2021 Interim Results

Friday, 26 March 2021

Opening Remarks

Andy Reynolds Smith

Chief Executive, Smiths Group plc

Welcome

Andy Reynolds Smith: Thanks very much indeed and morning everyone. Really appreciate you taking the time to join the call today. I very much hope also that you and your families have been managing to stay safe and well. I'm joined here today by John Shipsey, our Chief Financial Officer. I wanted to talk about three things today. First the strength of our results in the first half. Second, some of the highlights of the continued progress that we've made positioning the Group in the best possible way to ensure growth in the future and that we're strategically, operationally, and financially strong. And finally, our confidence that we're poised and ready to take full advantage of market recovery as it takes place and to seize the growth opportunities which emerge. John's then going to take you through the numbers, then I'll be back to talk about the transformed position that we believe Smiths is now in, ahead of the separation of Medical. And the exciting and ambitious story for a Smiths of the future.

Demonstrating Group strength

We're very pleased to have delivered a robust first half performance despite Covid-related disruptions and significant impact in some of our principal markets. This clearly demonstrates the strength of our market positions and our business model. We've remained focused through all of this on the safety and wellbeing of our people, as our priority. Whilst ensuring we're able to support our customers without interruption. Thanks to the incredible work of our people around the world and our Group-wide operating model, we've responded well to the challenges. My sincere thanks to the amazing Smiths team.

We had good profit conversion with margin down only 20 basis points on the prior year due to the many actions we put in place and our strategic restructuring programme, which is on track and will support the delivery of underlying margin improvement of 200 basis points as we move into financial year 2022. Once again, the fundamental quality of Smiths' structural cash generation really shone through with an excellent 130% cash conversion as the benefits of the Smiths Excellence System continue to bite.

Most importantly to me, we had some great contract wins across the Group and I'm delighted to announce this morning one of the largest wins ever for Detection which has secured 100% of the Heathrow Integrated Checkpoint System upgrade including Smart Lanes. Installation will begin later this year. This is state-of-the-art technology, putting Heathrow ahead of the latest EU standards. As we move into the second half, we are seeing increasingly positive trends in our order books overall and a number of our principal end markets. I'd like to talk about some of those.

In Oil & Gas, investment sentiment and the OE and aftermarket order book activity have improved markedly in the last few weeks driven by a range of factors including the oil price and daily barrels of oil consumed increasing to 96 million versus pre-Covid highs of just over 100 million. In Detection we delivered a standout performance in aviation in the first half.

Aviation, as you know, represents two-thirds of the business. It was up 4% versus the prior year. That was thanks to the strength of the order book and our service model which supports revenue irrespective of passenger numbers. The increases in air cargo recently have also played an important part.

Very positively Flex-Tek finished the half close to flat on revenue, having entirely offset the continuing weakness in commercial aerospace with a very strong performance in military aerospace, construction, and heat solutions. This trend has continued in the last couple of months with additional wins in aerospace and strong order books across much of the business. In Interconnect we delivered a strong first half performance with revenue up double-digit and profit coming along with it. This was driven by strong demand in semiconductor test and more broadly satellite applications and connectors for general industrial. This trend is continuing.

Overall, we've continued to move with purpose, investing in innovation, improving end market positions, embedding our Excellence System, and most importantly developing our people. Smiths is well positioned to deliver market outperformance, united by a common purpose to make a safer, cleaner, and more efficient world. I'd like to talk to you a bit more about this later after John runs through our first half performance in more detail and how this sets us up for success in both the short and medium-term. Over to you please, John.

Results Overview

John Shipsey

Chief Financial Officer, Smiths Group plc

A good start to the year

Good morning everyone and thank you for joining us. I'm delighted to share with you today our half year results. Above all, they show the strength of the Group being proven out in extraordinary times. We have had a good start to the year. We've delivered well and we've met or exceeded expectations. Our top line was resilient, down only 5% against a pre-Covid comparator. This resilient performance is due to the quality of our businesses and of our people. What's more, our conversion of revenue to profit was good because as a Group we took actions, managing the lower level of volumes very well, managing the costs of Covid and delivering on or ahead of plan with the strategic restructuring. So we were able to take that top line and deliver operating profit down 6% and earnings per share down only 3%. And our cash conversion was excellent, indeed a new record at 129%. Free cash flow of £188 million further underlines the Group's financial strength. And reflecting our confidence in the Group's performance and financial position, we are declaring an interim dividend of 11.7 pence, up over 6%.

Leading market positions and technology underpin a resilient top line

John Crane

So let's now look at the first half performance in more detail starting with revenue. The top line shows the Group's defensive resilience, down only 5%. It's a good top line performance in tough market conditions. John Crane performed robustly despite challenging energy markets, £410 million falling 10% as anticipated. But we saw underlying revenue from industrials only marginally down and good growth in chemical processing. Aftermarket now represents 68% of John Crane revenue and while it declined 9% in the first half as customers postponed maintenance because of economic uncertainty, we can be positive because previous cycles suggest these postponements typically last only 6-9 months. So we expect there to be pent-up demand for our large installed base and leading service position. And we're now starting to see this in a growing order book.

Smiths Detection

Detection delivered a strong aviation performance, actually increasing sales to this heavily impacted market. It's really a remarkable achievement driven both by a very strong existing order book as well as aftermarket agreements that span the next 5-10 years. And also by the underlying driver of regulatory-led upgrades. Underlying revenue from other security systems declined more sharply, down 27% for two reasons. First, because of a timing of order completion and the comparator on the programmatic ports and borders business. And secondly because of a much shorter order cycle in urban security markets such as stadiums, public buildings and large events which have been directly and immediately impacted by the pandemic. Overall, Detection's underlying revenue fell only 6% to £350 million, a resilient performance driven by its market position and its leading technology.

