

smiths

[www.smiths.com](http://www.smiths.com)



# SMITHS GROUP PLC INTERIM RESULTS 2021

26 MARCH 2021

# DISCLAIMER

---

This presentation contains certain statements that are forward-looking statements. They appear in a number of places throughout this presentation and include statements regarding the intentions, beliefs and/or current expectations of Smiths Group plc (the “Company”) and its subsidiaries (together, the “Group”) and those of their respective officers, directors and employees concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this presentation should be construed as a profit forecast. The Company and its directors accept no liability to third parties. This presentation contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law.

# Introduction

## Andy Reynolds Smith

> Chief Executive



# Interim Results 2021



**Opening remarks**

Andy Reynolds Smith



**Results overview**

John Shipsey



**Strategy & outlook**

Andy Reynolds Smith

## Demonstrating Group strength

> Robust performance despite disruption, improving H2 trends

> Strategic, operational and financial strength

> Well positioned to accelerate sustainable growth

Purpose-driven: making a safer, cleaner and more efficient world

# Results overview

**John Shipsey**

➤ Chief Financial Officer



# A good start to the year

> Resilient top line

> Good profit conversion

> Excellent cash generation

1 Headline excludes non operating items as defined in note 3 of the condensed financial statements

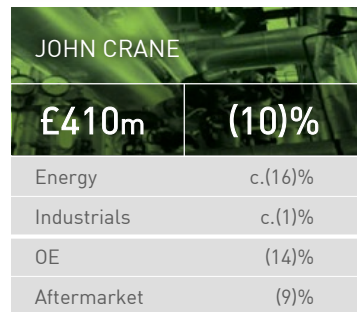
2 Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations - businesses held for distribution', given the intended separation of Smiths Medical. Discontinued operations are defined in note 17 of the condensed financial statements

3 Underlying modifies headline performance to: adjust prior year to exclude the effects of foreign exchange, acquisitions, restructuring costs; and include depreciation and amortisation of discontinued operations for comparability purposes

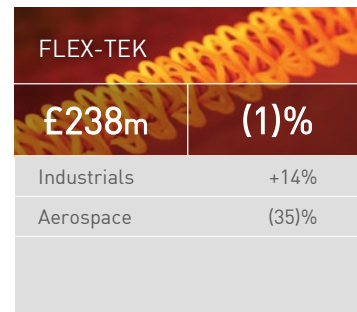
	H1 2021 <sup>1</sup>	H1 2020	Reported change	Underlying change <sup>3</sup>
<b>Smiths - Continuing Operations<sup>2</sup></b>				
Revenue	1,150	1,240	(7)%	(5)%
Operating profit	166	186	(11)%	(6)%
Operating profit margin	14.4%	15.0%	(60)bps	(20)bps
<b>Smiths Medical – Discontinued Operations<sup>2</sup></b>				
Profit after tax	67	70	(4)%	Operating profit +2%
<b>Total Group</b>				
Profit for the year	171	187	(9)%	(3)%
Total basic EPS	42.9p	46.9p	(9)%	(3)%
Free cash-flow	188	110	71%	
Cash conversion	129%	98%		
Dividend	11.7p	11.0p	+6%	

# Leading market positions and technology underpin a resilient top line

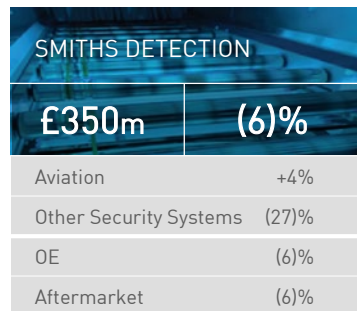
## Continuing Group<sup>1</sup> revenue (5)%<sup>2</sup>



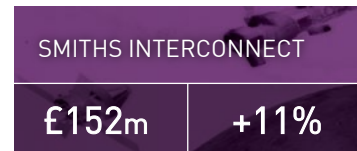
- Robust performance despite challenging market conditions
- Good growth in chemical processing
- Leading technology, customer service and network supporting positive order intake



- Further strong growth in Industrials particularly construction
- Offsetting almost all the downturn in commercial aerospace
- High performance, energy efficient products supporting increased demand



- Strong Aviation segment performance led by order book deliveries
- COVID-19 impact on Other Security Systems
- Further contract wins to support a safer post COVID-19 world



- Very strong return to growth
- High demand in semiconductor test, space and defence
- Significant orders for space exploration and satellite applications

<sup>1</sup> Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for distribution', given the intended separation of Smiths Medical.

<sup>2</sup> Underlying modifies headline performance to: exclude the effects of foreign exchange, acquisitions, restructuring costs; and include depreciation and amortisation of discontinued operations for comparability purposes

# Good profit conversion<sup>1</sup>

## Continuing Group operating margin 14.6% down only (20)bps



JOHN CRANE

19.8%

£81m

Underlying  
operating margin

Underlying  
operating profit

> Through-cycle margin resilience

> Operating profit reflecting the lower volumes and adverse mix



FLEX-TEK

18.5%

£44m

Underlying  
operating margin

Underlying  
operating profit

> Continued margin strength

> Strong cost controls offsetting lower volumes



SMITHS DETECTION

12.7%

£44m

Underlying  
operating margin

Underlying  
operating profit

> High OE mix at lower OE pricing

> Mitigated impact on profit



SMITHS INTERCONNECT

12.1%

£18m

Underlying  
operating margin

Underlying  
operating profit

> Significantly strengthened margin

> Strong volumes and further efficiencies

<sup>1</sup> 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 17 of the condensed financial statements. Underlying modifies headline performance to: exclude the effects of foreign exchange, acquisitions, restructuring costs; and includes depreciation and amortisation of discontinued operations for comparability purposes

