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SMITHS GROUP PLC ANNUAL RESULTS

24 SEPTEMBER 2020



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Introduction



ANDY REYNOLDS SMITH
CHIEF EXECUTIVE



Agenda



Opening remarks

Andy Reynolds Smith



FY2020 Annual Results

John Shipsey



FY2021 and beyond

Andy Reynolds Smith

Leading now and in the future

➤ **A robust FY2020** – strong operationally, financially and strategically

➤ **Leading now** – managing well through the uncertainty, executing the strategic restructuring programme and further portfolio upgrading

➤ **Leading in the future** – strengthened position for consistent market outperformance



JOHN SHIPSEY
CHIEF FINANCIAL OFFICER



Demonstrating strong financial fundamentals



Top line resilience, active management, standout cash generation and continued financial strength



Full year results; only H2 impacted by COVID



Restructuring costs and write-downs recorded as headline



Smiths Medical classified as discontinued operations

A robust performance



	FY 2020 ¹	FY 2019 ¹	Reported change	
Smiths - Continuing Operations²				
Revenue	2,548	2,498	+2%	(1)% underlying³ , H2 (4)%
Operating profit excl. restructuring costs and write-downs ⁴	382	427		(13)% underlying³
Operating profit	327	427	(23)%	
Smiths Medical - Discontinued Operations²				
Revenue	918	874	+5%	Underlying ³ revenue +4%
Profit after tax	139	112	+24%	Underlying ³ operating profit (3)%
Total Group				
Profit for the year	338	385	(12)%	
Total basic EPS	84.8p	96.8p	(12)%	(21)%, incl. D&A for Smiths Medical
Free cash-flow	273	234	+17%	Cash conversion 123%, H2 FCF £163m
Dividend	35.0p	45.9p	(24)%	

1 Headline excludes non operating items as defined in note 3 of the accounts





2 Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for distribution', given the intended separation of Smiths Medical. Discontinued operations are defined in note 28 of the accounts

3 Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes

4 Restructuring and write-downs as defined in note 2 of the accounts



Good top line performance¹

JOHN CRANE		SMITHS DETECTION		FLEX-TEK		SMITHS INTERCONNECT	
							
£955m	+2% H1: +6% H2: (2)%	£806m	0% H1: +4% H2: (3)%	£478m	(6)% H1: +3% H2: (13)%	£309m	(5)% H1: (7)% H2: (3)%
<p>➤ Robust performance underpinned by strong OE order book and continued aftermarket demand. Good business continuity supporting further wins</p>		<p>➤ Strong order book provided good momentum for Aviation, offset by COVID-19 impact on Other Security Systems. Further contract wins</p>		<p>➤ Downturn in commercial aerospace and temporary disruption to US construction which has since recovered</p>		<p>➤ Reflecting a general slowdown in end markets. Return to growth in Q4 and increased orders</p>	
Energy	+c.4%	Aviation	+6%	Industrials	(2)%		
Industrials	c.(2)%	Other Security Systems	(13)%	Aerospace	(18)%		
OE	0%	OE	+2%				
Aftermarket	+2%	Aftermarket	(2)%				

Continuing operations: H1 +3% ;H2 (4)%

¹ Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for distribution', given the intended separation of Smiths Medical. Discontinued operations are defined in note 28 of the accounts. Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; and exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and adds back depreciation and amortisation of discontinued operations for comparability purposes

Operating profit bridge¹



1 Headline excludes non operating items as defined in note 3 of the accounts. Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; and exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and adds back depreciation and amortisation of discontinued operations for comparability purposes. Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for distribution to owners', given the intended separation of Smiths Medical

2 Includes FY2020 performance from acquisitions that do not have comparators for the prior year

Underpinning future performance

Strategic restructuring programme	FY2020			FY2021	TOTAL
	Continuing Operations	Smiths Medical	Total Group		
Restructuring costs (income statement)	(31)	(4)	(35)	(30)	(65)
Cash outflow	(8)	(4)	(12)		(65)
Savings	-	-	-	30	70

➤ To emerge stronger from the crisis and better-positioned for long-term growth and consistent outperformance

➤ FY2021 costs: 50% in H1, 50% in H2
FY2021 savings: 30% in H1, 70% in H2

	FY2020
R&D	(12)
Receivables	(12)
Write-downs	(24)