Flex-Tek

In Flex-Tek we saw one of the standout performances at the half. Industrials account for around 80% of Flex-Tek revenue and here we achieved further very good growth, reflecting really strong performance from our US construction products in particular. And so offsetting most of the downturn in the smaller aerospace segment where like others we were down 35%. As a result Flex-Tek revenues were broadly flat at £238 million.

Smiths Interconnect

Interconnect had a really strong first half with sales of £152 million, up 11%. We saw strong demand for semiconductor test as well as growth in the space and defence segments. And we won significant orders for our products with space exploration and satellite applications. So across the Group resilient top line performances, especially given the challenging market conditions. But what's also important is how we took this top line and converted it into profit.

Good profit conversion

A key feature of these results is the strong profit conversion. Despite Group sales down £57 million, operating profit was only down £12 million or 6% on an underlying basis. This good profit conversion was a result of operating efficiencies. By managing our fixed cost base well, for example we reduced central costs by a further £7 million in the period, by mitigating the extra costs caused by the pandemic and by successfully delivering cost savings, all underpinned by continued progress on the strategic restructuring programme. Which meant that the Group's underlying operating margin was down only 20 basis points.

John Crane still produced a very healthy operating margin of just under 20% and underlying profit of £81 million despite the loss in volumes, demonstrating impressive resilience through the cycle. Detection's margin was lower at 12.7% but there are positive reasons behind this. First, there continued to be a high proportion of OE which comes at a lower upfront margin but will convert into a strong and steady stream of aftermarket revenue. Secondly, aftermarket revenues were down only 6% but the drop-through on marginal revenue in aftermarket is very high so we did well to limit the profit impact.

Flex-Tek continued to produce strong margins, 18.5%, and profit of £44 million. With lower volumes successfully offset by good cost control, meaning we actually increased underlying margin slightly despite weakness in the aerospace market. And finally Interconnect significantly increased its profitability, raising its margin to 12.1% and profit to £18 million on the back of higher volumes and the recent successful restructuring, continuing its trajectory back to mid-teens margins and beyond.

So as a whole we achieved healthy margins despite volume headwinds and the big point for me is that we are well positioned for margin growth when volumes return and markets start to recover.

Smiths Medical – continuing to strengthen ahead of separation

And Smiths Medical continued to strengthen ahead of separation in the fourth quarter of this financial year. Revenues grew for the fourth consecutive half, up 0.2% to £427 million. We saw good growth in Infusion Systems and Vital Care but in Vascular Access fewer elective procedures offset higher demand for syringe and needle products in support of Covid-19 vaccination. And the business continued to build margin, increasing profit to £89 million. There is a clear path back towards the higher margins that the business previously delivered. And the key point here is that Smiths Medical is on a flight path through separation to achieving its full potential.

Strategic restructuring programme is on track (Total Group)

I spoke earlier about our good profit conversion and referenced strategic restructuring as a contributing factor. I just want to give a bit more detail here. This is a programme we are managing across the whole Group to support the goal of delivering operating margins of 18-20%. We have made good progress. The programme is delivering and it’s on track. We’re two-thirds of the way through in terms of the P&L charge and one-third in terms of the cash cost. Cost and benefits will be broadly neutral this fiscal year and we will deliver the full annualised benefits of at least £70 million next year. So we’re really pleased with the progress and there’s more to come.

Excellent operating and free cash flow (Total Group)

Turning next to cash flow, one of the key features of these results. We as a Group achieved an excellent level of cash generation and it’s all about operational delivery. The first half numbers are compelling. Group operating profit was £234 million. We delivered £301 million of operating cash flow and that’s after £55 million of capital investment. Profit after tax was £171 million. We delivered £188 million of free cash flow. And we’ve re-emphasised our focus on free cash flow as the all-in measure of cash delivery. It’s now included as a metric in our long-term incentive plan to ensure full alignment with shareholders. And we still want to do more to drive free cash flow because we know we can be even better.

Further significant progress on pensions

In that context, let me turn next to pensions, another area where we have made good progress. We have two legacy defined benefit plans in the UK, both are in a strong funding position, evidenced by surpluses on a technical provisions basis. The Group has been contributing £24 million a year with the aim of making them self-sufficient by 2028. And we've just finalised the triennial valuation for one of the plans with very positive results. Barring unforeseen events, we expect to reach a full buyout of the TI plan well ahead of our 2028 objective but without any further cash contribution from the company. As a result, pension contributions are expected to fall by £4 million this year and £12 million in FY22. This is a really important milestone achieved through close cooperation between the company and the trustee over many years. The triennial valuation for the other main UK plan is still being finalised and I look forward to updating you in due course.

FY2021 outlook

Before I conclude, I'd like to cover the outlook. Yes, there is uncertainty externally and the world is clearly not out of Covid yet, but we have increasing reasons to be positive. First and foremost the results you have heard today, but also improving order books, further restructuring benefits to come, and continued strong cash generation. We are well positioned to benefit as markets and volumes do recover. It all means we are confident of meeting market expectations for the full year. This of course assumes no deterioration in the global health situation.

Conclusion

In conclusion, these results are further evidence of the Group's strong fundamentals. We have taken a resilient top line and delivered good profit conversion and excellent cash conversion. Our restructuring programme is delivering on track and the strong financial framework underpins our ability to invest in the future. We are in good shape to outperform as our markets start to recover. And with that, let me hand back to Andy.