# Smiths Medical<sup>1</sup> – continuing to strengthen ahead of separation

## > Revenue

**£427m** *+0.2%*

- Good growth in Infusion Systems and Vital Care
- Vascular Access impacted by fewer elective procedures

## > Operating profit & margin

**£89m** *+2%*

**20.9%**

Reported operating margin

- Further profit growth driven by increased efficiency and effectiveness
- Underlying margin +30bps

<sup>1</sup> 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 include depreciation and amortisation of discontinued operations for comparability purposes

## Strategic restructuring programme is on track (Total Group)



Better-positioned for long-term growth and consistent outperformance



Benefits running ahead of costs in H1, expected to be neutral for the FY



Full £70m annualised benefits expected from FY2022 onwards

Total Group	P&L charge	Cashflow
FY2020 H2	(35)	(12)
FY2021 H1	(4)	(10)
	(39)	(22)
Total programme anticipated cost	£(60)-(65)m	

Goal to deliver operating margins of 18-20%

## Excellent operating and free cash-flow (Total Group)

	HY2021	HY2020	
EBITDA <sup>1</sup>	295	323	Continuing operations £206m, Smiths Medical £89m
Capex	(55)	(55)	
Change in working capital	47	(29)	
Other	14	13	
<b>Operating cash-flow<sup>1</sup></b>	<b>301</b>	<b>252</b>	<b>129% cash conversion<sup>2</sup></b>
Interest <sup>1</sup>	(10)	(16)	
Taxation <sup>1</sup>	(55)	(60)	
Pension	(19)	(16)	
Other investment and non-headline	(29)	(50)	
<b>Free cash-flow</b>	<b>188</b>	<b>110</b>	Added as a metric for LTIP

<sup>1</sup> Headline excludes non operating items as defined in note 3 of the condensed financial statements

<sup>2</sup> Refer to note 15 of the condensed financial statements for calculation of cash conversion

## Further significant progress on pensions

- > Strong funding position of two main plans
- > Recent triennial valuation of TI plan finalised with positive results
- > Pension contributions now expected to be down £(4)m in FY21 and £(12)m in FY2022

Ahead of schedule on making both UK plans self sufficient

## FY2021 outlook

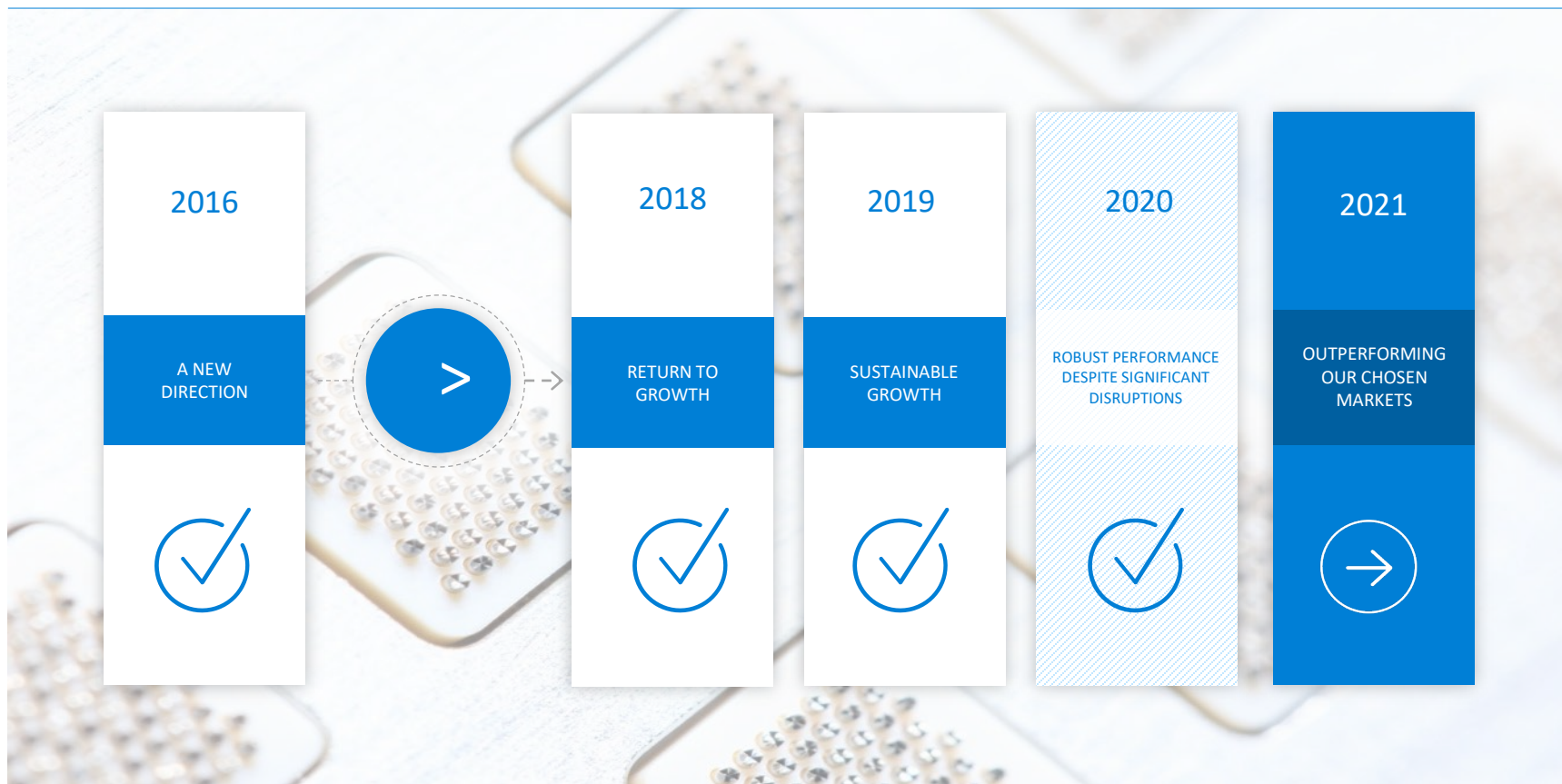
- > Improving H2 backdrop
- > Restructuring benefits supporting further good profit conversion
- > Continued strong cash conversion
- > Confident of meeting market expectations for FY2021

