

smiths

Smiths Group

Interim Results 2003



London - Wednesday, 12 March 2003

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Smiths Group

Chairman speaking

Interim results

(6 months ended 31 January 2003)

Introduction **Keith Orrell-Jones, Chairman**

Presentation **Keith Butler-Wheelhouse, Chief Executive**

Financials **Alan Thomson, Financial Director**

Key messages from Keith Butler-Wheelhouse

Highlights of the period

- **Operating profits of £180m (before goodwill), down 1% on a year ago**
- **EPS of 20.8p: Interim dividend maintained at 8.75p**
- **Productivity gains counteract £10m adverse currency and £10m higher R&D**
- **Operating cash at 88% of operating profit (after capex), and free cash-flow of £92m**
- **Further progress on disposals and acquisitions to strengthen the business**
- **Pensions not a major issue for Smiths, FRS17 adopted**

Operating performance

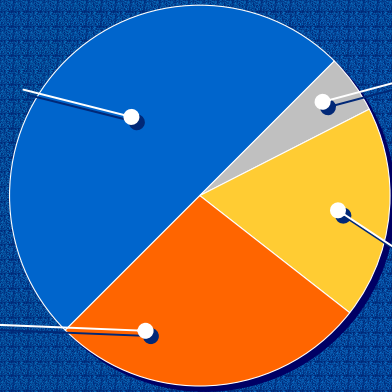
Reported on an FRS17 basis

£m (before exceptionals and amortisation)	2003	2002 continuing activities (restated)	
Turnover	1,456	1,479	-2%
Operating profit	180	182	-1%
Margins	12%	12%	
Interest & pensions financing	(19)	(14)	
Pre-tax profit	161	168	-4%
EPS	20.8p	21.6p	-4%

free cash-flow of
16.5p per share

Market and geographical analyses of sales

North America
50%



RoW
5%

Cont. Europe
18%

UK
27%

Geographical origin of sales (H1/03)

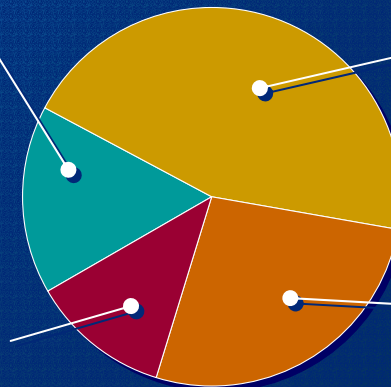
Strong growth in North America (US, Mexico, Canada) masked by translation

Sales by division (H1/03)

Aerospace slightly higher than a year ago, due to growth in Detection

Medical
16%

Industrial
12%



Aerospace
45%

Sealing Solutions
27%

Re-focusing Smiths on the best opportunities for growth

Finding valuable additions to strengthen the core activities

Acquired since Dec 2000

Acquisition costs	£360m
Annual sales	£240m
<i>Margins</i>	<i>14%</i>

Costs: 11 x operating profits

Mainly in the fast-growing detection equipment sector

Acquisition in H1/03

	cost	contrib. for
Heimann ▶	£233m	2 months

Getting on with the disposal of non-core and slow growth businesses

Sold since Dec 2000

Proceeds	£470m
Annual sales	£440m
<i>Margins</i>	<i>10%</i>

Proceeds: 11 x operating profits

Mainly in the capital goods sector

Disposals in H1/03

	proceeds	contrib. for
AMG ▶	£125m	4 months
Lodge ▶	£33m	3 months

exceptional gain £16m

Financial Director's update

Financial Director speaking

Currency

Op. profit reduced by by £10m (mainly US\$)

Restructuring

£5m charged to trading, no exceptionals

R&D

Up £10m (18%) to £69m (company-funded)

Tax

27.5% rate (from 28%)

TI Automotive

Refinanced, but no dividend this year

Pensions

FRS17 adopted (2002 restated)

Interest

Now includes FRS17 effect

	2003	2002 (restated)
Interest on debt	(18)	(27)
Pensions financing	(1)	13
	<u>(19)</u>	<u>(14)</u>

Pensions reporting under FRS17

(including UK, US funded schemes)

- Schemes remain substantially well-funded
- 42% equity funding limits effect of stock market downturn
- Pension cost under FRS17 increases from £11m to £25m

Balance sheet date for 2003 FRS17 assessment	FTSE		Surplus/(deficit) after tax
	31 July 01	5600	£220m
31 July 02	4250	£(52)m	
If measured at	3500	£(160)m	