Strategy & Outlook

Andy Reynolds Smith

Chief Executive, Smiths Group plc

Delivering on our strategy

Thanks very much, John, very clear. In 2016 we set a new direction for the Group, to return it to growth and then deliver sustained market outperformance. It's a transformation in capability, market positioning, investment in innovation and R&D, our culture, and our dream. Our strategic, operational, and financial strength has supported our resilience during the crisis. And we're now poised to accelerate growth and returns as markets recover and we take advantage of the growth opportunities in front of us. I'd like to take you through what I see as the fundamental strengths of our business and how as a Group we can maximise value through our shared operating model, which we're using to accelerate our growth and leverage our strengths.

United by common purpose and characteristics

Smiths is focused on businesses with the same characteristics. I'm unapologetic for showing you this again, as I fundamentally believe it is what explains the core of our strength, resilience and underlines our potential for the future. We focus the Group on businesses that are technology leaders with strong digital capabilities, to ensure we're at the forefront of our markets and we've invested accordingly. We invest in business that are capital light and can be sustainably competitive with a high proportion of aftermarket and service. As a reminder, around half of our revenues for the Group come from aftermarket. This way we maximise our flexibility to react to change, bring resilience, continuous improvement, and secure recurring earnings from our aftermarket services. We have a purpose-driven vision for everything we do, innovating for a sustainable future, making a safer, cleaner, and more efficient world.

Our businesses are leaders in their markets

We've continuously honed the portfolio around businesses that are leaders in markets with attractive long-term growth drivers. More than 90% of our businesses are now well positioned.

John Crane

John Crane is a high-quality energy asset with over 70% of its revenues derived from high margin aftermarket. But 40% of its revenue comes from other process industries with similar demands, such as chemical, pharma and mining. It's important to note that Crane's products and services are also widely applied and critical to energy transformation programmes, including hydrogen. And on the energy transformation journey to sustainable sources we're also well positioned on the energies which are seen as transition or bridge energies, such as gas. Across all of our markets John Crane's core capabilities are trusted to support critical industries with enhanced safety, efficiency, performance, and sustainability through an unmatched global service network in more than 200 locations around the world.

Smiths Detection

In Smiths Detection our products are supporting safety, security, and freedom of mobility. And in many cases, this is in highly regulated and difficult to enter markets. As our first half results have shown, Smiths Detection is not directly correlated to air passenger numbers but instead to record order books, long-term service, and maintenance contracts and to regulatory upgrades driven by the evolving threat environment. Similar to John Crane, Detection is inherently resilient with half of its revenues coming from the aftermarket services and the world's largest installed base. Its products are built on digital analytics and smart sensing hardware, many of which are integrated into the broader security ecosystem of our customers and in many cases national intelligence systems. This brings real strength of incumbency and deep trust with our customers. These leading technologies are then applied to multiple end markets beyond aviation where advanced sensing and data processing can improve safe mobility and threat detection.

Flex-Tek

Flex-Tek's strength is derived from its intimate long-term customer relationships, to enable the application of innovative technologies. These solve problems for customers, allowing the safe and efficient movement of fluids and gases across industrial and aerospace markets. All of them find new ways to make products easier and lower cost to install, lighter weight, highly reliable and energy efficient.

Smiths Interconnect

Interconnect solutions for high speed, secure connectivity put them at the forefront of markets including semiconductor, aerospace, and space, where leading technology, reliability, and safety for demanding applications in really tough environments is critical and most importantly valued by our customers.

Creating value for our stakeholders in a sustainable way through our shared operating model

People & Culture

All of our businesses have been positioned to be leaders in their markets with execution taking place through the three pillars of our operating model, the Smiths Excellence System. This is in place across our business globally. It's about ensuring strong execution and continuous improvement in our plants and our business processes to create value. People and culture are everything at Smiths and it enables us to develop, attract, retain, engage, and inspire the very best people, who collaborate and share and drive for excellence in everything we do.

Excellence

Operational excellence is at our core. Consistent execution and continuous improvement helps us move faster, constantly improve and deliver solutions which customers value. We share centralised support functions with a high focus on cost efficiency. As an example, central costs are down one-third by – since 2017. We also approach high growth regions such as China and India as one Group, leveraging our size and scale to support our ambitious growth plans in these regions.

Innovation & Technology

Innovation and technology are driving the future for Smiths. Our Group-wide innovation framework is at the heart of our disciplined future focus culture, aligned to our purpose and strategy. Supporting this we've substantially increased our investments in innovation which are up 34% over the last five years. A great example of this is our Digital Forge in San Francisco which now sits at the centre of a global network of physical and virtual digital centres of excellence around the world. And it's driving the development of leading-edge capability, supporting solutions in all of our divisions.

Our businesses are aligned to long-term trends

We have businesses which are well positioned in markets with long-term global growth trends. Trends which are shaping the future towards a safe, cleaner, and more efficient world. That is our purpose. Importantly, we have the core capabilities which can be and are being applied to these growth trends of our markets and building on our existing positions which give us a right to play and the right to win. The Covid crisis has in some cases accelerated and brought focus to many of these global trends, which are key across Smiths. Including a return to safe mobility, increasing biological detection, clean air, efficient use of fossil fuels with lower emissions, process industry efficiency and energy transformation. And of course, digitisation spans all of these and is accelerating at a dizzying pace. Smiths has the capabilities and positions across an environmental portfolio to bring technical answers to many of these challenges which we all face around the world as we strive for a sustainable future. And we're driving them in a coordinated way. These trends are in many cases driven by increasing legislation and regulation which is a business environment in which Smiths is very well versed.