➤ R&D write-downs in Smiths Detection as projects are no longer commercially viable

➤ Receivables write-downs in John Crane, Smiths Detection and Smiths Interconnect

Resilient operating profit and margin despite H2 disruptions¹

JOHN CRANE		SMITHS DETECTION		FLEX-TEK		SMITHS INTERCONNECT	
£187m	(6)%	£82m	(12)%	£83m	(14)%	£26m	(35)%
Includes £(18)m of restructuring costs and write-downs		Includes £(31)m of restructuring costs and write-downs				Includes £(5)m of restructuring costs and write-downs	
21.5%	Underlying operating margin	13.9%	Underlying operating margin	17.6%	Underlying operating margin	10.1%	Underlying operating margin
<ul style="list-style-type: none"> Strong profit performance reflecting cost control actions offset by COVID-19 costs to maintain business continuity 		<ul style="list-style-type: none"> Higher OE mix and lower OE pricing COVID-19 costs with lower aftermarket activity partially offset by strong cost controls 		<ul style="list-style-type: none"> Lower volumes in H2, partially offset by very strong cost controls 		<ul style="list-style-type: none"> Impacted by lower volumes but with H2 improvement 	

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Revenue

£918m

+4%

H1: +1%

H2: +7%

- COVID-19 related growth in Infusion Systems and Vital Care (ventilators and tracheostomy tubes)
- Vascular Access decline due to fewer elective procedures



Operating profit & margin

£184m

(3)%

15.5%

Underlying operating margin

Volume growth offset by:

- Ventilator Challenge UK
- One-off costs
- COVID-19 costs

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Strong operating and free cash-flow (Total Group)

	FY2020	FY2019	
EBITDA ¹	610	666	Continuing operations £426m, Smiths Medical £184m
Capex	(109)	(114)	
Change in working capital	53	(104)	
Other	21	26	
Operating cash-flow¹	575	474	123% cash conversion with IFRS16 and restructuring costs
Interest ¹	(50)	(58)	
Taxation ¹	(113)	(99)	Withholding tax on dividend repatriation
Pension	(33)	(36)	
Other investment and non-headline	(106)	(47)	FY2020 includes £(47)m of lease repayments
Free cash-flow	273	234	H2: £163m

1 Headline excludes non operating items as defined in note 3 of the accounts

Financial strength

- Pension plans are well-funded, well-hedged and largely de-risked
- £1bn of liquidity headroom
- Net debt/EBITDA at 1.7x (1.9x¹ including restructuring and write-downs)

Well placed to navigate the current environment

¹ EBITDA of £610m for continuing and discontinued operations. Please refer to note 30 of the accounts for detailed calculation

Latest trend & outlook

- Guidance remains withdrawn
- First and second half considerations
- Stabilisation of latest revenue trends
- Phasing of the restructuring programme

Resilience by design



ANDY REYNOLDS SMITH
CHIEF EXECUTIVE



Putting our people and customers first



Safety of our people



Smiths Excellence System supporting very strong business continuity throughout the pandemic



Exceptional customer service



Supporting the fight against COVID-19

Strong position to navigate uncertainty



John Crane

- Robust performance despite disruptions
- H2 impact on OE but aftermarket resilient
- Aftermarket needs continue, with strong aftermarket profile (2/3 revenue)
- Slower rate of tenders but higher win rate
- Key differentiators: global network and exemplary customer service



Smiths Detection

- Strong Aviation order book provided good momentum in FY20
- Other Security Systems more immediately impacted
- Aftermarket maintenance delays and reductions
- Slower rate of tenders but some good contract wins
- Focused on new technologies to support safer return post COVID



Flex-Tek

- Industrial segment improving
- Continued slowdown in commercial aerospace



Smiths Interconnect

- Returned to growth in Q4
- H2 uptick in orders and significant NASA win

Executing the strategic restructuring programme

➤ Pulls together existing initiatives across the Group

➤ Further improving efficiency and speed

➤ Accelerating progress towards 18-20% target margin range

➤ Ensuring we are better positioned for long-term growth and outperformance

Continued focus on optimising performance

Smiths Medical



Uninterrupted focus supporting accelerated growth



Significant agreement with U.S. government for syringe and needle production to support COVID-19 vaccine efforts



