

Smiths Group Plc Q3 2026 Trading Update

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Julian Fagge*Chief Financial Officer, Smiths Group***Prepared remarks**

Good morning, and thank you for joining us.

Given the current market backdrop and in particular the conflict in the Middle East, we thought it was appropriate to hold a call this time to discuss our Q3 trading update.

Smiths organic revenue was flat in the quarter, resulting in growth of 0.2% for the first nine months. This was a resilient performance considering the disruption in global energy markets, continued softness in US construction, and against a tough comparator in Flex-Tek.

In John Crane organic revenue grew 3%. We began the quarter with a strong opening order book and operational momentum. However, as a result of the conflict, revenue was negatively impacted by approximately £10 million due to two months of disruption. Encouragingly, our order book continued to strengthen, and we delivered a positive book-to-bill.

In Flex Tek we performed in line with our expected quarterly phasing.

In Construction, performance reflected ongoing US construction market weakness. However, we did see sequential improvement from the second quarter, which we expect to continue into Q4, supported by pricing initiatives and targeted customer wins.

Thermal Solutions declined, primarily due to the completion of the large ultra-high heating project last October, which had a notably high contribution in Q3 last year. Looking ahead, improving demand for heat kits and a more favourable comparator support a return to growth in Q4.

Aerospace delivered strong growth, reflecting solid execution against our order book and the price and volume benefits of recent contract renewals. This underpins our confidence in stronger performance in the second half relative to the first.

Turning to outlook.

In March, we guided to full-year organic revenue growth of 3 to 4%, which excluded any impact in John Crane from the Middle East conflict. Reflecting the disruption we have seen in Q3, and assuming this continues for the balance of the year, we now expect full-year growth for Smiths of around 2%.

We now expect operating profit margin to be slightly above 20%, reflecting the strength of our operating model, and good delivery supported by the Acceleration Plan and ongoing Smiths Excellence savings.

More broadly on the Middle East.

Our priority remains the safety of our people in the region. At the same time, we are working hard to support our customers, and we are well positioned to assist when facilities return to service and production recovers.

Whilst the conflict creates near-term headwinds, and of course we don't know how long this will last, we anticipate that our customers will require additional support from John Crane as and when reopening and rebuilding commence. The situation is reinforcing the global focus on energy security and resilience, which we expect to underpin structural growth in energy infrastructure spending over the medium term.

Finally, to note that we completed the divestment of Smiths Interconnect, agreed the sale of two of the Flex-Tek industrial businesses, and completed DRC, an acquisition consistent with our strategy of allocating capital to high-growth adjacencies, with exposure to fast-growing data centre and power generation markets. We remain on track to complete the sale of Smiths Detection in the second half of the calendar year.

In summary, we are navigating short-term challenges, continuing to make good progress reshaping the portfolio, deploying capital with discipline and investing to drive sustainable growth and long-term shareholder value.

Thank you for listening and I'm now happy to take questions.

Q&A

Operator: Thank you. As a reminder, to ask a question please press star one, one on your telephone and wait for your name to be announced. To withdraw your question please press star one and one again. We will now take the first question from the line of Chitrita Sinha from J.P. Morgan. Please go ahead.

Chitrita Sinha (J.P. Morgan): Hi, good morning, Julian. Thank you for taking my questions. I have two please. My first is just on the Middle East disruption that you saw in Q3 and what you're assuming in terms of disruption in your full year guidance. If I understand correctly from your comments, the organic growth guidance change is only due to the Middle East impact rather than any change in expectations elsewhere.

Then my second question is just on the updated margin guidance. You've mentioned in the release that this is with the support of the Acceleration Plan and Excellence savings. Could you provide a bit more colour on the moving parts here? Should we expect a slightly higher run rate than the 50% for the plan this year? Thank you.

Julian Fagge: Thanks Chit, no, happy to take those questions. So, in terms of the Middle East, yes, we saw the disruption from the start of the conflict in Q3 and that had the £10 million impact. We have 10 facilities in the region, and all of those facilities were significantly impacted by events. We've been doing our very best to support customers through the time period but of course as you can expect there's been quite significant disruption.