Group-led approach to accelerating global trends and themes

Our approach is driven by a triple-pronged attack with three vectors. The first is our core organic growth plan built on market-leading positions across the Group. The second, Group-wide accelerators addressing largescale opportunities which present significant growth potential, require intelligent investment muscle and benefit from Group-wide leverage of core capabilities, including unique Smiths technologies. And thirdly, continued, focused, and disciplined M&A to drive faster progress on technology development, customer and end market access and geographic expansion. All three of these growth vectors come together in a highly complementary way to drive a long-term, sustainable growth plan and competitive advantage.

A very good example of this thinking is the global growth megatrend for clean, safe air and biological detection., which in Smiths terms spans everything from a methane missions reduction programme to pathogen detection in air to smart ducting in Flex-Tek which can detect health threats in air distribution systems. This example is being driven on all three growth vectors. In the Crane example, we've built on an incredible reputation and installed base at customers, a recent investment in a California drone-mounted methane detection company and joint development of software monitoring with the Smiths Digital Forge to win business in monitoring and resolving methane emissions from refineries for our customers.

In Detection we have taken a recently acquired bio-detection technology and combined it with Smiths' existing chem/bio abilities to commercialise and industrialise technologies. We've built a portfolio of biological detection products targeted in three main areas. Food safety to spot issues such as salmonella and listeria, mail and parcel threat detection for issues such as anthrax, and virus detection including Covid-19 in buildings and crowded places. We have units under test in all of these areas and early sales progress is very promising with more than 60 BioFlash machines now in customer settings from schools to government buildings to hospitals and food processing plants. We'll be talking about this in detail at our upcoming CMD later this year.

In Flex-Tek the strong market channels in residential and business construction have been complemented by a recent acquisition and combined with our Digital Forge capabilities to develop smart sensing in air distribution, smart ducting which warns of health – threats to health. Applications are endless.

Disciplined M&A

Organic growth remains our top priority, but our third growth vector is M&A to complement the organic and accelerator growth investments. We continue to move with pace and purpose. So far, we've completed 23 transactions since 2016, totalling just over £1.5 billion. These have been accretive to growth and margins and expect to continue in a disciplined way. The two most recent acquisitions are very good examples of speeding progress and gaining critical technology in market capabilities which complement our portfolio. Flex-Tek's acquisition of Royal Metal earlier this year brings adjacent product offerings to air distribution and the HVAC system market. And access to a larger customer base. It gives us a strong seat at the table to drive the development of innovative HVAC products supporting improved energy efficiency and indoor air quality.

Reflex Photonics in Interconnect has been really exciting and brought advanced optical connectors for space and aerospace applications with significant business wins already achieved as trickle down technologies from the most demanding applications are implemented more broadly. Such as those from the Mars Perseverance Rover which the team is incredibly excited and proud to be a part of. We also have a high-quality pipeline of further opportunities across the Group, but we as always remain highly disciplined.

Committed to separation of Smiths Medical by end of FY2021

We set out on a path to separate Smiths Medical and to create value through simplifying and focusing Smiths as a high-quality industrial technology company. And unlocking value in Medical. We said we would continue to evaluate all opportunities to complete this in a way that was best for our shareholders, stakeholders, and the future of Smiths. As you'll remember, we hit the pause button in the first half of last year due to the Covid crisis to concentrate our efforts on the fight against the virus. The business has continued to progress well in its underlying plan and has achieved some simply wonderful things, including a global ventilator programme and more recently the supply of premium hypodermic syringes around the world with more than one-third of the US population, as an example, expected to be vaccinated with a Smiths needle, including President Biden.

Work on finalising the necessary separation workstreams is well underway again and on track in line with our commitment to separate by the end of the financial year. As we prepare for separation, we remain focused on accelerating the growth of Medical and enhancing its performance to deliver on our ambition and improve the returns. The division's first half performance demonstrated an uninterrupted focus on these underlying improvement plans whilst we're also playing a critical role in the fight against Covid. As we progress the next few months the Board will continue to evaluate all opportunities for value optimisation for all stakeholders.

A strong position to maximise growth opportunities

As you can probably sense, there's a combination of our performance in the first half, improvement in market conditions and clear evidence of the progress that we're making that are leading to high confidence in the future. Whilst clearly economic uncertainty remains against the backdrop of our robust first half performance and improving second half trends, we're confident of meeting market expectations this year, as John said. And importantly, beyond, as we accelerate our progress to growth outperformance and improving returns. It's supported by better order books in all divisions and the incremental benefits of the strategic restructuring programme. We're in a strong position to maximise all growth opportunities at the forefront of market growth trends both in the near-term and as we develop the solutions to address the needs of our markets. The Group is well positioned to deliver long-term sustainable outperformance and value creation. Thanks very much for listening. Much appreciated.

Q&A

Andy Wilson (JP Morgan): Hi, good morning everyone. I've got three, if I can ask them, I guess, quickly. First couple on Detection. I guess the strength of the aviation part of Detection was certainly a big surprise to me. I suspect I'm not alone in that. Can you just provide a little bit of help in terms of quite how you've been able to achieve that? And secondly it sounds a fairly reassuring message in terms of the second half in Detection around the same aviation question. It doesn't feel like you're expecting to see a big drop off in tails as we go through the second half. That's probably the first one if I leave that there for now.

Andy Reynolds Smith: Okay. Hi, Andy. How are you, okay?

Andy Wilson: Yeah

Andy Reynolds Smith: We were really pleased because I think to some extent the performance of the Detection aviation business was a little bit counterintuitive for some people when they look at the passenger numbers and the number of flights going. There were two main features for me. First, we are in a position of global leadership. We're the broadest installed base which means that wherever activity is happening it's happening for Smiths, which is one feature.