Total pensions expense	H1/02		H1/03
	SSAP 24	FRS17	FRS17
Charge to operating profit	£5m	£24m	£24m
Pensions financing	-	£(13)m	£1m
Impact on PBT	£5m	£11m	£25m
	Surplus was being amortised	In surplus at 31 July 01	Modest deficit at 31 July 02

Operating profit into operating cash

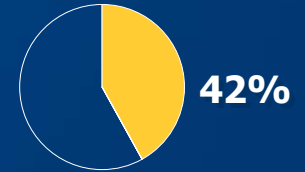
£m	2003	2002 continuing activities (restated)
Operating profit	180	182
Depreciation	43	44
Capital expenditure	(33)	(44)
Pensions	15	15
Working capital	(47)	(37)
Operating cash-flow	158	160
Op. profit into op. cash	88%	88%

Movement in Net Debt

£m	2003
Net Debt at 1 August 2002	(725)
Operating cash (after cap-ex)	158
Interest and tax	(52)
Restructuring	(14)
Free cash-flow	92
	<i>same as last time</i> →
Dividends	(93)
Acquisitions	(235)
Disposals	151
Financing & Exchange	(2)
Net cash generation	(87)
Net debt at 31 January 2003	(812)

Smiths Aerospace

contrib. to
H1/03 op. profit



Chief Executive speaking

£m (6 months ending 31st January)

2003

2002
(restated)

Turnover

648

639

+1%

Operating profit

75

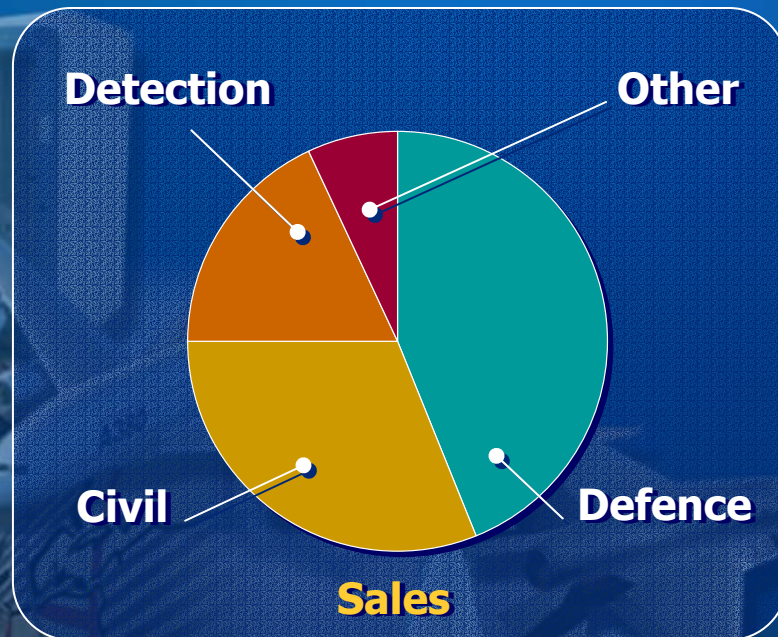
70

+8%

Margin

12%

11%



- Overall improvement from growth in Detection and first contribution from Heimann
- Civil business now experiencing full effect of market slowdown, but has been "right sized"
- Defence performing strongly on current programmes and adding significant "wins"
- Company-funded R&D up £10m in this period (A380, B767 GTTA, Detection), expensed against profit

Smiths Detection

- Continued rapid growth of existing business in this period
- Initial TSA requirements will be largely completed by year end
- Heimann has made a significant contribution from day one
- US Certification for EDtS baggage inspection underway
- Significant opportunities for trace and x-ray beyond US airport market
- Container inspection market driven by terrorism and tax collection
- Military deliveries lumpy from large contracts, and H2 weighted

Heimann product range

Conventional EDS

New EDtS

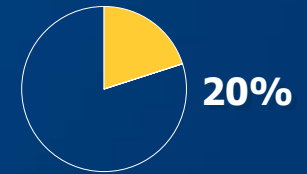
x-ray image

Container inspection



Smiths Medical

contrib. to
H1/03 op. profit



£m

2003

2002
(restated)

Turnover

231

224

+3%

Operating profit

37

43

-15%

Margin

16%

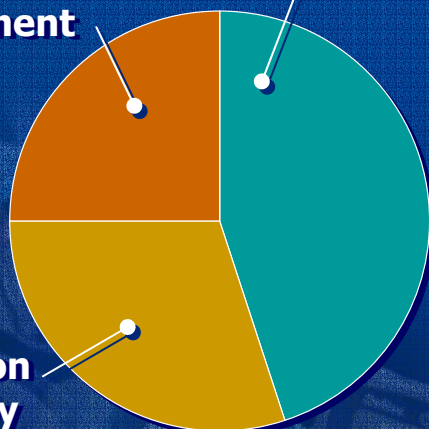
19%

**Other specialised
devices and
equipment**

**Respiratory/
anaesthesia**

**Infusion
therapy**

Sales



- Cozmo insulin pump now selling strongly, launch cost of \$5m in this period
- R&D increased by £2m (now 4% of sales), resulting in new products
- US & UK markets robust, Continental Europe less so, and Japan subject to cuts in re-imburement
- Continued transfer of production to Mexico, now employing nearly 1,200

