

smiths

# Smiths Group

**Keith Butler-Wheelhouse**, Chief Executive



Speaking at the CSFB/Aviation Week Global Aerospace Conference  
New York, May 2002

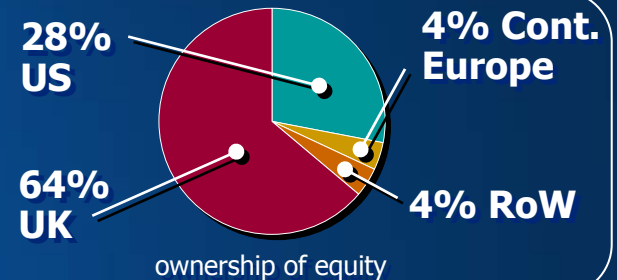
[www.smiths-group.com](http://www.smiths-group.com)

# Smiths Group

The fundamentals

**Smiths: the UK's leading specialist engineer**

**Market capitalization circa £4.6 billion  
circa No.56 in FTSE**



**A strong balance sheet with a healthy cash-flow**



**Operating profit**

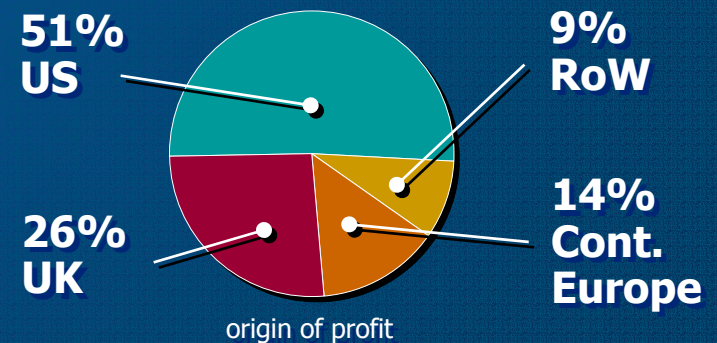
**80%**

**Operating cash (after capex)**

**Operating globally**

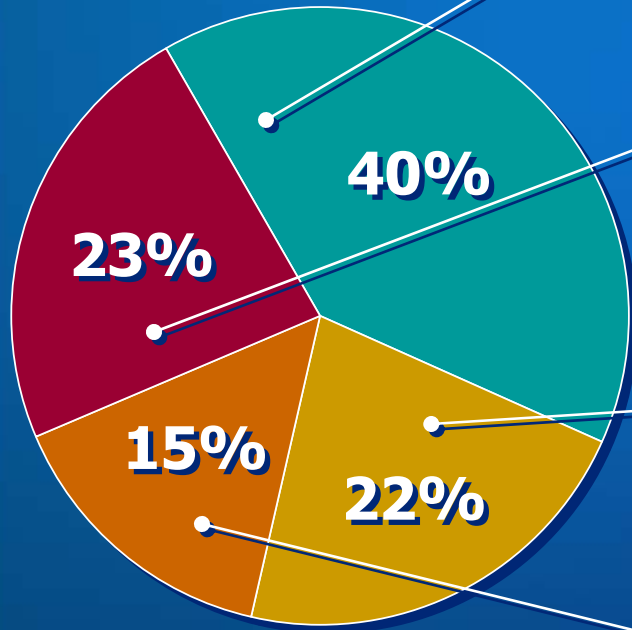
**Annual revenues:** approx £3.3 billion  
(continuing activities)

**2001 profit margin: 15%**



# Smiths

Specialized products in four sectors



(pie shows profit contribution by division for H1 2002)