The second is we went into the disruption with an extremely strong record order book, as you know, north of £1 billion. The strongest ever. We have been burning off against some of that nevertheless because there has been a slightly slower intake of new bids and new bid activity. However, that's been a real supporting feature because people still have to meet the regulatory demands of the market in the future. They've got to be ready for borders and airports opening fully again. So that activity has continued. And I think partly demonstrated by the success of the Heathrow win which the team's done an absolutely amazing job there. Two tough years of competition to secure one of the most important global airports was great.

The final feature for me is what we call the framework agreements. Which are essentially the major agreements which provide the service, maintenance, digital, software upgrades. that are constantly required irrespective of the speed that the airport or the line is running. And as you've seen that gives a level of resilience in terms of our revenues, which is very good. So, I'm expecting to see continued performance in aviation. Obviously, there are some signs that things are going to be opening up again as we go into the second half and beyond. But really pleased with the way that's gone.

On the downside, of course, in the first half the fact that urban security which largely serves crowded places which have not been crowded was substantially down. We are expecting as crowded places start to get busier again, whether it's subway systems or sports stadia that is going to really ping back. And one of the reasons for me talking so much about some of those opportunities is we're well poised with the technologies that can get crowded places and people mobility going again.

Andy Wilson: Perfect. Still slightly linked maybe to that final point, it seems on Detection obviously the acquisition of PathSensors has helped, but it's complemented what was already a pretty strong portfolio it seems in terms of chemical and biological. It seems that obviously in the kind of new world that we're in and however that develops, that there would seem to be an enormous opportunity for these kind of products. material to the size of Detection which even if it takes a bit of time to [inaudible] Smiths would seem very well positioned to benefit from. I don't know if you can help me understand if I'm overestimating that. It just feels like it really could be very, very significant.

Andy Reynolds Smith: No, I don't think you are overstating it at all, Andy. One of the areas that we've really had a spotlight shone I think for us, as you rightly say, we were already leaders in chemical/biological detection but it was predominantly around military and defence applications. But nevertheless that core technology we were well versed with. The addition of the acquisition of PathSensors and the combination of Smiths' ability to industrialise and commercialise stuff in a way that appeals to different end markets is really the key to this. So, this is a very big push for us. I mean, the three vectors that I –I talked about are – that we're most excited on, are food safety and this really applies to detecting pathogens, so listeria, e-coli, salmonella in simply hundreds of small and medium food processing plants around the world with a really good commercial solution which also brings with it a lot of consumable. Because essentially, you've got a disc that goes into the machine that needs to get replaced every time there's a positive or every day. So, there's a nice, typically Smiths, high margin consumable stream there. Mail safety. This is actually sniffing the air as parcels are going by and letters are going through to see whether there are threats or dangers. And then there's the broader virus detection which we've got a number of units running. So, this is an endless market as I said. I'm hesitating to quantify it exactly but it's very large and we believe that the technologies that we've got if they can be applied in a commercially attractive way, because this is quite different to the sort of regulated environment that you see in airports, can be hugely successful with Smiths having a lot of unique capability.

Andy Wilson: Okay, thank you and maybe just a final one that's a slightly different area, I guess probably for John, but just around the cash flow which, again was – well, it was super-strong in the first half but it's been a trend at recent results, the cash has been very good. Anything, that you'd just sort of caution against as assuming that free cash flow profile isn't going to continue to be good through the second half and then into next year. Just looking for anything out of the ordinary we could think about.

John Shipsey: Thanks Andy. No caution other than to say that that 129% was a record. So, we're not saying we'll repeat 129% throughout the coming half but we will deliver consistently 100%+. That is what our benchmark is. So, a really strong first half and we'll certainly be above 100% going forward.

Andy Wilson: Perfect, thanks very much, guys, appreciate it.

Andy Reynolds Smith: Thanks very much, Andy.

Mark Davies Jones (Stifel): Thanks very much. Hi Andy, hi John, a couple of things if I can. Can we talk a little bit more about Medical because it's obviously not very long till July now and I was thinking we might get a few more details on the process around that separation? So firstly, can I clarify you're still looking at a dual track on this? Even at this late stage there is still the possibility of a sale rather than demerger. And then assuming we do go with a demerger can you give us any early indications what you're thinking about in terms of balance sheet structure and the technicalities of how you build two new entities out of that. Or if not, can you give us some sort of timeline on when you will be communicating that? Thanks.

Andy Reynolds Smith: Okay. hi Mark. So, we've been very clear from the beginning that we were running a dual track process. And the demerger piece of that was, moving on when we hit the pause button last year because of Covid. All those separation workstreams associated with demerger are in full flight at the moment. You're right, relatively close to the time here, but everything is on track, as necessary. But we also said, and it is still very much the case that we continue to evaluate opportunities to see whether we can do better from a value perspective. And we think demerger is an extremely good route and strong route both for the business and for investors. But we remain committed and continue to look at all opportunities to do more. John, I don't know if you want to comment on…?

John Shipsey: Just in terms of the demerger technicalities, so we would be listing on the UK stock exchange. Medical is a very cash generative, good debt capacity business. We would think that 2.25x debt to EBITDA our advice is that's certainly not a stretch. Something of that order. And Medical the existing dividend would be split broadly in proportion to the earnings and cash capacity of the relative entities. So, we're pretty advanced on that.

Mark Davies Jones: Okay. Thanks, John. And any sort of tax implications or things like that, that we should be aware of?

John Shipsey: No, just a tax clearance which, we don't anticipate any problems with. But, that's again also very advanced.

