

John Shipsey: Again, we can't guide to specific divisions. What I would say is that we have done significant restructuring in Detection, which has delivered very positive benefits. But that's been against – and in H1 it's been against a very strong headwind of – twofold headwind. First of all, lower volumes and, clearly, operating leverage does work both ways. As Detection turns to recovery in calendar 2023, then we will see the benefit dropping through into margin. But right now, with reduced volumes in the first half, that clearly was a significant headwind for them. And then, secondly, right now we do have significant supply-chain challenges. Electronic components, particularly, in Detection, as I highlighted, that has had an impact on margins in the first half.

So that's what I can talk to you, if you like. I think, in a macro sense, the important thing is that Detection is in a good market and it is the leader in a good market. As volumes recover, then, automatically, we will see those margins back and growing.

Alasdair Leslie: Fantastic, thank you. Thanks John.

Paul Keel: Okay, thanks everyone for joining us today. On balance, we feel very good about the first half performance. Lines up very nicely with the strategy we laid out in the fall; accelerating growth, improving execution, and investing in our people, and you saw nice elements of all three here in half one. Almost 3.5% top line growth, organic top line growth. Very good conversion of that into strong operating leverage, and then a number of investments in our people and in our future. And, we expect to continue along this path here in the second half and moving into fiscal 2023.

Thanks for your interest and I think I'll leave it there.

Operator: That does conclude our conference for today. Thank you for participating, you may all disconnect.

[END OF TRANSCRIPT]