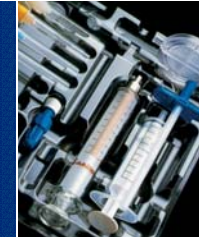
## Aerospace

Advanced avionic systems and aircraft equipment



## Medical

Devices for critical and intensive healthcare



## Seals

Mechanical and polymer seals



## Industrial

Electronic interconnect; air moving products



# Smiths

Performing strongly in tough economic conditions

**First half 2002  
(to 31 January 2002)**

**(6 months revenues before  
exceptionals and amortization)**

|                           |                    |                                  |
|---------------------------|--------------------|----------------------------------|
| <b>Sales</b>              | <b>£1.5billion</b> | (level)                          |
| <b>Operating profit</b>   | <b>£201m</b>       | (down 11%)                       |
| <b>Profit margin</b>      | <b>13%</b>         |                                  |
| <b>Operating cash</b>     | <b>£160m</b>       | (profit-to-cash conversion: 80%) |
| <b>Earnings per share</b> | <b>22.4p</b>       | (down 12%)                       |
| <b>Dividend</b>           | <b>8.75p</b>       | (maintained)                     |

**More confident about outlook for second half of 2002**

**Disposals program continues**



**Non-core disposals to date £270m+**

**Restructuring well underway**

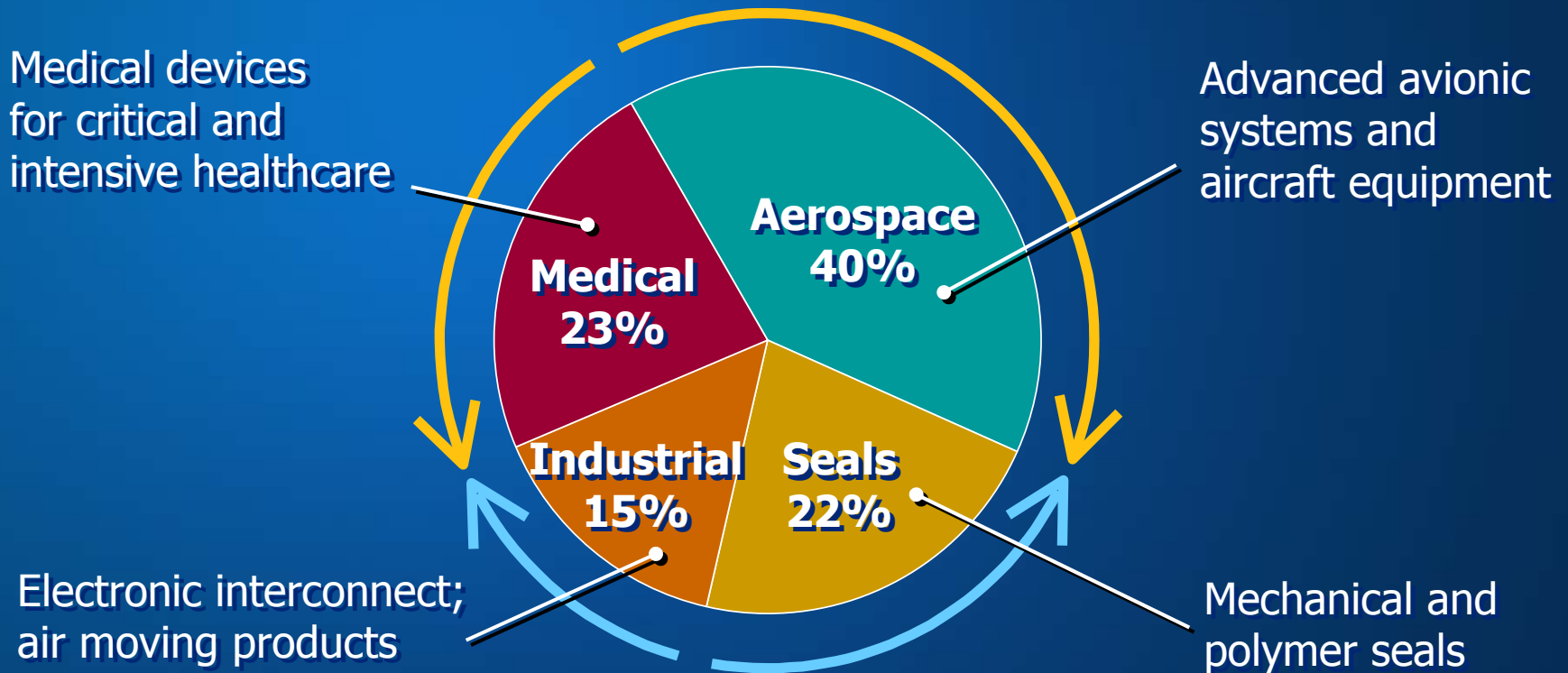


**10% workforce reduction this year**

# Smiths

Aerospace and Medical are increasing their contribution