Underlying improvement plans progressing well



Separation delayed - strategic intent unchanged

Two stronger companies

Continued portfolio strengthening

**Organic growth complemented
by disciplined M&A**

11 DISPOSALS
c.£535m proceeds

10 ACQUISITIONS
for c.£965m

= 21 TRANSACTIONS
total value c.£1.5bn
(FY16-FY20)



Smiths Detection - PathSensors

- August 2020
- Complements and accelerates biological capability to detect pathogens
- Broad end-market applications



Smiths Medical – Access Scientific

- May 2020
- Extends portfolio of vascular access solutions
- Enhance infection protection capabilities



Smiths Interconnect – Reflex Photonics

- October 2019
- Enhances our technological leadership in shock-resistant fibre optics
- Broad end-market applications

Designed to outperform

Resilient characteristics:

- Technology differentiation
- Increasing digitisation
- High proportion of aftermarket services
- Sustainably competitive and asset light

➤ Well positioned in long-term, attractive growth markets

➤ A culture of innovation, entrepreneurship and relentless execution

➤ Continued portfolio optimisation

➤ Organic growth complemented by disciplined M&A

Leading now and in the future

➤ **A robust FY2020** – demonstrating our resilience by design

➤ **Leading now** – managing well through the uncertainty, but not complacent, continued focus on optimising performance

➤ **Leading in the future** – strengthened position for consistent market outperformance

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& ANSWERS



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APPENDIX



ESG external accreditations & metrics

External recognitions supporting strong ESG fundamentals

External recognitions		Score	Environmental	Social	Governance
Aug 2020		Governance 1 Environment 2 Social 2	FY2007 to FY2020 reductions <ul style="list-style-type: none"> Greenhouse Gas (GHG): (46)% Energy: (17)% Water: (44)% Non recycle waste: (49)% 	Our People are our most important sources of sustainable competitive advantage: <ul style="list-style-type: none"> Safety first (FY2020): <ul style="list-style-type: none"> RIR 0.30 (FY2019: 0.41) LTIR 0.14 (FY2019: 0.19) Engagement score 73 (May 2019:73) translating into tangible actions to make Smiths a better place to work 	Average tenure on the Board c.4.3 years
2018 data		B Above average			
Sep 2019		34 67 th percentile	Further commitment to reduce our impact on the environment: <ul style="list-style-type: none"> 75% renewable electricity commitment by 2040 	Customers & suppliers <ul style="list-style-type: none"> We adhere to our code of business ethics as well as provide regular anti-bribery and corruption training for our employees 	Diversity of the Board: <ul style="list-style-type: none"> Gender (33%) Ethnicity & gender (42%) Geographies (67%)
Nov 2019		AA Leader in the sector	Technology and innovation as a solution for our customers		
June 2020		Constituent			Regular sites visits COVID-19 videos

