

smiths

# Smiths Group

**Meeting with investors in the US and Canada**

**May 20-22, 2003**



**Alan Thomson** - Financial Director

**Russell Plumley** - Director, Investor Relations

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# Smiths Group

The UK's leading engineering company

**Annual sales circa £3 billion**

**Half of equity is held outside UK**

**In sectors with growth potential**

**All activities are highly profitable**

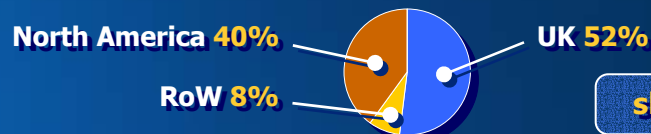
**Commitment to innovation**

**Profits are delivered in cash**

**Consistently strong free cash-flow**

**Positive dividend policy**

**50% of revenues are generated in North America**



**Fast growing markets**

**{ Detection, Defense, Medical**

**Margins range from 12 - 20%**

**3,000 current patents, R&D = £121m in 2002**

**Operating profits into operating cash (after capex) : Above 80% pa**

**Free cash yield of 8% pa, over past 3yrs**

**4% yield, 2x covered by earnings, over past 3yrs**

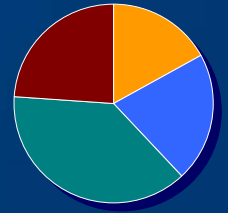
**Maintaining a good performance through tough economic conditions**



# Smiths Group

A new divisional structure to maximize the growth potential  
**Announced May 2003 for implementation in August 2003**

approx. contribution  
to Group profit



## John Ferrie - Aerospace



## John Langston - Detection



## Einar Lindh - Specialty Engineering



## Lawrence Kinet - Medical



# Performing strongly in the current economic climate

Interim Results for 6 months ended 31 January 2003

**£m** reporting under FRS17  
(before exceptionals & amortisation)

	<b>H1/03</b>	<b>cf H1/02</b>
<b>Sales</b>	<b>1,456</b>	<b>-2%</b>
<b>Op. profit</b>	<b>180</b>	<b>-1%</b>
<b>Margins</b>	<b>12%</b>	<b>~</b>
<b>Op. cash-flow</b>	<b>158</b>	<b>-1%</b>
<b>Pre-tax</b>	<b>161</b>	<b>-4%</b>
<b>EPS</b>	<b>20.8p</b>	<b>-4%</b>
<b>Dividend</b>	<b>8.75p</b>	<b>~</b>

free cash-flow of  
16.5p per share

**Operating profit very  
close to a year ago**

**Group margins sustained**

**Cash conversion above  
target level**

**Productivity counteracted  
currency & higher R&D**

**Pensions not an issue  
for Smiths**

**Interim dividend  
maintained**

**Net debt: £812m - from £725m at start of period**



# Smiths - the current topics of interest

- ▶ **Second half performance this year**
- ▶ **Recovering margins in Medical**
- ▶ **Sustaining high growth in Detection**
- ▶ **Pensions, and moving to FRS17**
- ▶ **Dividend policy**
- ▶ **Further progress on acquisitions/disposals**



# Re-focusing Smiths on the best opportunities for growth

**Finding valuable additions to strengthen the core activities**

## Acquired since Dec 2000

<b>Acquisition costs</b>	<b>£360m</b>
<b>Annual sales</b>	<b>£240m</b>
<b>Margins</b>	<b>14%</b>

**Costs: 11 x operating profits**

**Mainly in the fast-growing detection equipment sector**

## Acquisition in H1/03

	<b>cost</b>	<b>contrib. for</b>
<b>Heimann</b> ►	<b>£233m</b>	<b>2 months</b>

**Getting on with the disposal of non-core and slow growth businesses**

## Sold since Dec 2000

<b>Proceeds</b>	<b>£470m</b>
<b>Annual sales</b>	<b>£440m</b>
<b>Margins</b>	<b>10%</b>