We've been unable to ship against the opening Q3 order book to some extent and indeed customers have not been in a position to accept those orders and those shipments and equally customers have not been in a position to place their normal level of book and ship orders that we would expect to see running through the quarter. So, that's the impact and how it's come through. Things are stabilising a little bit but, of course, the conflict remains, the straits remain closed so disruption continues and it will take time for the situation to improve which is why the effects grew through into quarter 4.

Yes, your part B of the question was yes that is – those are the two factors that are driving the change in the revenue outlook. Flex-Tek came in line with expectations in Q3. We are expecting to see that improvement and pick up through quarter 4.

Yes, in terms of margin to your second question, the benefits of the acceleration plan will come through. They're unchanged versus our previous position and just to remind you the AP has a total cost of £40 million to £45 million with £30 million to £35 million of annualised benefits and it remains half of those coming through in fiscal year '26 and just to remind you a small single digit number came through in fiscal year '25.

But overall, we're just managing cost tightly and appropriately as we go through the balance of the year.

Chitrita Sinha (J.P. Morgan): Very clear, thank you.

Operator: Thank you. We will now take the next question from the line of Christian Hinderaker from Goldman Sachs. Please go ahead.

Christian Hinderaker (Goldman Sachs): Morning Julian, thanks for the time. I want to start on Flex-Tek and the guidance there if I may. On my math you need to see an organic growth number of north of 6.5% in the fourth quarter following the 2.9% decline in the third quarter. I guess the incremental here is on the construction and heat kit side principally. Maybe we can just walk through the assumptions there and whether my math is correct.

Julian Fagge: Morning Christian, thank you. Yes, so we'll see this pick up in Flex-Tek in Q4. If I just unpick the three parts of the business there, so the business that will lead the pack is Aerospace. We expect quite some significant continued growth in Aerospace through Q4. Just to remind you we've said that the second half will grow faster than the first half there.

The drivers are a very well covered order book which we'll be able to chip against. But we also have the benefit of three contract renewals that are delivering positive pricing through the business, which is manifesting itself through Q3. We have a further contract that's close to closing out, which will also deliver benefits. So, we're in a good place on Aerospace and we anticipate that to continue nicely through into next year.

On the thermal side of the business, just to remind you, it grew 25% last year in Q3. So, we're cycling up against that very challenging comparator. As I mentioned, that's to do with the large contract which is now finished. So, that was the challenge for Q3, but that's now less of an impact through into Q4.

We're also seeing now a bit of an improvement coming through on the OEM side of the business. So, these are the heat kits that we sell into a major US customer, and these are now picking up. If you remember, it was this part of the business that challenged us in Q2. So, we've seen a pickup through Q3 and further expectation through Q4. So, that's better.

In construction, we saw an 8% growth in Q3 last year. A little bit of that strength was, frankly, due to the cyber events. So, as we recovered from that, we saw stronger growth in Q3 last year. So, that challenged us a little in this year's Q3, but we expect that to pick up through into Q4. We're not necessarily seeing, as you'd expect, any market improvement, but Q4 does give you some seasonal benefit as house building picks up generally.

We've also got some positive pricing picking through that will go in in Q4 and that's market pricing. It's not specific to us necessarily. That's on the Flex side of the business. So, overall, a slightly more positive outlook for Flex as we go into Q4.

Christian Hinderaker (Goldman Sachs): Thank you. That's very thorough. Just on John Crane then and the Middle East effects, you've called out the £10 million revenue impact, but presumably you'll be carrying the overheads, maybe face some additional distribution costs. How do we think about the earnings impact from that £10 million revenue loss in the quarter?

Julian Fagge: It's not been a significant under absorption for us. It's dropping through a normal gross margin, but we've been able to cover for that through opportunity elsewhere in the business and hence our small improvement to our margin outlook for the full year. But nothing particular to focus on there, Christian.

Christian Hinderaker (Goldman Sachs): Thank you.

Operator: Thank you. As a reminder, please press star one and one if you wish to ask a question. We will now take the next question from the line of Andrew Douglas from Jefferies. Please go ahead.