Medical R&D filling up new product pipeline



◀ Portex Saf-T Wing

Winged needle safety device for blood sampling



▲ Gripper Plus

Deltec's new safety needle for implanted ports



▶ Portex Soft Seal

World's first single-use laryngeal mask for airway management

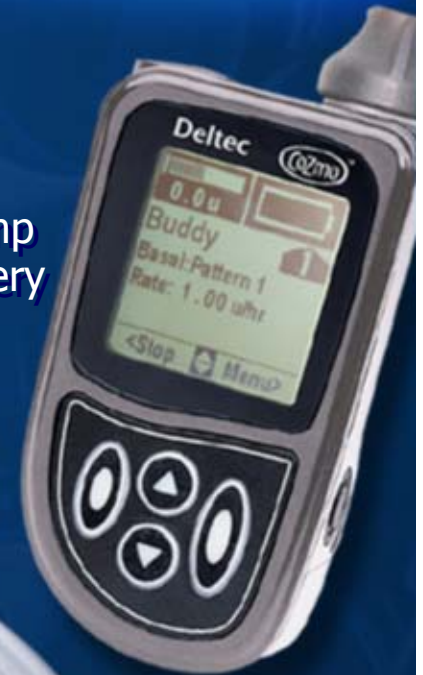
▶ Digit

BCI's new finger-tip blood/oxygen analyser



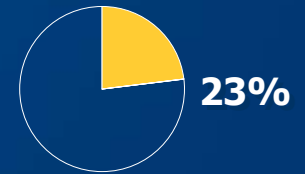
▶ Cozmo

Deltec's new ambulatory pump for insulin delivery



Sealing Solutions

contrib. to
H1/03 op. profit



£m

2003

2002
(restated)

Turnover

397

407

-2%

Operating profit

41

41

+1%

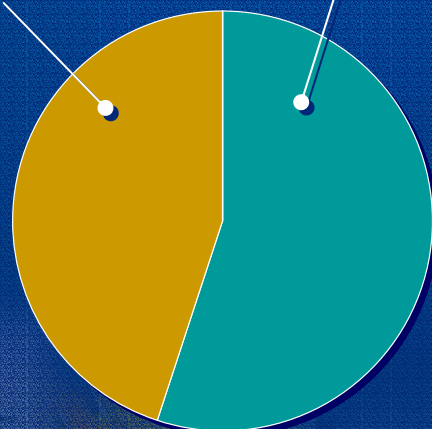
Margin

10%

10%

**Polymer
Seals**

John Crane



sales

John Crane

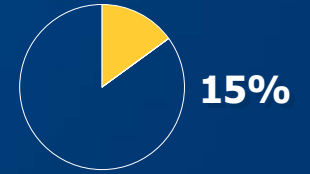
- New oil & gas projects in Brazil, Canada and Russia will generate sales growth
- Benefits of restructuring/relocation now coming through

Polymer Seals

- Focusing on high-margin applications, exiting commodity sectors
- Industry de-stocking completed, outlook more positive

Industrial

contrib. to
H1/03 op. profit



£m

2003

2002
(restated)