Income statement¹



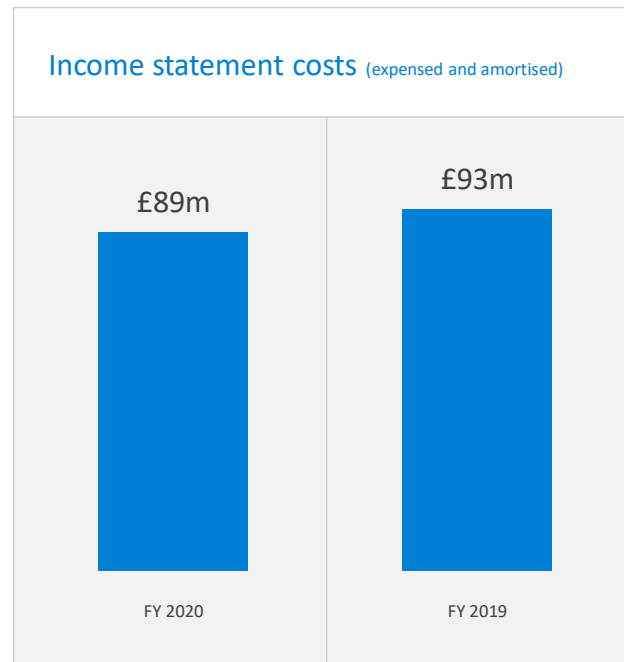
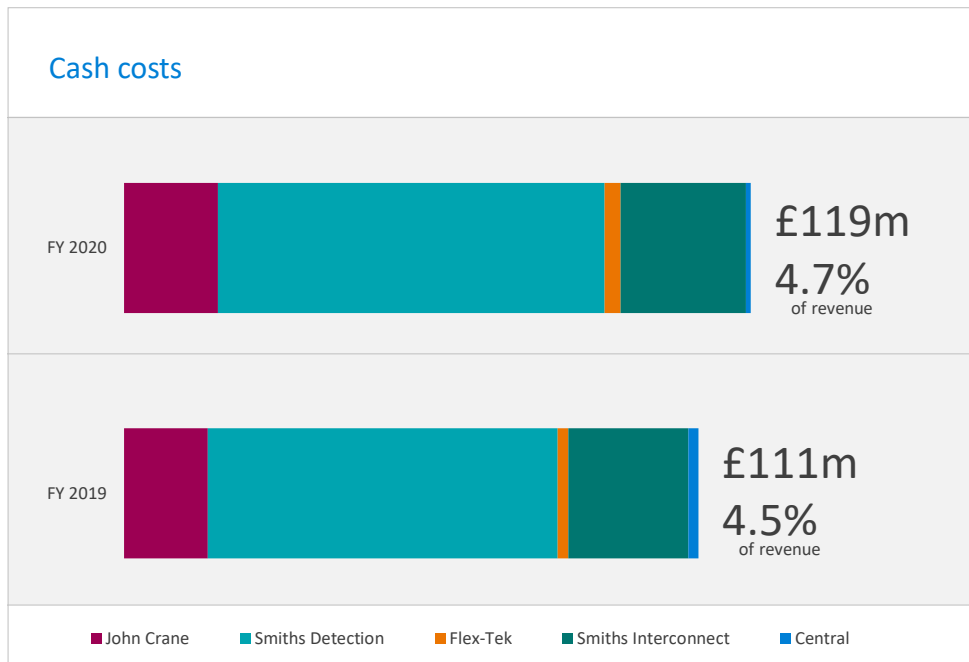
£M	FY 2020	FY 2019	Reported change
Revenue	2,548	2,498	+2%
Headline ² operating profit	327	427	(23)%
Amortisation of acquisition related intangible assets	(57)	(42)	
Legacy pension scheme arrangements	7	(30)	
Post acquisition integration costs and fair value adjustment unwind	(4)	(23)	
Acquisition and disposal related transaction costs and provision releases	(3)	(6)	
Non-headline litigation provision movements	(29)	-	
Total non-headline items	(86)	(101)	
Statutory operating profit	241	326	(26)%