Mark Davies Jones: Okay, great. Thank you very much for that. Can I ask one more question around the M&A? Obviously, some interesting little bolt-ons coming through now. Is that something you think you will do more of? Are there opportunities out there and might Interconnect be an area that you want to build up again having shrunk it back to a core and now growing it off that base? Is that very much in focus for M&A?

Andy Reynolds Smith: Yeah, that is a really good question, Mark. So, as you know from the beginning here, the biggest challenge we had was to reignite organic growth and make that our primary objective. That's taken some work over the last four years in terms of investment. And organic remains our priority. I talked about the three vectors of growth earlier with that organic core plan being the base. We're now calling out these areas that we're calling accelerators. So, these areas of significant growth opportunity that demand investment and focus. Like some of the biological detection and also methane detection, for example, for emissions reduction in fossil fuels. As, you know, sizeable material [inaudible] big opportunities for the future. The third vector then is continuing disciplined M&A to speed our progress. When we think that there's ways to move us more quickly forward on technology, where we may have global geographic challenges or also customer or market challenges. I think we've demonstrated that we've been quietly doing an awful lot of M&A activity over the last few years. I absolutely expect that to continue. The balance is swinging towards acquisition versus divestiture now. I think just by definition of the fact that we're largely well positioned now versus our start point. So, there aren't another ten businesses to be sold. There's maybe one or two more that in due course will go. So that balance will swing towards acquisition but still in a very disciplined way to keep us moving quickly.

Around Interconnect, interesting question there. We're increasingly excited about this high technology connectors business and we've really demonstrated I think with the quite small acquisition, the Reflex Photonics that really brought us market-leading ruggedised fibre optic connector technology that applies to satellite and low Earth orbit satellites particularly. Are there others that might apply in that area? I think so but they're small. There aren't large acquisitions that sit there but is there another Reflex Photonics in the sort of tens of millions? Yeah, very possibly.

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

Andre Kukhnin (Credit Suisse): Yes, good morning, thank you very much for taking my questions. I'll start with one on John Crane. Could we just talk about the kind of cadence of growth right there as you went through the first half and how you aggregate compared to the average? And maybe if you could comment on where we are right now given that we're pretty advanced into – towards the end of March right now?

Andy Reynolds Smith: Okay, well I think one point of calibration is – I'm not sure if you've had a chance to trawl the numbers yet but in the first half Crane was down almost 10%. But the non-oil and gas piece was flat. So, chemical was good, pharmaceutical was particularly good. So really the reduction was all in oil and gas, not surprisingly, with demand being down the way it was and investment sentiment the way it was. Over the last few weeks we've seen a marked pickup in – and I mentioned in my script that we've seen demand back up to within five or six million barrels a day of pre-Covid peaks which I think is a bit of a surprise to quite a few people given the gap with aviation going back to full speed is bigger than that. So, investment is – sentiment is notably picking up at the moment. What we've got, is significant activity around order book for both aftermarket, which as John said, to ping back pretty quickly. But I think it's fair to say that it is balanced towards the fourth quarter, that order pickup, rather than instantaneous for the third quarter that we're in right now, as far as trend. But it's giving us increasing confidence as we move into FY22 for sure.

Andrew Kukhnin: Very helpful, thank you very much. And I wanted to follow up on pathogen detection. Quite excited about this potential opportunity there as well. Maybe could you give us some more detail on how long those trials will last of the 60 BioFlash machines? And what kind of unit value can we think about there even in a very rough ballpark figures? Then maybe we can start thinking about some adoption rates and potential TAM estimates.

Andy Reynolds Smith: As far as testing we've got a number out there in test settings, as I mentioned a bit earlier on. But we're also selling units as well. So, we've had our first units go out into mail settings. So, sorting office settings. Important office buildings in the US, I'll let you guess which ones they are but government buildings. So effectively sniffing whether there's anything nasty that comes in. So, the testing is underway. Units are now being sold. We're developing the use cases because this is – it's really sensitive to use case because this is broadly, as I said, not regulated. So, you don't have the same drive that you do in airports. So, the installation of the unit and then the consumable that comes afterwards like the CD that you slot into the unit, is a really important point of how quickly we can get adoption rates to run. You'll forgive me at this stage – and we'll be ready very soon. But if at this stage I stay away from that price point positioning because that's something we're working through with the customer base at the moment. And it's obviously a point of pretty high competitive sensitivity. But we'll be – by the time we get to the Capital Markets Day which we're planning for probably fourth quarter of this calendar as we've gone through the Medical separation. We'll be coming back to this in a lot more detail. I'm enormously excited by it.

Andrew Kukhnin: Sure. Sure, I appreciate that. Just to – and in terms of the way it works, it's a kind of a passive detection machine, right?

Andy Reynolds Smith: No. Without going into – because this is, I mean, it's absolutely fascinating. But without going into staggering detail on it, essentially, it's about protein markers. So, what you do is you have what's called an assay which is a – the, the cells that sit in the detection disc and they are a really unique combination of cells, human cells but these are cultivated human cells. And also, bioluminescent cells from various animals that I won't disclose but bioluminescent cells. These are then cultivated so once the sample is there this isn't an issue of, animals here.

Andrew Kukhnin: Sure.

Andy Reynolds Smith: And then when you get the pathogen that mixes with it and triggers an event that creates a protein. And then you use a vision system or an optical system to spot that essentially. It's what's called a photomultiplier tube. So basically, there's bioluminescent effect of the pathogen coming into contact with it, gives off photons, you use a photomultiplier, it booms up and you get this avalanche effect of more photons. And you can spot if there's an infection of some description. So, you know, absolutely fascinating technology. And, the team's done an amazing job on it.

