

# Smiths Group

**Presentation by:** Alan Thomson, Financial Director

**Speaking at:** the CSFB Aerospace & Defence Conference

London, Wednesday 29 September 2004



# Smiths Group: four divisions, all performing strongly

smiths

Contribution to FY 2004		sales	proportion of op. profit
<p><b>Smiths Aerospace</b> Systems and equipment for military and commercial aircraft</p>		<p>£1,006m Margin 10%</p>	<p>28%</p> 
<p><b>Smiths Detection</b> Equipment for protection against threats to security</p>		<p>£317 million Margin 18%</p>	<p>15%</p> 
<p><b>Smiths Medical</b> Devices for critical care and medication delivery</p>		<p>£487 million Margin 19%</p>	<p>26%</p> 
<p><b>Specialty Engineering</b> Application-specific electronic and engineered products</p>		<p>£868 million Margin 13%</p>	<p>31%</p> 

# Smiths Group: 2004 results

Continuing activities, before goodwill amortisation and exceptionals

£m	2004	increase on 2003 (at constant currency)
Sales	2,678	+7%
Operating profit	360	+2%
Pre-tax profit	350	+6%
Earnings per share	45.9p	cf 45.5p
Dividends per share	27.0p	+ 4%



The pace of growth accelerated in the second half of FY 2004

## Continuing to generate a healthy cash-flow

smiths

<b>£m</b>	<b>2004</b>	
Operating profit (incl. discontinued)	<b>362</b>	
Operating cash (after capex)	<b>329</b>	
Conversion of profit to cash	<b>91%</b>	well above 80% target
Free cash-flow (after interest, tax, exceptionals)	<b>255</b>	equivalent to EPS
Net M&A proceeds	<b>291</b>	acquisitions £215m, disposals £506m
Net debt (at 31 July 2004)	<b>(273)</b>	down from £(715)m

### Track record: Free cash-flow per share (before acquisitions, dividends)

2001	2002	2003	2004
37.1p	56.5p	48.4p	45.5p

Smiths has generated  
over £1 billion in  
free cash since 2001

## **1** Achieving better operational performance

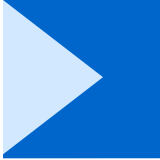
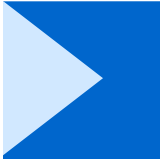
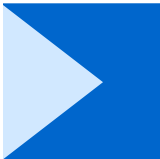
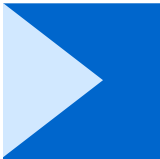
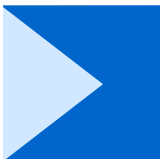

- In all four divisions
- Sales growth
- Efficiency gains
- Recent acquisitions

## **2** Adding valuable acquisitions to the existing businesses

- In all four divisions
- Demanding criteria
- Financial resources ready

Recent track record has demonstrated success in both areas

## Operational performance: The drivers of growth in 2005

Market recovery		<ul style="list-style-type: none"><li>• commercial aerospace</li><li>• telecom infrastructure</li></ul>
Volume increases		<ul style="list-style-type: none"><li>• high gross margins</li><li>• operational gearing effect</li></ul>
Benefit of recent acquisitions		<ul style="list-style-type: none"><li>• made late in 2004</li><li>• will give full year benefit in 2005</li><li>• strengthen all 4 divisions</li></ul>
Payback from higher R&D		<ul style="list-style-type: none"><li>• new products at higher margins</li><li>• has increased from 3% in 2001 to 5% in 2004</li></ul>
Restructuring efficiencies		<ul style="list-style-type: none"><li>• improve competitiveness and profitability</li><li>• offset the input cost increases</li></ul>
Financial factors		<ul style="list-style-type: none"><li>• exchange impact may lessen</li><li>• pensions financing is beneficial</li></ul>