**These two divisions have the greatest opportunities for growth in dynamic markets, and now contribute 63% of Smiths' profits**



**The remaining businesses achieve good margins and deliver 100% of their profits in cash**

# Sealing Solutions

22%

Profit contrib.



| £m (H1 2002)     | 2002 | 2001 | %change |
|------------------|------|------|---------|
| Turnover         | 410  | 462  | -11%    |
| Operating profit | 45   | 51   | -11%    |
| Margin           | 11%  | 11%  |         |

- Marine Seals disposal completed recently; already discontinued and not in these results
- Restructuring of remaining businesses continues, and savings already coming through. Labor-intensive work relocated to Mexico and Czech Republic
- John Crane performing well: margins improving on level sales; outlook in oil & gas is better
- Polymer: 50% of sales are into capital goods sector: heavily affected by de-stocking, especially in Germany



# Industrial

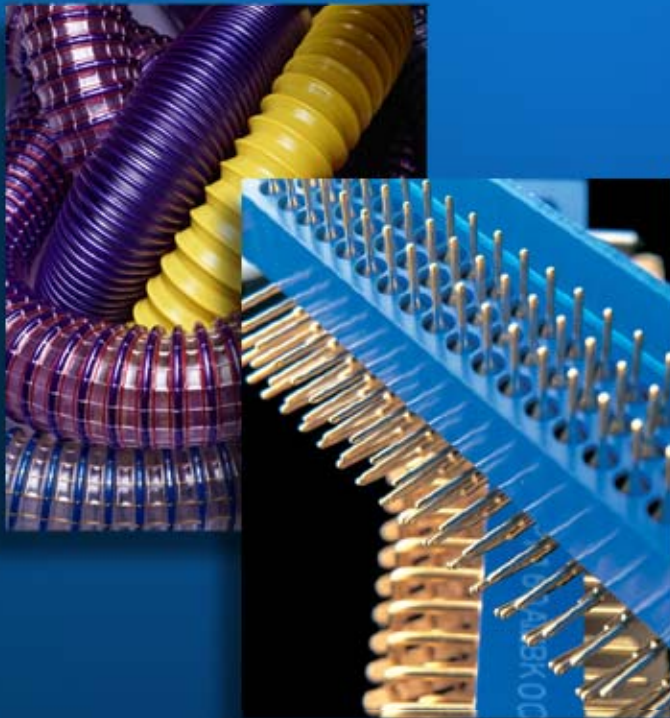
15%



Profit contrib.

£m (H1 2002)

|                         | 2002       | 2001 | %change |
|-------------------------|------------|------|---------|
| <b>Turnover</b>         | <b>218</b> | 255  | -15%    |
| <b>Operating profit</b> | <b>30</b>  | 49   | -39%    |
| <b>Margin</b>           | <b>14%</b> | 19%  |         |



- Telecoms (20% of total divisional sales) severely affected, but still achieving mid-teens margins and good ROI
- 10% downsizing of Industrial has been business-by-business, so has been charged against profits
- Other businesses impacted by consumer and industrial slowdown in US and Europe