Andrew Kukhnin: And, sorry to labour it but this machine, do you need to kind of have people explicitly breathing into it to do the detection or can it be – just sit in the corner in the reception room and flash up a warning sign if it detects something?

Andy Reynolds Smith: There's essentially two alternatives at the moment. One of them is the unit sits and it draws in air from the environment around it and looks for concentrations of, well, virions or pathogens more generally. The other alternative is you've got something and it's not quite like the swabbing that happens to your bag at the airport but something which actually touches onto the surface of – which is more common for the food processing type applications. So, when they run the swab over your bag and see whether you've got anything bad in it at the airport sometimes.

Andrew Kukhnin: Right. So, in theory every hospital reception room should really have it if proven entirely and –

Andy Reynolds Smith: Well, I try to rein back a little bit because once you start thinking about the applications and the scale of these applications if you can get the use case right and the commercialisation of it right, is just huge. So yes, you clearly understand it.

Andrew Kukhnin: Thank you, yeah, we'll look forward to the Capital Markets Day. If I may, just a last one very quickly. On the TSA CT hand baggage scanning, the kind of the second RFP, I think that's in progress. Could you update us on how that's going given that you won I think all of the prior one, not the first one?

Andy Reynolds Smith: John, do you want to have a go at that one?

John Shipsey: Hiya, Andre, it's good to hear from you.

Andre Kukhnin: Hi.

John Shipsey: Sorry, I'm afraid I don't – we don't have any update that the tender is in process. We don't have the results.

Andre Kukhnin: Got it. Thank you for you time, both of you.

Andy Reynolds Smith: Thanks, Andre, speak soon. Thank you very much.

Robert Davis (Morgan Stanley): Thank you for taking my question. I had three. First one was just around the Detection business. You mentioned the support you had in the early part of this year from the large order book. You mentioned a number of £1 billion or so. Just be curious heading into H2 what that order book was standing at, at the moment.

John Shipsey: Good morning, Robert. I don't have the precise number for the order book to disclose but what I would say qualitatively is that we have drawn on the order book. That order book, the £1 billion you referred to, is original equipment and aftermarket going out multiple years. What we have seen over the past few halves is a very high level of OE in aviation. And consistent with what Andy said, we do see that tenders and actually installations, are moving to the right. But they are underpinned by the regulatory upgrade and we have been, yes, significantly cushioned by this very strong order book that we entered with. What gives me confidence for the future is that we're going to see some offset. So, we have – as I mentioned in my piece, we've seen us lose the top slice of aftermarket revenue during the pandemic. And that's unfortunately quite ahigh marginal drop-through. As passengers start to travel again, we are going to see that aftermarket revenue recover and in fact possibly even a bump as machines that have – haven't been switched on are switched back on and need a full service to get them back into operational condition. So that will offset. And then, all of the OE equipment that we have won and that we've seen being implemented over these past couple of years, that's starting to move through now into aftermarket, out of warranty and into aftermarket. And then finally the other piece that gives us confidence is, as Andy said, as crowded places become crowded again, we should see urban security recover as well.

Andy Reynolds Smith: Yeah. I won't give the precise level that it sits at, at the moment but normally the record order book would replenish at the same rate that it depleted. And that hasn't been the case in this period of lower activity. However, the large proportion of that order book is still there. So this isn't a matter that it's depleted heavily the large proportion has taken the top off it and it just hasn't filled back in yet. But then you've got the Heathrow stuff and others that are in prospect at the moment that we've got increasing confidence that, the replenishment rate will start to equal the depletion rate again very quickly.

Robert Davis: Sure. That's great, thank you. And then two remaining questions. First one was around Crane and the aftermarket business. Just be curious if we get a bit more detail what's gone on there. The 9% [inaudible] growth trend has obviously dropped sharply down. It was kind of more resilient than that. If I remember right in the second half of last year it was only sort of flattish or very mildly negative. Just wondered how much of that drop was site access related issues that you expect to sort of imminently reverse. How much of it is sort of delays in kind of maintenance that customers have sort of taken on their own accord? Just a bit more colour of what's going on, on Crane aftermarket if we can.

John Shipsey: I'll take that So yes, you're right, both of those factors were involved. I think what's important, what we're seeing a) is that aftermarket, is a standard cycle and John Crane's now 68% of revenue is aftermarket. And we are seeing sequentially order recovery. So, it is normal for us to see, double digit decline in orders initially and then we're seeing that now moving through. And we expect that to move through to positive territory and particularly, as Andy said, that will be Q4 and FY22. But we see it as a normal 6-9 months maybe nine months of a lag. But the aftermarket will come back, and we're very well positioned, given we've invested very consistently in our network and in our customer service and in our technology. And we think we're very well positioned to take advantage of that as the pent-up demand returns.

Robert Davis: Thank you. And then my final question was just the bigger picture question really. Just sort of looking back over the last five or six years, the top line growth at Group level has still been sort of relatively flattish despite a lot of the portfolio changes. I guess you sort of mentioned you were sort of quite far down the road now in terms of potential disposals. I know you've sort of changed the relative weightings over the last few years and bolstering Detection and bolstering the Flex-Tek division. Do you feel from a sort of top-down level that you've got roughly the right weightings and contributions across all these four businesses? They're all still sort of core. Is there a certain division you'd like to, you know, bolster further? You mentioned sort of potentially now looking at M&A. I'd just be curious in terms of, you know, you obviously kind of targeted organic growth acceleration as a kind of key part of your strategy. I just wondered where do you have greatest confidence that growth is going to come from over the next few years?