**Proceeds: 11 x operating profits**

**Mainly in the capital goods sector**

## Disposals in H1/03

	<b>proceeds</b>	<b>contrib. for</b>
<b>AMG</b> ►	<b>£125m</b>	<b>4 months</b>
<b>Lodge</b> ►	<b>£33m</b>	<b>3 months</b>
<b>exceptional gain £16m</b>		

# Smiths Aerospace

A first tier supplier to the world's major aircraft and engine manufacturers

approx. contribution  
to Group profit



From August 03 will be purely focused on aerospace activities

60/40 split of business between defense and commercial

## Principal activities:

### Aerospace Systems:

Electronics, Actuation,  
Aerostructures, Aftermarket

### Engine Components:

Highly machined rings and complex  
parts of turbine engines

## Smiths is on the key aircraft programs

	Commercial	Defense
In production	B737, B777, A320 family	F18 E/F, Apache Longbow, F-22, C-17, Eurofighter
In development	A380	F-35(JSF), B767 GTTA

## Current Outlook

Commercial aerospace  
business has been "right  
sized" for current slowdown

Boeing/Airbus  
production continues at  
low levels through 2005

Military business will  
continue to grow steadily

Driven by DoD  
Procurement Budget

R&D will continue to increase

And include more  
company-funded R&D  
for military programs



# Detection

Smiths Detection and Smiths Heimann will compromise a new division from August 2003

approx. contribution  
to Group profit



**Smiths is a market leader in a fast-growing sector**

**Broad range of capabilities:**

**nuclear, chemical, biological, narcotics,  
biometrics, contraband, weapons,  
concealed objects**

**Combines both trace detection and  
x-ray technologies**

**Has benefited from large TSA order,  
now mostly completed**

**Continued growth will come from opportunities  
beyond the US airport market:**

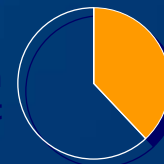
- **facilities protection**
- **container inspection**
- **protection of military forces**









# Specialty Engineering

approx. contribution  
to Group profit



**While the other three divisions focus on particular market sectors, Specialty Engineering is a portfolio of highly profitable businesses, delivering profits largely in cash**

Business	Products	Typical applications	
<b>John Crane</b>	Rotating mechanical seals	Process plant, including oil & gas production	
<b>Polymer Seals</b>	Engineered plastic and rubber seals	Plant & equipment, eg backhoes	
<b>Interconnect</b>	Connection and protection of electronic circuits	Multi-pin connectors in avionics bays	
<b>Ducting/tubing/marine systems</b>	Flexible and rigid hose; radar displays	Consumer and industrial products; ships	

# Smiths Medical

A high margin business with good prospects in a dynamic world market

approx. contribution  
to Group profit



**Market-leading positions in specialized niches, brands have premium product status**

**North America is principal market, but also strong in Europe & Japan**

**Sales outperforming market growth (masked by translation)**

**Cost savings from transfer to Mexico are being achieved**

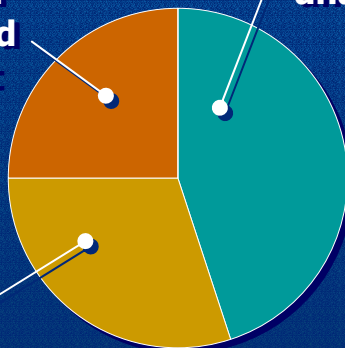
**New products are being introduced, R&D increased to 5% next year**



Other  
specialized  
devices and  
equipment

Respiratory/  
anaesthesia

Infusion  
therapy



**Sales**



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# Smiths Group

Summary of factors influencing the current market outlook

**Demand for detection equipment will extend rapidly beyond airports**

**Defense procurement will continue to increase for many years**

**Civil aerospace has two more lean years before a gradual recovery**

**World market for medical devices grows at 6% pa, fuelled by product innovation**

**Capital equipment markets remain flat, but de-stocking now completed**



**Smiths will continue to focus its activities on the sectors with the best opportunities for growth**

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