## Andy Reynolds Smith

> Chief Executive



# Delivering on our strategy



# United by common purpose and characteristics



Innovation for a sustainable future - making a safer, cleaner and more efficient world

# Our businesses are leaders in their markets

## Competitive strengths



### JOHN CRANE

Increased efficiency,  
emission reductions  
and energy  
transformation

- A global leader in energy and industrial processing markets
- Proprietary technology and expertise
- Broad installed base, strong aftermarket service and customer relationships



### FLEX-TEK

Safe and efficient  
movement of fluids and  
gases

- Leading capability in design and manufacture
- High performance and innovative products
- Strong customer relationships



### SMITHS DETECTION

Safety, security and freedom  
of movement

- Global leader in detection and screening technologies
- Differentiated, proprietary technology and significant R&D capability
- Operating in regulated markets with strong customer relationships



### SMITHS INTERCONNECT

High speed,  
secure connectivity

- Innovative, technically differentiated products
- High reliability solutions in demanding applications
- Customer intimacy and product customisation

Well positioned in markets with attractive long-term growth drivers

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

## Smiths Excellence System: delivering better, faster and more cost effectively

### > INNOVATION & TECHNOLOGY



- Group-wide innovation framework
- Global centres of technology excellence
- Targeted investment in innovative growth – R&D up 34%
- Augmented by disciplined M&A

“We innovate to provide sustainable solutions for our customers supporting their ESG objectives”

### > EXCELLENCE



- Smiths Excellence System driving improved competitiveness and flexibility
- Shared support functions
- Centre-light – central costs down 33%
- One Group approach to high growth regions

“Ensures operational excellence including meeting our targets to decarbonize operations on our net zero journey”

### > PEOPLE & CULTURE

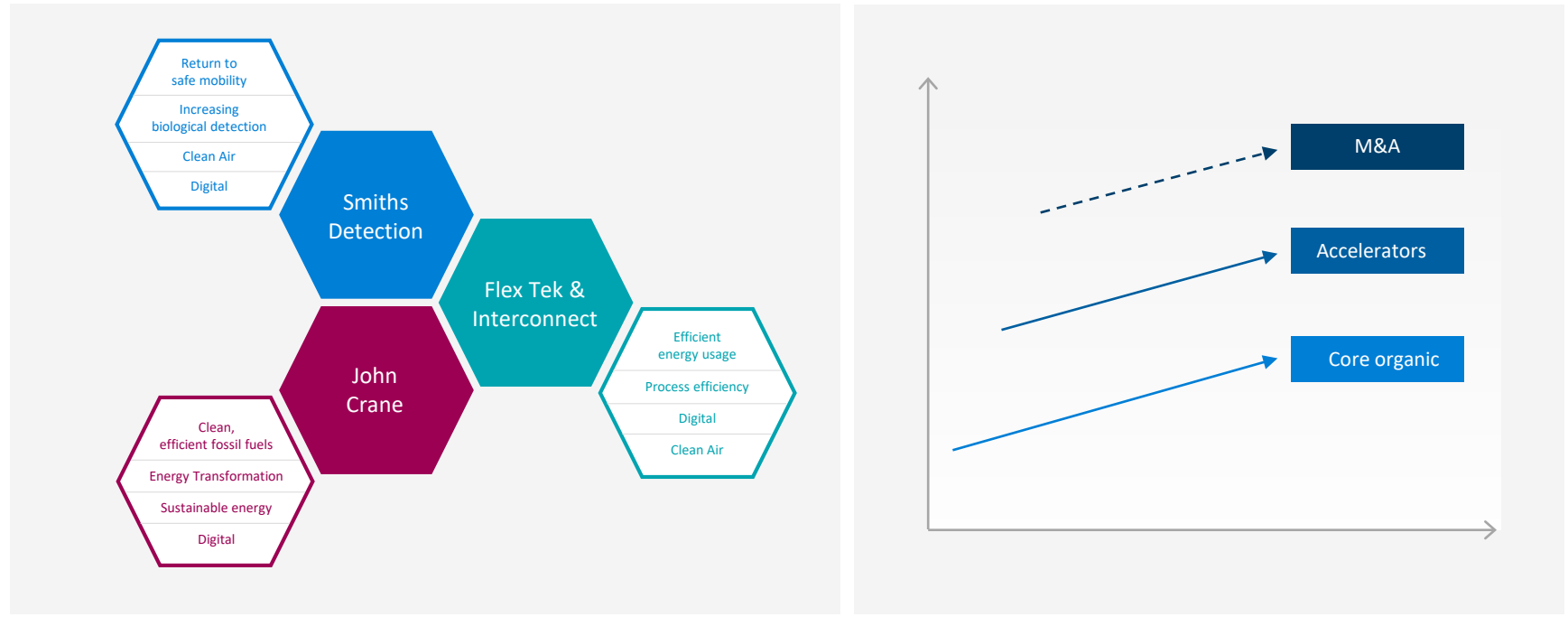


- Attract, retain, engage, develop and inspire the very best
- Enabling cross business collaboration
- Sharing and growing talent

“The best talent and skills united by our shared purpose and our Smiths Way Values including our commitment to ESG”