Andy Reynolds Smith: Well, I think there's a good balance now, as you rightly say, across the portfolio as a whole in terms of positioning. Both from alignment with market trends but also the competitiveness and the level of investment in each of those businesses for R&D in particular. I think the nice thing is that right across the business we've got this broader alignment with our purpose-based approach on safety and efficiency. Whether that is emissions reduction, return to safe mobility. There's some really good longer-term trends that we've got some unique solutions for. We are going to continue to focus on organic as our priority but as I signalled, there is going to be an increasing stream of very disciplined bolt on M&A to complement it. We've got a really good pipeline of that and I think we've built a pretty good record now of doing it well. Not paying too much, integrating well as we've gone through the last few years. And it's really looking, as you can probably hear, increasingly confident. I mean, as you say about the sales line though, Smiths hasn't grown for years. When we started this journey in 2016 a number of you will remember, we stepped up the investment, we started repositioning the business, where only about half of which was well positioned. We went back into growth in 2018. We continued that trajectory in 2019 and, , first half of 2020 we were well set to improve further on the growth. We had a pretty good first half and then Covid hit. So, it's very easy to look back and say, if it wasn't for that, we'd have been in a different place, but we would have been in a different place in 2020 and now. Which is what gives me the confidence that the fundamental foundations of that good growth are sitting there waiting to happen now. Both as markets recover and we do more on these organic accelerators.

Robert Davis: Interesting. Thank you very much.

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Christian Hinderaker (Liberum): Yes, good morning everyone and thank you for the time. Two from me, please. Firstly, you talked about the major contract win at Heathrow in Detection. I'm just interested if perhaps you might elaborate on the Qatar contract and in particular the sort of new UV technology and any considerations or rather conversations that you've had around that given the Covid backdrop. And then my second question is on

Interconnect and the strength that you saw in the sort of semiconductor testing channel. We all know the semi cycle's been very strong, a lot of tailwinds in the past few quarters. Just interested to understand the linkage between underlying semi cycle demand and semiconductor customer spend as it relates to your order book and revenues. Thank you.

Andy Reynolds Smith: Okay. Well, I'll take two pieces of that. The first on the UV question. We set out to have what we call a range of Covid hardened or viral hardened products including the UV treatment on baggage trays. I don't know the precise number that are now out there and being sold and installed but it's in the hundreds now around the world. Which is really good news. I mean, the team have responded incredibly quickly there. And as far as Qatar, they set out to set itself up as a real regional hub and in doing that have a gold standard reputation for safety and security, which of course, Smiths plays very well into because of our equipment capability which is, the CEO would say this but it's the best in the world, frankly. So, really pleased about that Qatar win as such an important global hub.

I mean, as far as semiconductor, it's pretty well written at the moment. There's definitely a supply/demand challenge at the moment which particularly seems to be occurring for various reasons around the world, political, economic, and otherwise. But Smiths Interconnect is primarily focused in high-end chips, particularly around graphics chips. So there's a really high demand right now. So Invidia being a big customer. Probably if you tried to buy a graphics card recently you realised quite how high the demand is. A lot of that is going into crypto mining at the moment which is written about quite a lot. And essentially, we provide what's called a test carrier. And so you install the test carrier and then these chips go into it for final test so they're in and out, robotically placed in and out. But then we've got a nice consumables stream as the pins are replaced in the test carrier over time. So we sell a unit and then they've got an ongoing stream of repair, let's call it, or refurbishment until it gets replaced again.

Christian Hinderaker: Thank you. Can I just ask maybe a follow-up just on the Detection piece and urban detection? Are there any sort of regional just in the regional mix of that business given the Covid backdrop?

Andy Reynolds Smith: Not sure I understood the question. So the regional split of the Detection aviation business or the Detection business overall? Or…? Maybe I misunderstood the question.

John Shipsey: I think it was is there a regional split of urban security market? Are there any major regional differences? I wouldn't so much say that there is a significant regional difference in urban security. There are parts of the world moving in and out of lockdown I guess at different rates that you would be aware of. But within urban security it's quite a diversified market, not just geographically actually I would say but there are particular sub-markets that we seek to address within urban security. And I'd say that's probably the greater diversity.

Andy Reynolds Smith: Okay, thank you for those questions.

Question (Citigroup): Hi, good morning, hi Andy. I just wanted to [inaudible] particularly the oil and gas side of things just from a regional breakdown what sort of trends you are seeing by sort of country or by geography.

Andy Reynolds Smith: Well, the biggest trend right now is investment being made in refining capacity in Asia and the Middle East to supply Asia. And that's really related to a rebalancing of global supply and demand for oil barrels that get burnt. Because an awful lot get shipped to Asia at the moment rather than being refined locally. So that's probably the megatrend that's at play. Sort of the short-term trend that's at play is, parts of Asia are back to record levels of activity right now. Some spikes happening here and there but China is running very, very hard at the moment versus some of the continuing impact that we're seeing elsewhere. But overall that demand level I think has confounded quite a few people being back to within five million barrels a day of the peaks pre-Covid. So megatrend move to Asia. Probably the next ten or 15 years of investments will be largely in Asia for refining capacity with some variation around that. So maybe 80/20. Asia and Middle East, I should say, with Middle East being a supply route to Asia.

Question: Okay.

Andy Reynolds Smith: Well thank you very much everyone for taking the time to listen in. And also the really good questions, much appreciated. Very much appreciate your continued focus and learnings on the Smiths story. As you can hear, we're increasingly confident that we're headed in one direction and that's a good direction right now. So looking forward to getting to talk personally to some people before too long, I hope. And thanks again for joining. Take care.

[END OF TRANSCRIPT]