1 Continuing operations

2 Headline excludes non operating items as defined in note 3 of the accounts



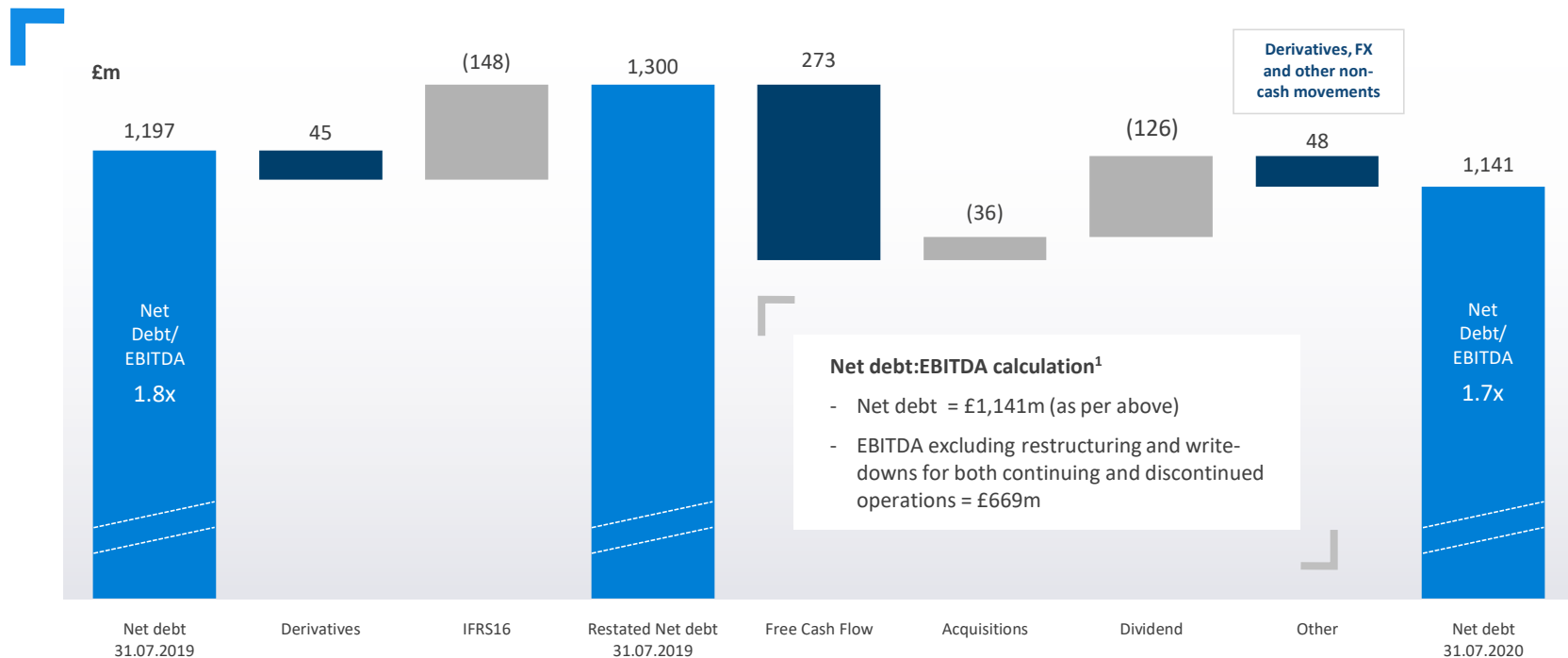
Organic growth - R&D investment¹



¹ Continuing operations

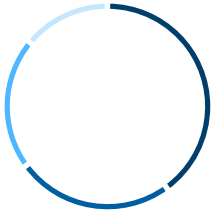
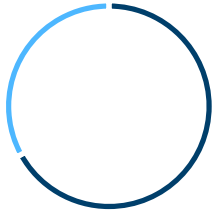
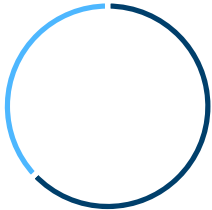