Underpinned by a strong financial framework

# Our businesses are aligned to long-term trends



...making a safer, cleaner and more efficient world

# Group-led approach to accelerating global trends and themes



# Disciplined M&A

Organic growth  
complemented  
by disciplined M&A

**11** DISPOSALS  
c.£540m proceeds



**12** ACQUISITIONS  
for c.£1bn



**23** TRANSACTIONS  
total value c.£1.5bn (FY16-FY21)



> **New acquisition Royal Metal - \$107m, February 2021**

- Further strengthens Flex-Tek's air distribution offering
- Accelerates growth in the HVAC market
- Supporting improved energy efficiency and indoor air quality




> **Case study Reflex Photonics – CAD\$40m, October 2019**

- Expanded Interconnect's offer in ruggedised fibre optics
- Strengthened position with key accounts in space and defence markets
- Enhancing growth and margins

# Committed to separation of Smiths Medical by end of FY2021

---



> Uninterrupted focus on accelerating growth

> Underlying improvement plans progressing well

> Finalising separation workstreams: governance, tax, debt structure, pensions

Continued focus on maximising value for stakeholders

## A strong position to maximise growth opportunities

> Well positioned as markets recover

> At the forefront of market growth trends

> Augmented by disciplined M&A

Delivering long-term sustainable value

smiths

[www.smiths.com](http://www.smiths.com)

INNOVATION FOR A  
SUSTAINABLE FUTURE –  
MAKING A SAFER, CLEANER  
AND MORE EFFICIENT  
WORLD

smiths

[www.smiths.com](http://www.smiths.com)

A Mars rover is shown on a reddish-orange planet surface. The rover is a six-wheeled vehicle with various instruments and cameras. The background shows a hazy, orange sky and distant hills. The text "QUESTIONS & ANSWERS" is overlaid in the center in a bold, white, sans-serif font. There are two white L-shaped corner brackets, one on the left and one on the right, framing the central text.

# QUESTIONS & ANSWERS

smiths

[www.smiths.com](http://www.smiths.com)

# APPENDIX

# Supporting our customers' ESG agendas and making strong progress ourselves

## External recognitions supporting strong ESG fundamentals

External recognitions		Score
Mar 2021		Governance 2 Environment 2 Social 2
2019 data		<b>B</b> Above average
Nov 2020		<b>36</b> 68 <sup>th</sup> percentile
Nov 2019		<b>AA</b> Leader in the sector
June 2020		Constituent

Environmental	Social	Governance
<b>FY2021 H1 vs. FY2007 reductions</b> <ul style="list-style-type: none"> <li>Greenhouse Gas (GHG): (47)%</li> <li>Energy: (22)%</li> <li>Water: (45)%</li> <li>Current waste recycling rate: (66)%</li> </ul>	<b>Our People are our most important sources of sustainable competitive advantage:</b> <ul style="list-style-type: none"> <li>Safety first (FY21 H1):               <ul style="list-style-type: none"> <li>RIR 0.35 (FY2020: 0.30)</li> <li>LTIR 0.17 (FY2020: 0.14)</li> </ul> </li> <li>Engagement score 73 (May 2019:73) translating into tangible actions to make Smiths a better place to work</li> </ul>	<b>Average tenure on the Board c.4.3 years</b>
<b>Further commitment to reduce our impact on the environment:</b> <ul style="list-style-type: none"> <li>75% renewable electricity commitment by 2040</li> </ul>		<b>Diversity of the Board:</b> <ul style="list-style-type: none"> <li>Gender (33%)</li> <li>Ethnicity &amp; gender (42%)</li> <li>Geographies (67%)</li> </ul>
<b>Technology and innovation as a solution for our customers</b>	<b>Customers &amp; suppliers</b> <ul style="list-style-type: none"> <li>We adhere to our code of business ethics as well as provide regular anti-bribery and corruption training for our employees</li> </ul>	<b>Diverse expertise:</b> MedTech, engineering, automotive, financial services
		<b>Regular site visits</b> COVID-19 videos

# Income statement<sup>1</sup>

€M	HY 2021	HY 2020	Reported change
Revenue	1,150	1,240	(7)%
Headline <sup>2</sup> operating profit	166	186	(11)%
Amortisation of acquisition related intangible assets	(27)	(28)	
Legacy pension scheme arrangements	(6)	8	
Post acquisition integration costs and fair value adjustment unwind	(1)	(3)	
Acquisition and disposal related transaction costs and provision releases	(-)	(2)	
Non-headline litigation provision movements	11	(16)	
<b>Total non-headline items</b>	<b>(23)</b>	<b>(41)</b>	
Statutory operating profit	143	145	(1)%

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 17 of the condensed financial statements

2 Headline excludes non operating items as defined in note 3 of the condensed financial statements

# Reported to underlying bridge – Continuing Operations<sup>1</sup>

	H1 2020 Reported	Foreign exchange	H1 2020 Underlying <sup>2</sup>	Underlying <sup>2</sup>	H1 2021 Underlying <sup>2</sup>	Restructuring costs <sup>3</sup>	Acquisitions and Disposals	H1 2021 Reported
<b>Smiths - Continuing Operations<sup>1</sup></b>								
John Crane	474	(16)	458	(48)	410			410
Detection	378	(6)	372	(23)	349		1	350
Flex-Tek	248	(8)	240	(2)	238			238
Interconnect	140	(4)	136	16	152			152
<b>Headline Revenue</b>	<b>1,240</b>	<b>(34)</b>	<b>1,206</b>	<b>(57)</b>	<b>1,149</b>	<b>-</b>	<b>1</b>	<b>1,150</b>
<b>Operating Profit</b>								
John Crane	101	(4)	97	(16)	81	(0)		81
Detection	57	(1)	56	(12)	44	(0)	(0)	44
Flex-Tek	46	(2)	44	0	44	-		44
Interconnect	9	(0)	9	9	18	(1)		17
Central costs	(27)	0	(27)	7	(20)	-		(20)
<b>Headline Operating Profit</b>	<b>186</b>	<b>(7)</b>	<b>179</b>	<b>(12)</b>	<b>167</b>	<b>(1)</b>	<b>(0)</b>	<b>166</b>
<b>Operating Margin</b>								
John Crane	21.3%		21.1%		19.8%			19.8%
Detection	15.0%		15.1%		12.7%			12.6%
Flex-Tek	18.4%		18.3%		18.5%			18.5%
Interconnect	6.5%		6.5%		12.1%			11.2%
<b>Headline Operating Margin</b>	<b>15.0%</b>		<b>14.8%</b>		<b>14.6%</b>			<b>14.4%</b>