Turnover

180

209

-14%

Operating profit

27

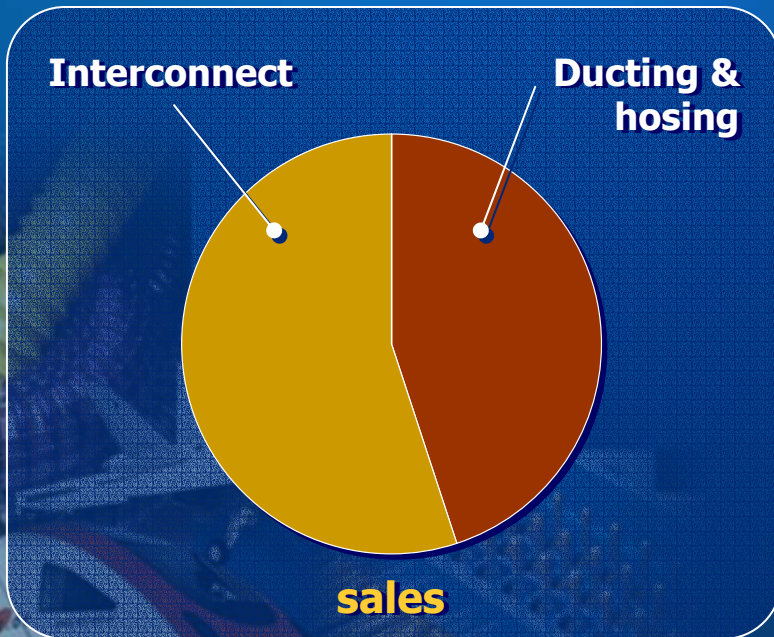
28

-5%

Margin

15%

13%



- Air Movement sold (4 months contribution in H1/03)
- Better performance from continuing activities
- Cash conversion at over 100%

Interconnect

- Benefiting from increased defence spending

Ducting

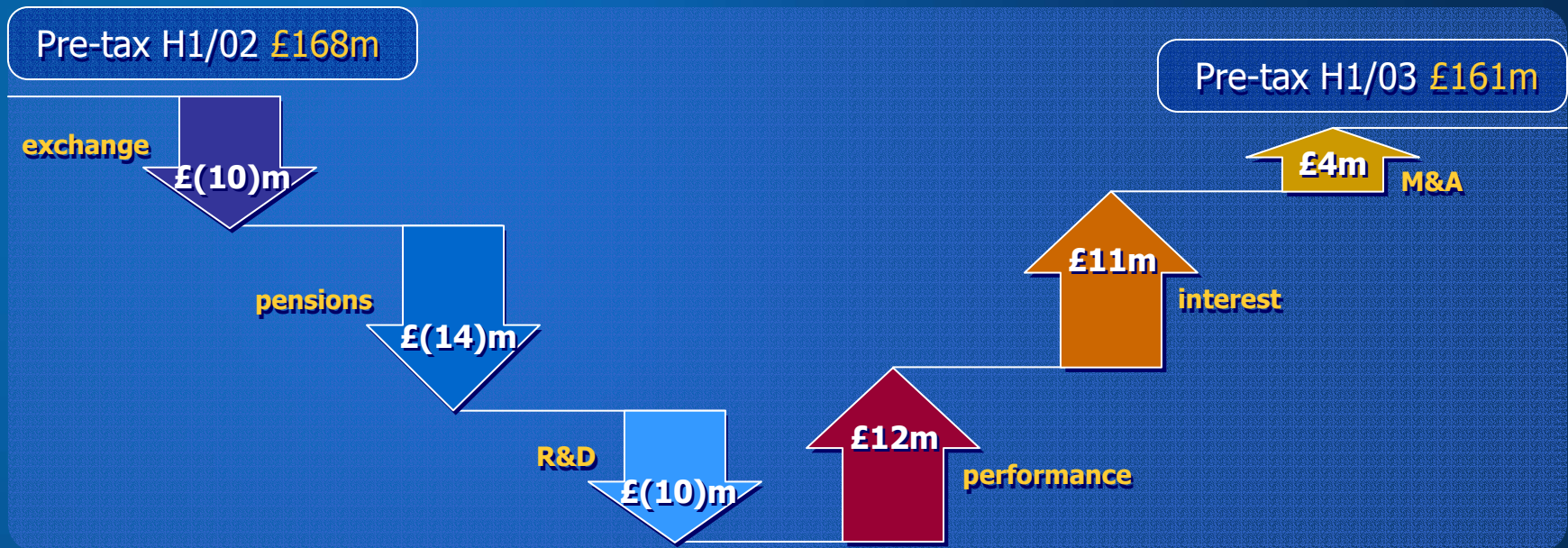
- US domestic appliance market flat

A resilient first half, despite poor market conditions

£m (contribution to profit)	2003	2002	
Aerospace	75	70	+8%
Medical	37	43	-15%
Sealing Solutions	41	41	+1%
Industrial	27	28	-5%
Operating profit	180	182	-1%

Smiths Group

First half profit progression: 2003 versus 2002



First Half performance

- ▶ Operating profit close to a year ago
- ▶ Cash conversion at above target level
- ▶ Good progress on acquisitions/disposals
- ▶ Spread of activities has mitigated civil aero downturn
- ▶ Investment in R&D being stepped up
- ▶ Dividend maintained

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Second Half outlook

“ The company's confidence in the full year outlook is supported by continued progress on productivity and sales in difficult market conditions. These market share gains will not be made at the expense of margins. The spread of activities across different market sectors will help provide a resilient performance, subject to the outcome of the current uncertain geopolitical situation ”

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