# Smiths Medical

Maintaining good profit margins

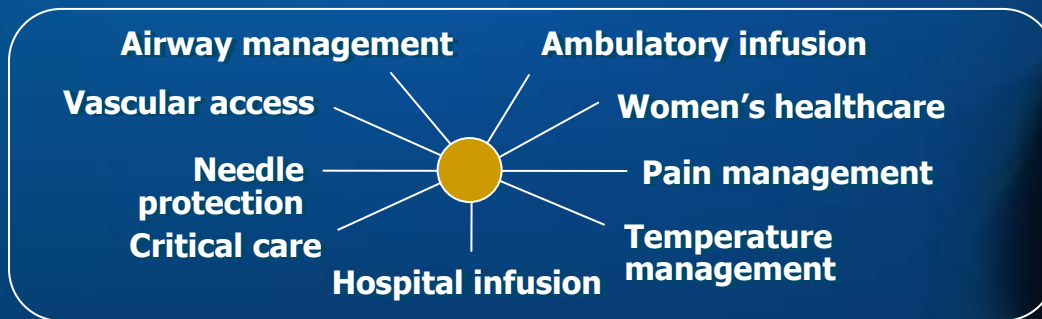
23%

Profit contrib.



| £m (H1 2002)            | 2002       | 2001 | %change |
|-------------------------|------------|------|---------|
| <b>Turnover</b>         | <b>224</b> | 217  | +3%     |
| <b>Operating profit</b> | <b>46</b>  | 43   | +7%     |
| <b>Margin</b>           | <b>20%</b> | 20%  |         |

- Operating in a dynamic market
- Market leader with premium products
- Medical technology innovator
- Organic and acquisitive growth



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# Smiths Medical

Specialized devices and equipment for critical and intensive care



## Single-use devices

Disposable items made in very high volumes

## Specialized healthcare equipment

Including infusion, blood warming, and monitoring



# Smiths Medical

Innovative products are the key to continued success

**Deltec ambulatory pumps help people recover, beyond the hospital environment**



# Smiths Medical

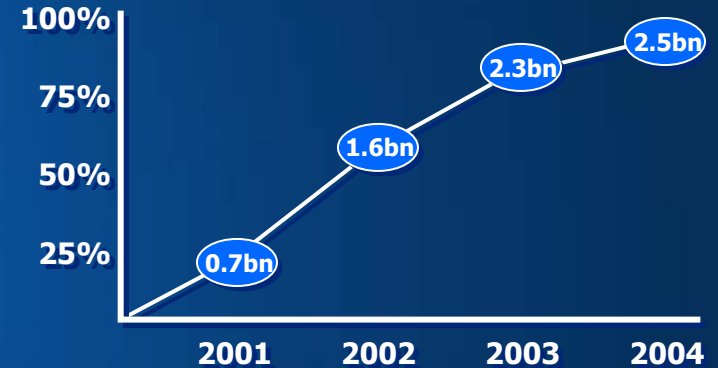
Innovative products are the key to continued success

- 600,000 needlestick injuries annually in the US
- FDA legislation generates significant opportunity
- Annual production of Needle-Pro now 150 million and rising
- Range extended with new Futura retractable

Helping solve the problem of needlestick injuries in hospitals

Total US market 2.7bn needles per annum

US hypodermic needle market - conversion to safety devices



# Smiths Aerospace

Defense and Detection sales growing strongly



| £m (H1 2002)            | 2002       | 2001 | %change |
|-------------------------|------------|------|---------|
| <b>Turnover</b>         | <b>639</b> | 596  | +7%     |
| <b>Operating profit</b> | <b>80</b>  | 84   | -5%     |
| <b>Margin</b>           | <b>13%</b> | 14%  |         |