<sup>1</sup> 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 17 of the condensed financial statements

<sup>2</sup> Underlying modifies headline performance to: adjust prior year to exclude the effects of foreign exchange, acquisitions, restructuring costs; and include of depreciation and amortisation of discontinued operations for comparability purposes

<sup>3</sup> Restructuring costs as defined in note 2 of the condensed financial statements

# Reported to underlying bridge – Discontinued Operations<sup>1</sup>

	H1 2020 Reported	Depreciation and Amortisation <sup>2</sup>	H1 2020 Pro-forma <sup>1</sup>	Foreign exchange	H1 2020 Underlying <sup>3</sup>	Underlying <sup>2</sup>	H1 2021 Underlying <sup>3</sup>	Restructuring costs <sup>4</sup>	H1 2021 Pro-forma <sup>1</sup>	Depreciation and Amortisation <sup>2</sup>	H1 2021 Reported
<b>Smiths Medical – Discontinued Operations<sup>1</sup></b>											
Headline Revenue	434	-	434	(8)	426	1	427	-	427	-	427
Headline Operating Profit	94	(23)	71	(2)	69	2	71	(3)	68	21	89
Headline Operating Margin	21.7%		16.4%		16.3%		16.6%		15.9%		20.9%

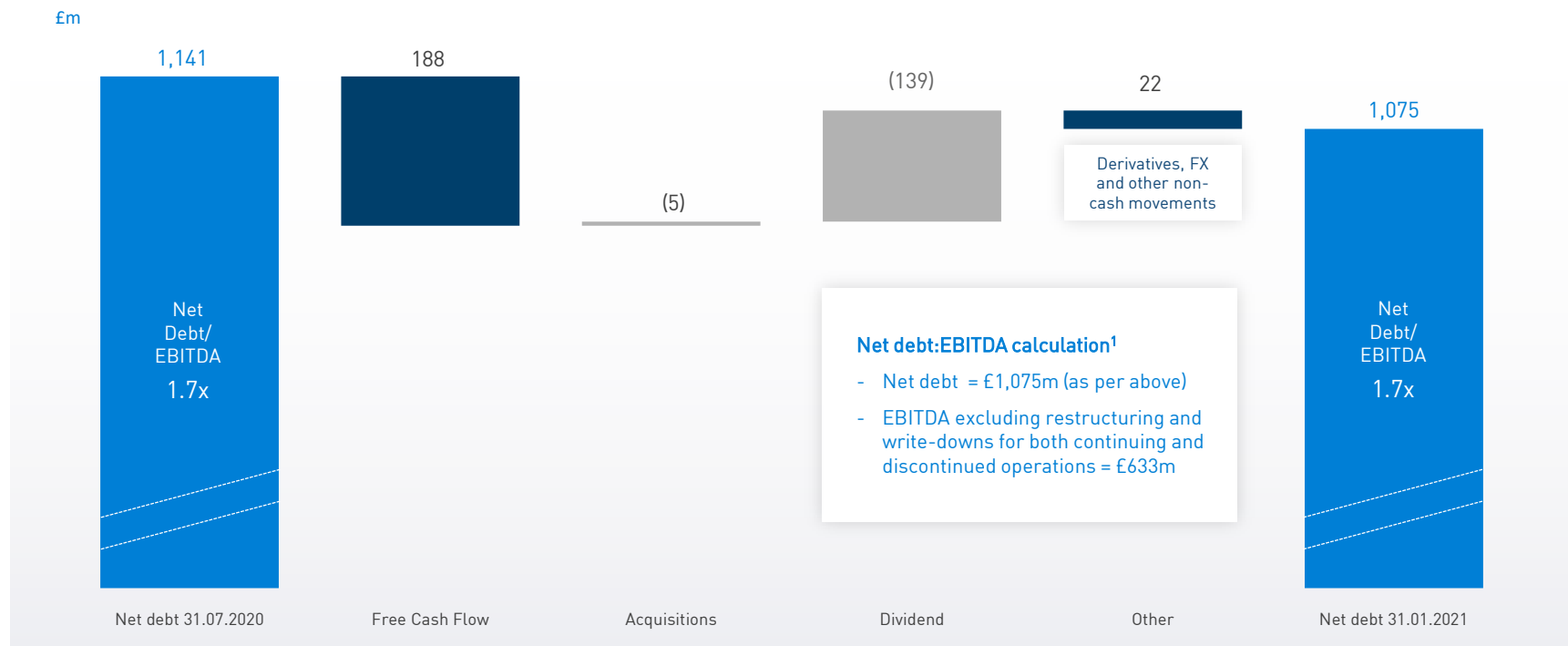
<sup>1</sup> Smiths Medical is accounted for as 'discontinued operations – businesses held for distribution', given the intended separation of Smiths Medical. Discontinued operations are defined in note 17 of the condensed financial statements

<sup>2</sup> Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical from the point of reclassification as discontinued operations.