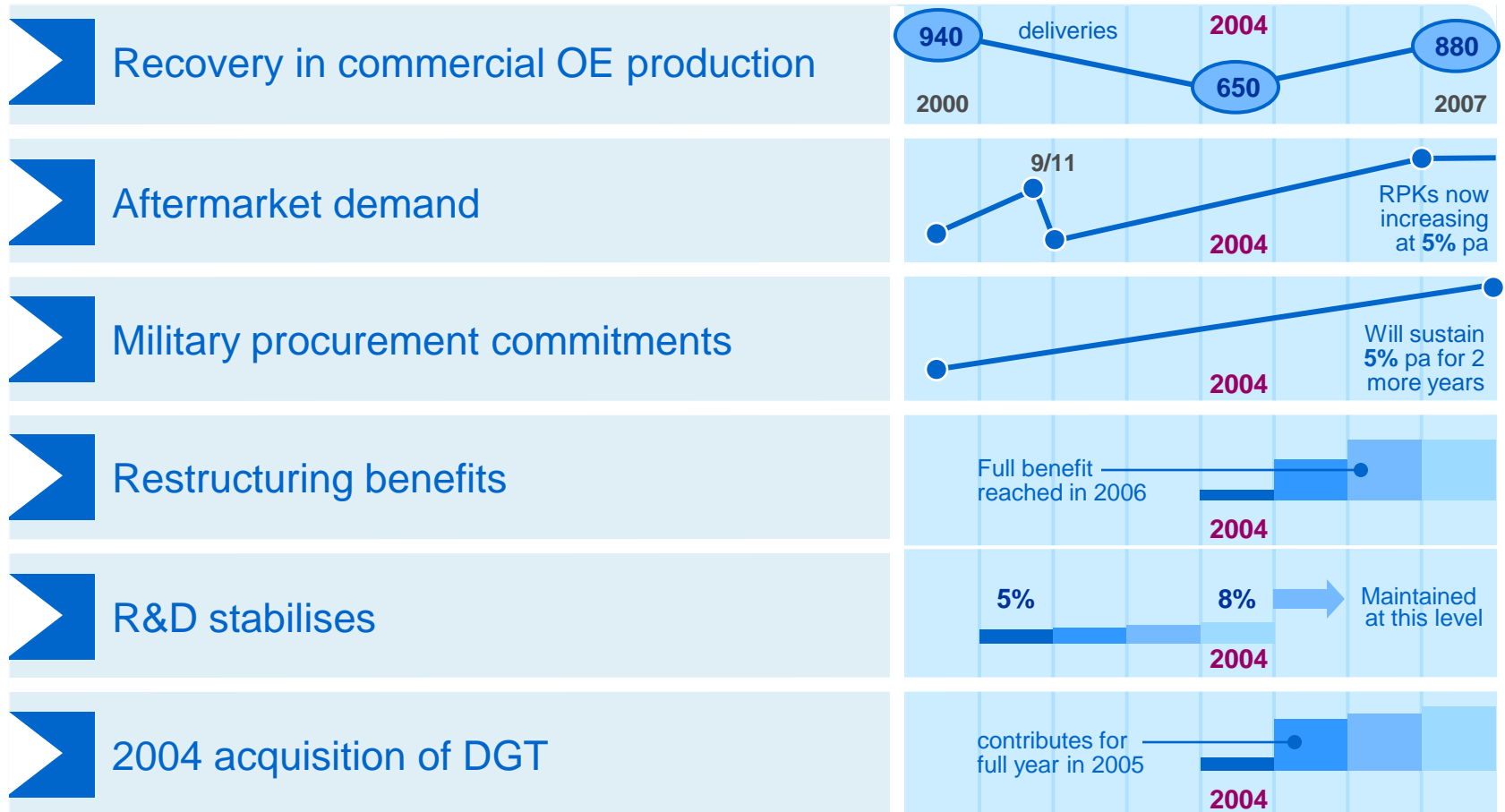
# Smiths Aerospace: Fundamental strengths

smiths

<p>➤ First tier supplier to aircraft primes</p>		<p><b>2004</b></p>
<p>➤ On all the important current programmes</p>		<p>Sales <b>£1,006m</b></p>
<p>➤ Balanced 60/40 military/commercial split</p>		<p>Increase at constant currency <b>+7%</b></p>
<p>➤ Strong commitment to R&amp;D/ technology leadership</p>		<p>Contribution to operating profit</p>
<p>➤ Major supplier to US Dept of Defense</p>		 <p><b>28%</b></p>
<p>➤ Recent major awards ensure long-term growth</p>		

**Smiths Aerospace: a leader in: avionics • actuation • engine components**

# Smiths Aerospace: The drivers of continued growth



**As volumes increase, the Aerospace margin improves**

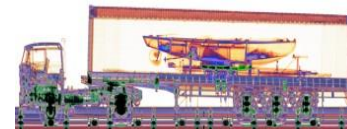
# Smiths Detection: Fundamental strengths

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➤ Market leadership in both Trace and X-ray detection