## Commercial

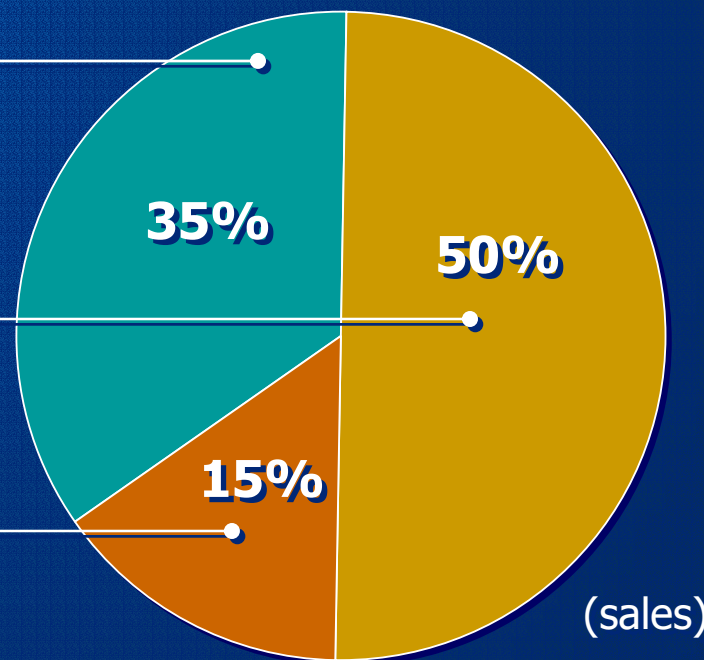
- Slowdown is happening, but aftermarket is holding up better than expected
- Restructuring underway

## Defense

- Sales up 20% in period
- New programs ramping up
- High spares requirement sustained

## Detection

- Sales up 50% in period
- Substantial growth ahead



# Smiths Aerospace

One of the world's leading aerospace equipment suppliers

- Top tier supplier
- Systems integrator
- Commitment to R&D
- Strong customer relationships
- Onshore supplier to DoD

## Smiths capabilities

- Electronic systems
- Actuation systems
- Engine components
- Aerostructures
- Customer services



# Smiths Aerospace

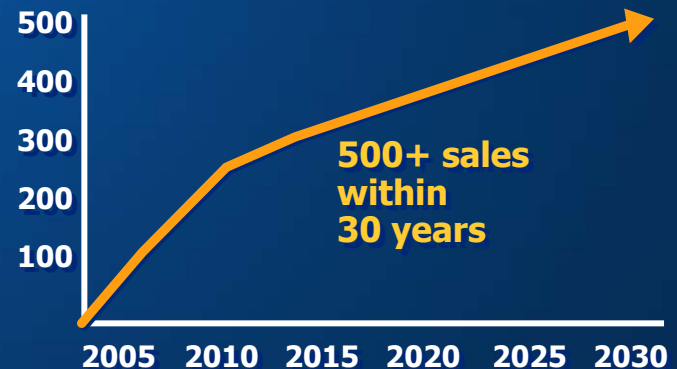
Winning new business through technology leadership

## Boeing selects Smiths for 767 Tanker Program

- \$1 billion sales opportunity
- Potential market 500+ aircraft
- 767 already chosen by Italy, Japan. Lease of 100 to USAF in negotiation. UK, Australia, UAE under discussion
- Acquisition of Able Corp provides refuelling technology
- Integrated system demonstrates Smiths/Dowty synergy benefits
- Smiths mission control system also selected - based on FMS technology



### Potential market



# Smiths Aerospace

Winning new business through technology leadership... in the commercial sector too

## Securing a strong position on Airbus A380



# Smiths Aerospace

Detection equipment: a major new market opportunity

**Applications in both  
military and civil sectors**



- Equipment for detecting chemical, biological, nuclear, explosive and narcotic threats
- Well established military business in battlefield systems
- Substantial requirement for airport security worldwide - meeting increased threat from terrorism post 9/11
- Additional opportunities in public buildings
- Smiths is investing heavily in a growing market

# Smiths Group

## Fundamental strengths

### Sustained profitable growth

**Commitment to R&D** → **technology leadership** → **premium products** → **higher margins**

**Cash generation** → **80% conversion rate** → **Operating profit (after capex) into operating cash**

**Significant opportunities in growing markets for** → **Aerospace** → **Medical**

### Generating value for shareholders

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## Smiths Group



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