<sup>3</sup> Underlying modifies headline performance to: adjust prior year to exclude the effects of foreign exchange, acquisitions, restructuring costs; and include of depreciation and amortisation of discontinued operations for comparability purposes

<sup>4</sup> Restructuring costs as defined in note 2 of the condensed financial statements

# Total Group - balance sheet



<sup>1</sup> For further details please refer to note 19 of the condensed financial statements

## FX sensitivity

Currency	H1 2021 average rate	H1 2020 average rate	% change
USD	1.32	1.27	3.9%
EUR	1.11	1.15	(3.5)%

Translation impact	H1 2021
Revenue	£(34)m or (2.7)%
Operating profit	£(7)m or (3.7)%

- For each \$0.10 move, the annual operating profit impact is c.£17m

- For each €0.10 move, the annual operating profit impact is c.£7m

- At current rates, headwind on operating profit of c.£(17)m or (5)%

# Incentive performance measures and linkage to business strategy



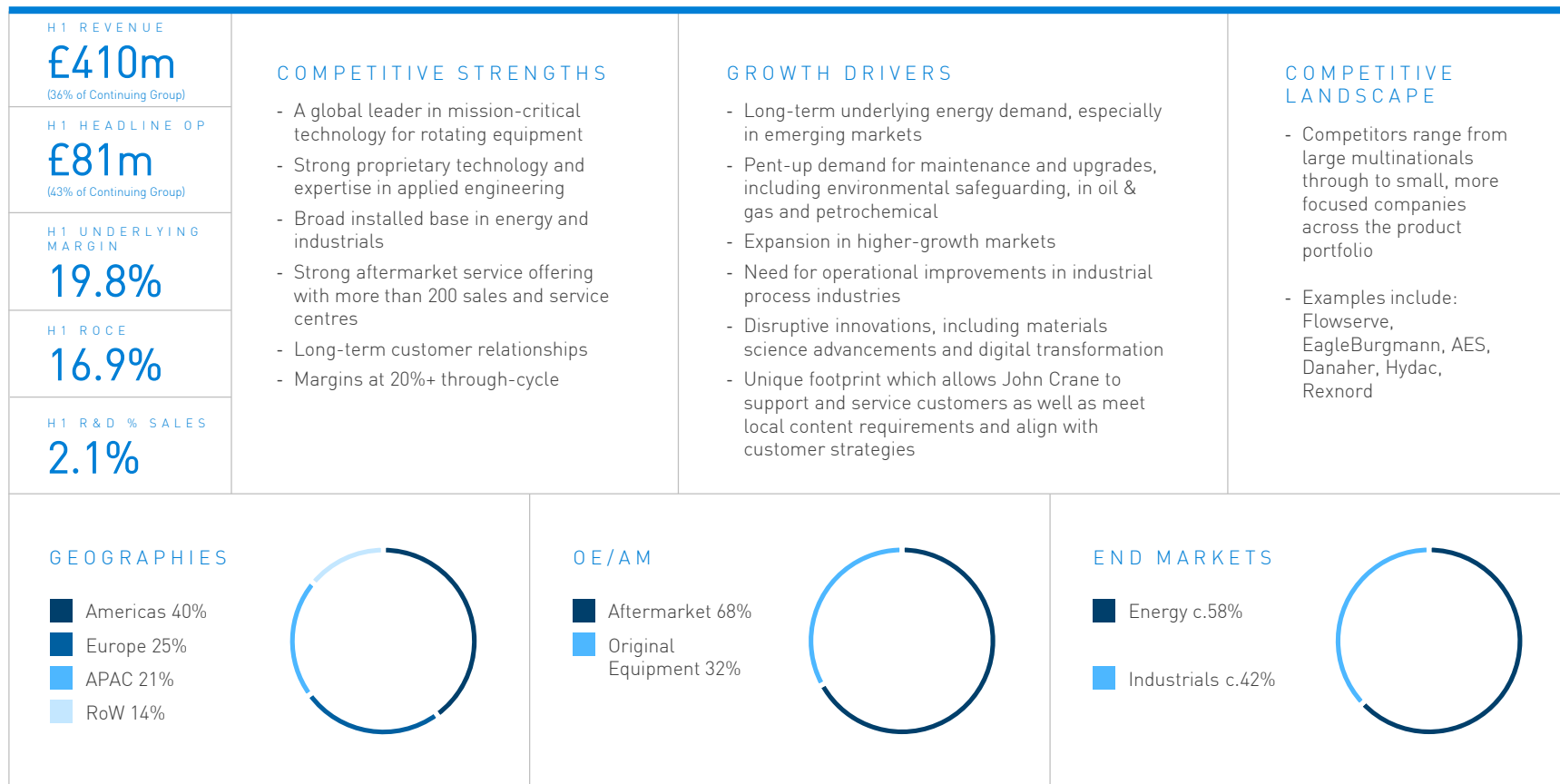
## Annual Bonus (FY2021)

Operating profit (40%)	1	2	3
Revenue (25%)	1		3
Operating cash conversion (25%)		2	3
Personal objectives (10%)	1	2	3