Andrew Douglas (Jefferies): Good morning, Julian. Christian has stolen my thunder, but just two quick ones. In terms of the pricing that you talked about in commercial Aerospace in Flex-Tek, you said that there's three contracts done, one that's to be done. Is that then all of the contracts that are being renegotiated, or do we have more to come through in 2027 and beyond? I appreciate that you'll be doing them on a regular basis, but do we have a big uplift again in '27? Or is it just this year?

Julian Fagge: Thanks, Andy. No, you shouldn't expect to see a significant pickup through next year. We do have many contracts in this business, but it was distinct that we had these four major contracts renewing through fiscal year '26, and maybe just a little more colour. Typically, in our Aerospace business, these contracts are renegotiated every four to five years, and therefore, it presents that opportunity to not only price the order book, but also to win and negotiate different positions in the [ship set]. So, it's generally been a positive experience for us as we've navigated this year.

Andrew Douglas (Jefferies): Perfect. Then just a little bit on M&A, and apologies if I've missed this. How is DRC going now it's under the Smiths' umbrella? What have you found either positive or negative? In terms of the pipeline, what's that M&A pipeline looking like? You've clearly got a very strong balance sheet, even though you're giving a tonne of cash back to shareholders, there's still plenty of opportunities for M&A. So, just what's the pipeline looking like and what are you guys thinking on that front? Please.

Julian Fagge: Yes, so I'm very pleased with DRC. I mean, look, its early days, we've owned the business for around a month now. But it's got off to a good start. We're pleased with what we've found. Just to remind you, the business has a very nice position, supporting gensets, or providing the cooling system for gensets for data sensors. Clearly, that's a robust market and we're seeing lots of opportunity.

I think the key thing that we will bring here is the opportunity to drive operational performance and unit output through some investment and also some focus on flow and improvement in the

operations there. So, that should see strong potential for us to build and grow that business strongly as we move forward. So, we're pleased with that.

On the pipeline, I think we've been relatively consistent here to say that we see bolt-on M&A as an important part of our strategy. We expect that to continue as we move forward. We do have a nice, robust pipeline across John Crane, and Flex-Tek, and we do see opportunity there, but just to say, of course, we will always be very careful about where we allocate capital, the areas where we invest, and the price that we pay to deliver good returns, but as you know, it's been quite a nice success story across Flex-Tek over the last few years. So we hope that that continues as we move forward.

Andrew Douglas (Jefferies): Perfect. Thank you very much.

Operator: Thank you. We will now take the next question from the line of [Bowen Tucker] from Bloomberg Intelligence, please go ahead.

Bhawin Tucker (Bloomberg Intelligence): Hi, good morning. Thank you for taking my question. I just have one on John Crane where you said there is £10 million worth of impact on your 3Q sales. Could you please share what you are assuming for 4Q? Is it a bit higher than 3Q, or at the same level as 3Q?

Julian Fagge: Thanks for your question. We've said that we expect the Q4 impact to be similar to that of Q3, so around the £10 million. Obviously we can't anticipate an end to the conflict. We all hope that that happens, but for now we're assuming that that continues through Q4. Maybe worth taking the opportunity to note that at the point in which the conflict ends, it will take some time for recovery to come through. Clearly we'll be supporting customers strongly as they require certain work from John Crane to help build back and reopen facilities, but it will take time. It's not an easy and quick fix for us. So as you think that through, just bear that in mind.

I will just take the opportunity to note, of course, that the longer-term benefits coming from the crisis, and I think particularly the world's renewed focus on energy security and the requirement for facilities to build resilience into their operations does present an opportunity for John Crane, particularly given the strength and focus on our aftermarket, which ultimately we see as an opportunity, or a positive benefit for the business going forward, but I will reiterate, it will take time, and I don't think we should be expecting to see a sharp bounce back in anything as we look out.

Bhawin Thakker (Bloomberg Intelligence): Thank you. Just one more, if I can follow up with your acquisition of DRC. What is the growth rate that we can assume for this business going forward given like the [genset] makers are seeing double-digit momentum right now. Shall we expect something similar for DRC as well?