➤ Broadest range of applications



➤ Not dependent on airport security



➤ Significant investment in product innovation



➤ Worldwide sales base, incl. military customers

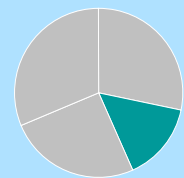


2004

Sales  
**£317m**

Increase at constant currency  
**+21%**



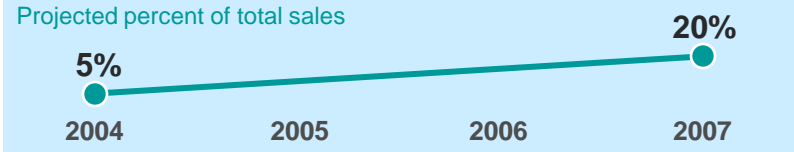
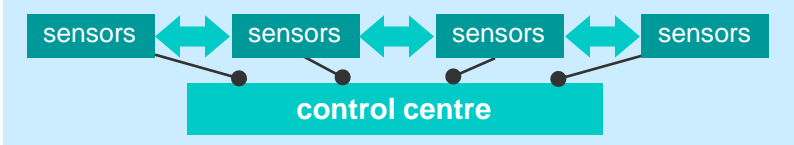
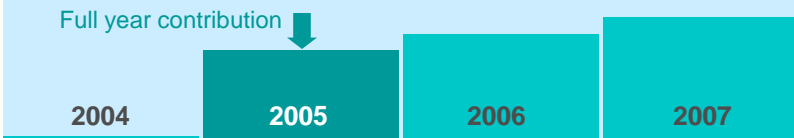
Contribution to operating profit



**15%**





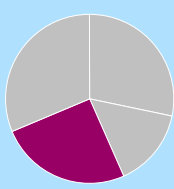

**Smiths Detection: built from strong organic growth and key acquisitions since 1997**

# Smiths Detection: The drivers of continued growth

<p>➤ Market is still expanding rapidly</p>	<ul style="list-style-type: none"> <li>• Military</li> <li>• Airports</li> <li>• Critical infrastructure</li> <li>• First responders</li> <li>• Ports and borders</li> </ul>										
<p>➤ New products are strengthening our competitive position</p>	<ul style="list-style-type: none"> <li>• BioSeq</li> <li>• Sentinel II</li> <li>• Centurion</li> </ul> 										
<p>➤ Over 40% of 2005 sales are already in the orderbook</p>	 <p>Orderbook at start of year</p>										
<p>➤ Service revenue opportunities are now occurring</p>	 <p>Projected percent of total sales</p> <table border="1"> <tr> <th>Year</th> <th>Projected percent of total sales</th> </tr> <tr> <td>2004</td> <td>5%</td> </tr> <tr> <td>2005</td> <td>-</td> </tr> <tr> <td>2006</td> <td>-</td> </tr> <tr> <td>2007</td> <td>20%</td> </tr> </table>	Year	Projected percent of total sales	2004	5%	2005	-	2006	-	2007	20%
Year	Projected percent of total sales										
2004	5%										
2005	-										
2006	-										
2007	20%										
<p>➤ Moving from stand-alone sensors to integrated systems</p>											
<p>➤ 2004 acquisitions of Cyrano and SensIR</p>	 <p>Full year contribution</p> <table border="1"> <tr> <th>Year</th> <th>Full year contribution</th> </tr> <tr> <td>2004</td> <td>-</td> </tr> <tr> <td>2005</td> <td>High</td> </tr> <tr> <td>2006</td> <td>Medium-High</td> </tr> <tr> <td>2007</td> <td>Medium</td> </tr> </table>	Year	Full year contribution	2004	-	2005	High	2006	Medium-High	2007	Medium
Year	Full year contribution										
2004	-										
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# Smiths Medical: Fundamental strengths

smiths

<p>➤ Strong market niches in specialised devices</p>		<p><b>2004</b></p>
<p>➤ Smiths is well-placed in the hospital <b>and</b> in the ex-hospital recovery sector</p>		<p>Sales <b>£487m</b></p>
<p>➤ Market grows steadily at 5-6% p.a</p>		<p>Increase at constant currency <b>+5%</b></p>
<p>➤ Recent product intros are adding to current growth</p>		<p>Contribution to operating profit</p>  <p><b>26%</b></p>
<p>➤ Nearly three-quarters of profits are generated in dynamic US market</p>	<p><b>Healthcare spend p.a</b> (£ per capita)</p>  <p>UK    Germany    Japan    <b>US £5K</b></p>	

**A leader in medical devices and equipment, in a dynamic world market**

# Smiths Medical: The drivers of continued growth

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➤ New Cozmonitor strengthens competitive position