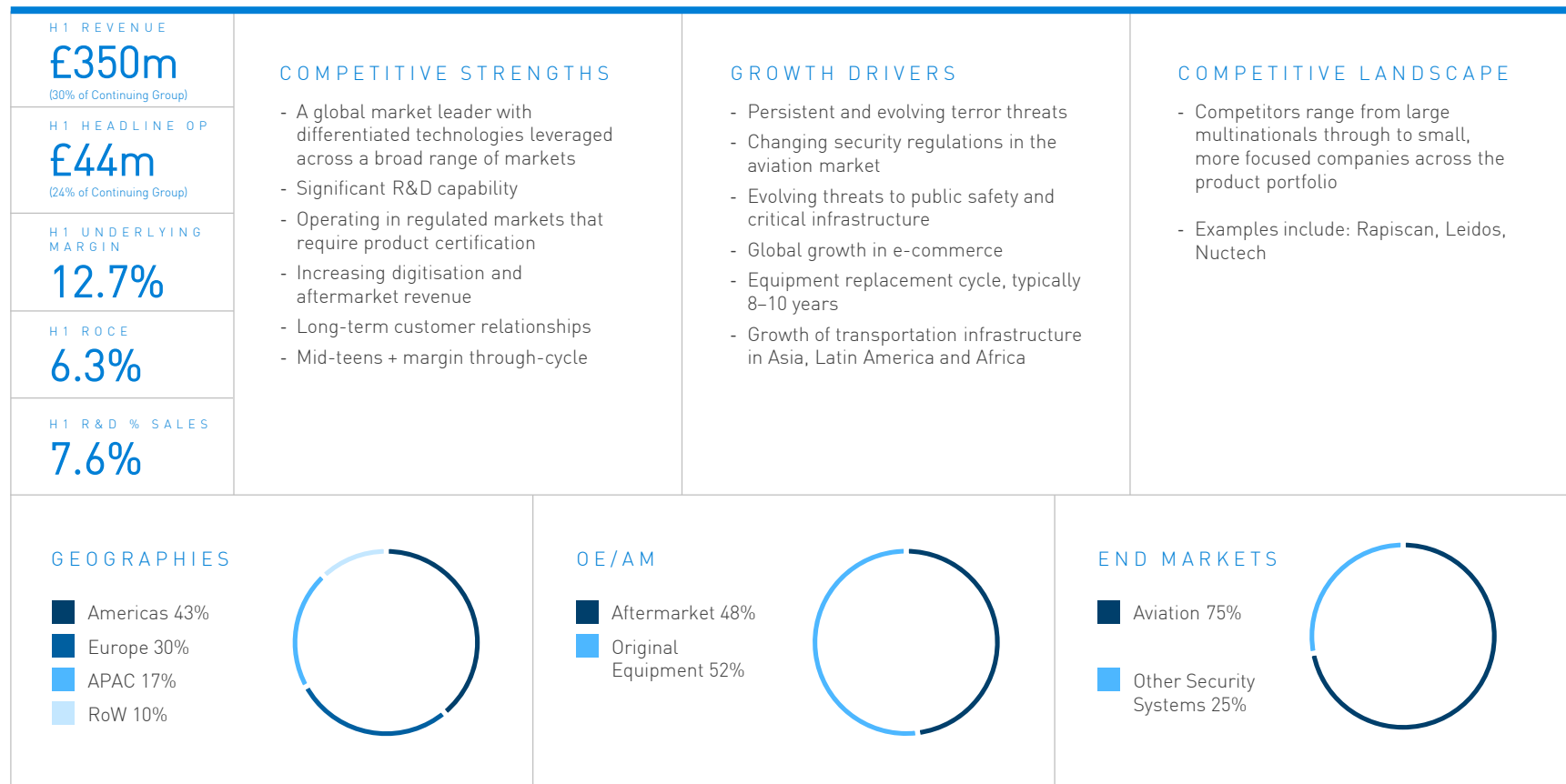
## Long term incentives (FY2021 awards)

EPS growth after tax (25%)	1	2	3
Organic revenue growth (25%)	1		3
ROCE (25%)		2	3
Free cash flow (25%)		2	3

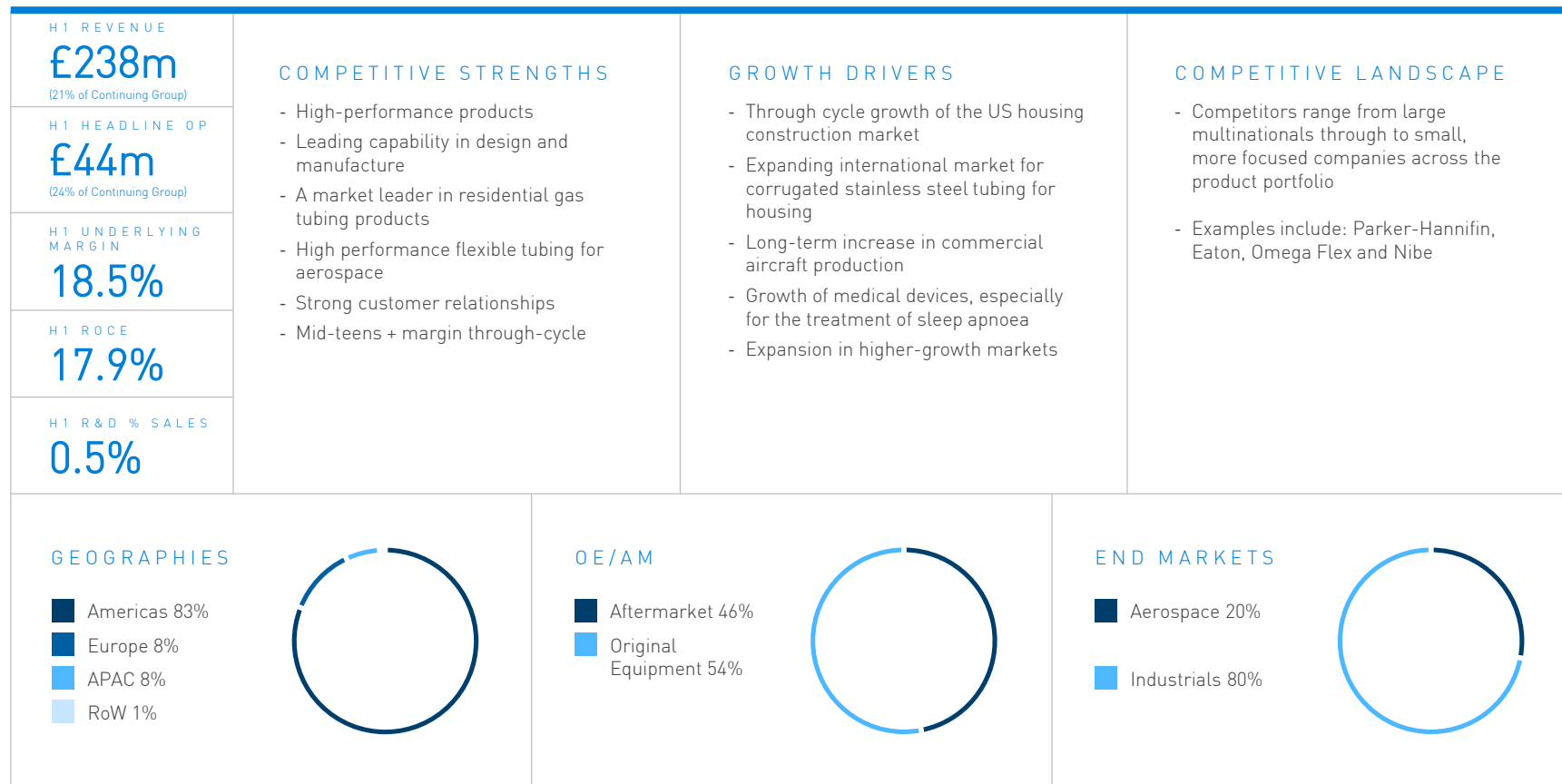
# John Crane – solutions for increased efficiency, emission reductions and energy transformation