Total Group - balance sheet

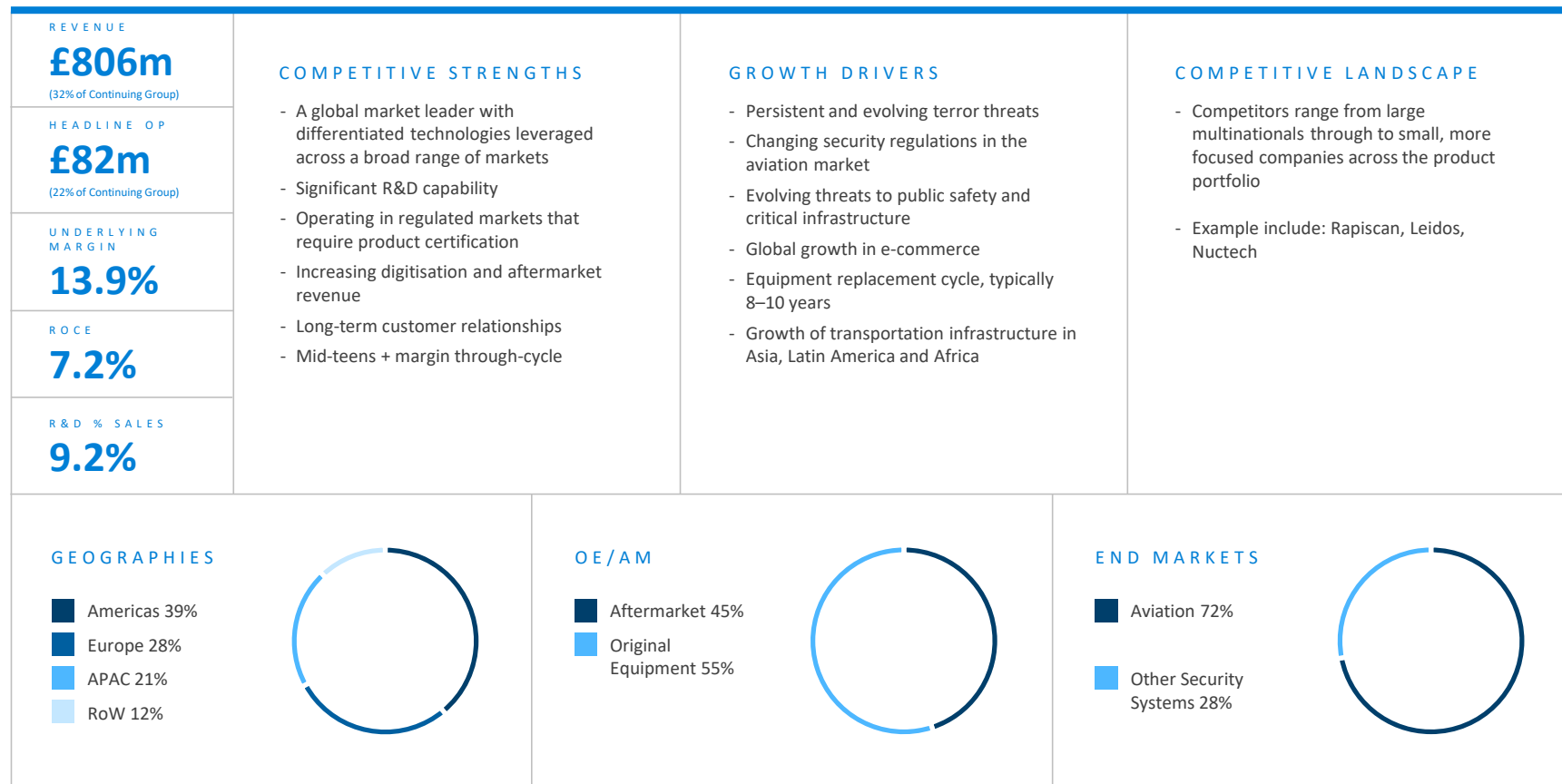


¹ For further details please refer to note 30 of the accounts

John Crane - Mission-critical solutions for global energy and process industries

<p>REVENUE</p> <p>£955m <small>(37% of Continuing Group)</small></p>	<p>COMPETITIVE STRENGTHS</p> <ul style="list-style-type: none"> - A global leader in mission-critical technology for rotating equipment - Strong proprietary technology and expertise in applied engineering - Broad installed base in energy and industrials - Strong aftermarket service offering with more than 200 sales and service centres - Long-term customer relationships - Margins at 20%+ through-cycle 	<p>GROWTH DRIVERS</p> <ul style="list-style-type: none"> - Long-term underlying energy demand, especially in emerging markets - Pent-up demand for maintenance and upgrades, including environmental safeguarding, in oil & gas and petrochemical - Expansion in higher-growth markets - Need for operational improvements in industrial process industries - Disruptive innovations, including materials science advancements and digital transformation - Unique footprint which allows John Crane to support and service customers as well as meet local content requirements and align with customer strategies 	<p>COMPETITIVE LANDSCAPE</p> <ul style="list-style-type: none"> - Competitors range from large multinationals through to small, more focused companies across the product portfolio - Examples include: Flowserve, EagleBurgmann, AES, Danaher, Hydac, Rexnord
<p>HEADLINE OP</p> <p>£187m <small>(49% of Continuing Group)</small></p>			
<p>UNDERLYING MARGIN</p> <p>21.5%</p>			
<p>ROCE</p> <p>19.0%</p>			
<p>R & D % SALES</p> <p>1.9%</p>			
<p>GEOGRAPHIES</p> <ul style="list-style-type: none"> Americas 40% Europe 25% APAC 21% RoW 14% 	<p>OE / AM</p> <ul style="list-style-type: none"> Aftermarket 67% Original Equipment 33% 	<p>END MARKETS</p> <ul style="list-style-type: none"> Energy c.63% Industrials c.37% 	

Smiths Detection - Detection and screening technologies for the identification of safety and security threats



Flex-Tek - Innovative components to heat and move fluids and gases



Smiths Interconnect - Solutions for high-speed, secure connectivity in demanding applications



Smiths Medical - High-quality, cost-effective medical devices and consumables that are vital to patient care globally