➤ NeedlePro applications continue to be added



➤ Strong pipeline of other new products

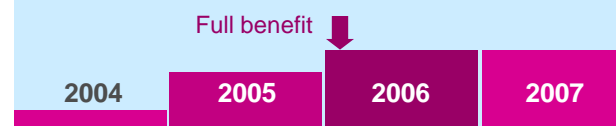
New product pipeline



➤ Manufacturing transfer to Mexico/ Far East delivers improved performance



➤ Restructuring to improve logistics starts to pay back



➤ 2004 acquisition of DHD makes full contribution in 2005



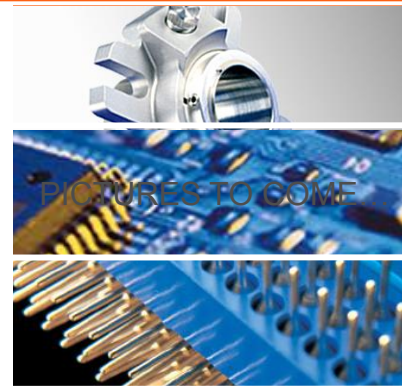
**Medical margins will be sustained as sales increase**

# Specialty Engineering

smiths

## Fundamental strengths

- Very strong market leadership in rotating mechanical seals
- Technology innovator in electronic circuit connection and protection
- High margin businesses, generating a strong cash-flow



2004

Sales  
**£868m**

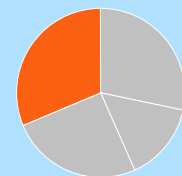
Increase at constant currency  
**+4%**

## The drivers of continued growth

- John Crane will grow in world markets (but Mid-East depends on stability)
- Interconnect is benefiting from telecom infrastructure investment
- 2004 acquisition of TRAK makes full contribution in 2005



Contribution to operating profit



**31%**

**Specialty Engineering delivers 100% of its profits in cash**

<b>Sales 2004</b>	<b>£2.7 billion</b>		<b>current outlook</b>
	(% of sales)		
Payroll costs	30%		Increases pegged to efficiency gains
Purchased materials	20%		Cost are rising: energy/metals/PVC
Fixed costs	10%		Less significance for Smiths
<b>Gross margin</b>	<b>40%</b>		
S&D	10%		Holding steady
G&A	11%		
R&D	5%		
<b>Net margin</b>	<b>13%</b>		Increased volume has positive effect
<b>Operating profit</b>	<b>£360m</b>		

**Material costs are a factor:**  
must be counteracted by volume, pricing and efficiency

## Recent track record

**Heimann:** Cost £236m in Dec 2002

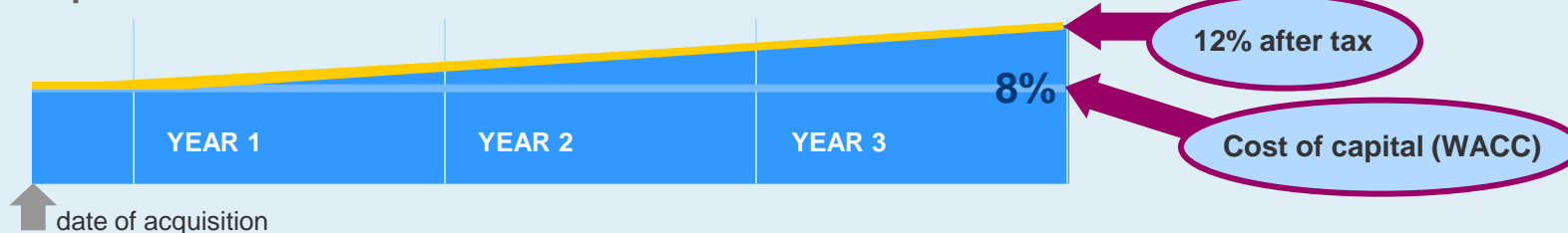
2004 after tax return  
**over 12%**  
 (in only 1.5 years)

**Six acquisitions in 2004:**  
 Cost £215m, March-July 2004

expected 2007 after tax return  
**12%**  
 (3 years after acquisition)

## Acquisition criteria

Expected rate of return



Abbott kits • Summitek • Able • Heimann • SMD • Cyrano • DGT • TRAK • Sensi

- **Performance improving with market recovery**
- **Recent acquisitions add to growth**
- **Ready for more, using strong balance sheet**
- **Investment criteria: minimum 12% after tax return on company's total invested capital**
- **Maintain the pace of profit growth established in H2, 2004**
- **Reflect positive performance in dividend policy**

**Smiths has regained the momentum for sustained earnings growth**

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# Smiths Group



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