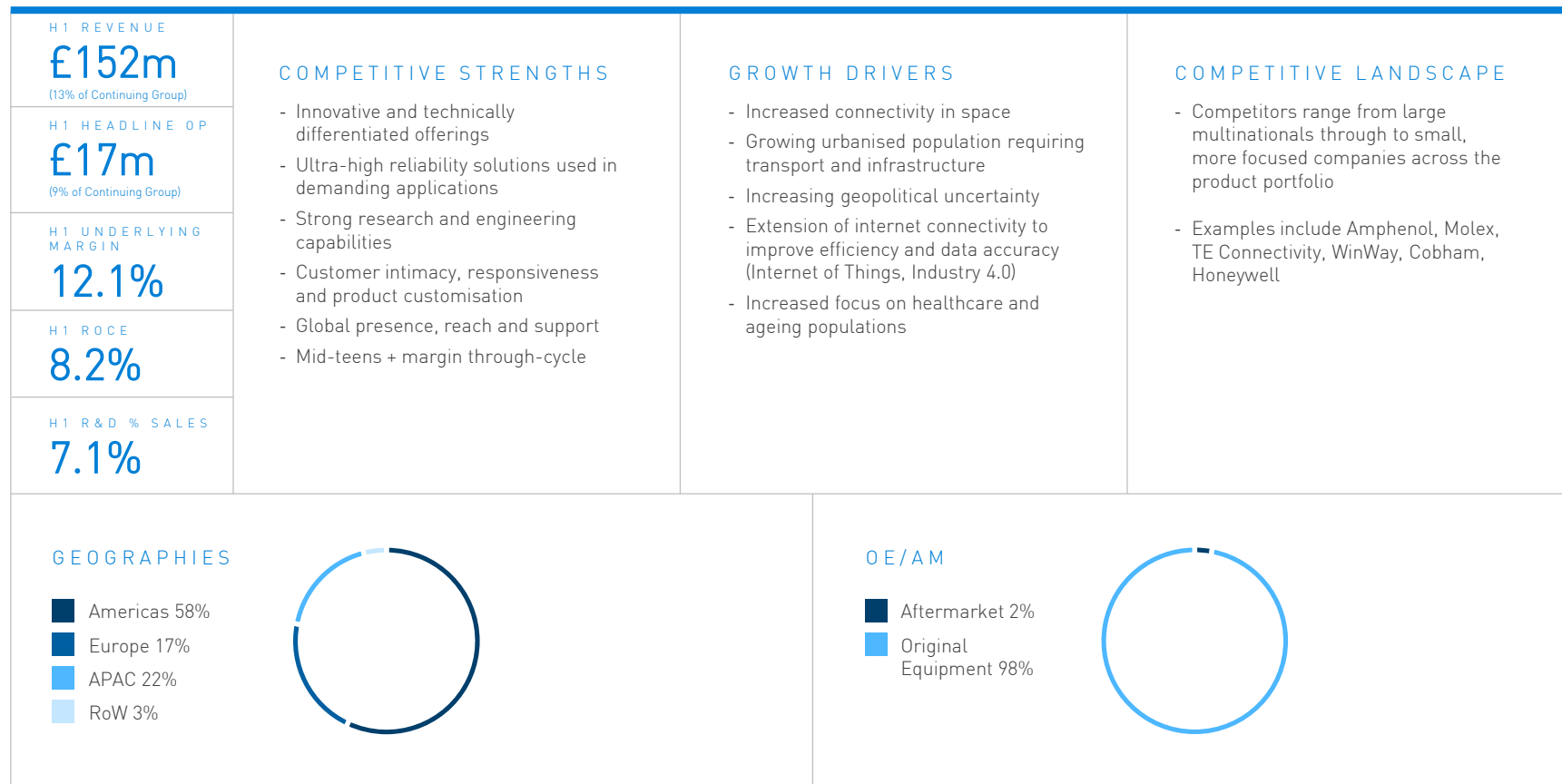
# Smiths Detection – supporting safety, security and freedom of movement



# Flex-Tek – solutions for the safe, efficient movement and heating of fluids and gases



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



## Smiths Medical – quality medical devices and consumables that are vital to patient care globally