Julian Fagge: Yes, we're not going to give a guide on the growth of the individual business right now, I hope you understand that, but look, I think your assumptions in terms of tracking us up against how genset providers are performing is a sensible one, and clearly that was a key driver of the decision to acquire this business.

Bowen Thakker (Bloomberg Intelligence): Thank you.

Operator: Thank you. We will now take the next question from the line of Jonathan Hurn from Barclays. Please go ahead.

Jonathan Hurn (Barclays): Hey guys, good morning. Just one question from me, just essentially following up on John Crane. So I just wondered if you could give us a feel for John Crane in terms of the order book for '27. How much of your John Crane order book is from the Middle East for delivery in '27, please?

Julian Fagge: Thanks, Jonathan. So just to remind you, about 12% of John Crane is derived from the Middle East, and we don't break down our order book regionally, nor do we give detailed growth rates, so, please excuse us for that. What we have seen, and I think we've noted it, is that we saw a positive book to bill in Q3.

I think when you break it down, you're seeing variable factors running through the business at the moment, both to the positive and negative, and I think that's what we should expect as we look out. Clearly a require for strength - for more resilience, we would expect to deliver opportunity for us as we look out into next year as operations, and refineries, and facilities around the world look to build out their capacity, or take advantage of full capacity.

We'll see some regional differences. We've seen particular strengths this year, particularly in Latin America and in North America. In APAC, a region which is very dependent on Middle East and Middle East feedstock, there are some challenges there that may continue, and I think at this stage it's a little uncertain as to how Europe will respond, what energy security means for Europe.

So it's going to be quite a complicated story, but overall, I think we've clearly seen some order impacts, particularly in the Middle East so far, and I expect that will continue, and present some challenges when we go into the first half, but it's a pretty fluid situation, and we'll keep updating as we go.

Jonathan Hurn (Barclays): Great, thanks, Julian.

Operator: Thank you. We will now take the next question from the line of Emanuele Sartori from Kepler Cheuvreux. Please go ahead.

Emanuele Sartori (Kepler Cheuvreux): Hi, good morning, Julian. Thanks for taking my question. I just have two, please, I'm sorry, to touch on this again. Just on the Middle East impact again, just wondering if you expect this disorder disruption to be recovered somewhat in H1 next year, and also the amount that it's going to be disrupted in Q4. So just trying to understand if it's lost, or there's a bit of time in there as well, and also here as well what portion of orders are impacted. So it's mainly related, or also aftermarket?

Then my second question is just touching on the central costs. So if you can give a bit more colour on the central cost run rate for '26 or '27 post disposal, future mix, etc. Thank you.

Julian Fagge: Thanks, Emanuele. Yes. So the impact on the Middle East. Largely the order impact has been in the aftermarket, and as I mentioned, we came into the Q3 with an opening order book, and delivering against that has been challenging. As I said before, we've had a drop in some of that book and bill order and delivery that you'd normally expect to see. So that that's been a factor.

As we look out, and we all wish for an end to the conflict, the - you shouldn't expect to see a sharp bounce back, but you should expect to see us supporting our customers to our very greatest ability to help them get back online, but in many cases, it really could take some time for them to come back online.

So we're obviously not providing any guidance today on next year, nor indeed the first half, second half split, but I don't expect to see this sharp bounce back that perhaps you might think could happen.

In terms of central costs, this year was the year of transition. We've still had to carry quite a significant portion of the central costs for all four of our businesses prior to their completion and separation. So this year is a little bit mixed but we've guided going forwards that we expect to get our central costs down to around 1.7% of revenue and we anticipate getting there pretty quickly as we enter into fiscal year '27.

Emanuele Sartori (Kepler Cheuvreux): Perfect, thank you.

Operator: Thank you. There are no further questions at this time. I would now like to turn the conference back to Julian Fagge for closing remarks.

Julian Fagge: Well, thank you very much. Thanks for your time this morning. Just to remind you, our full year fiscal year '26 result will come out on 22 September and, as ever, the Investor Relations team here is available to discuss if you have further questions. Thank you very much.

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