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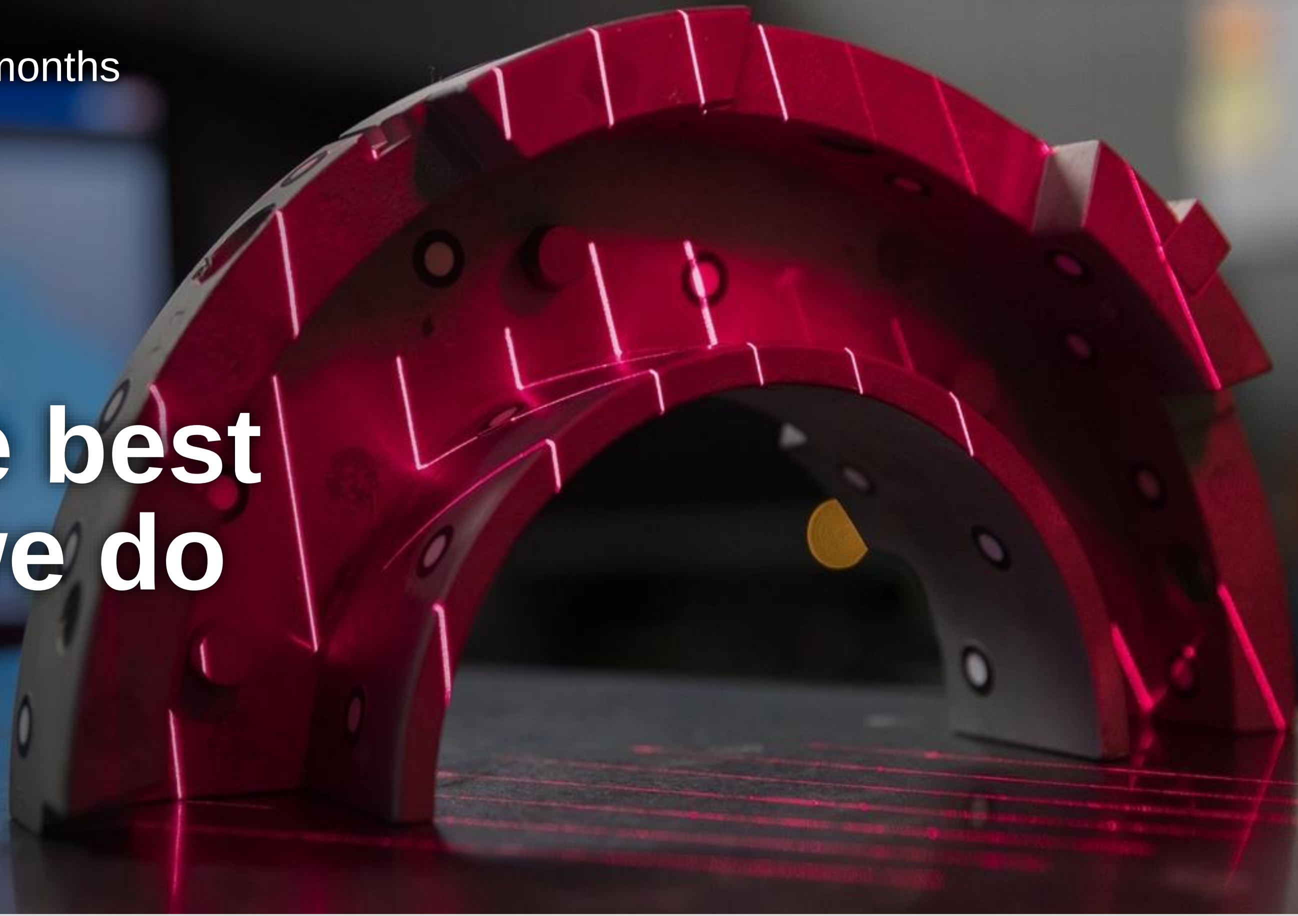
Smiths Group plc

Interim results for the 6 months ended 31 January 2017

24.03.2017



Being the best at what we do

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Agenda

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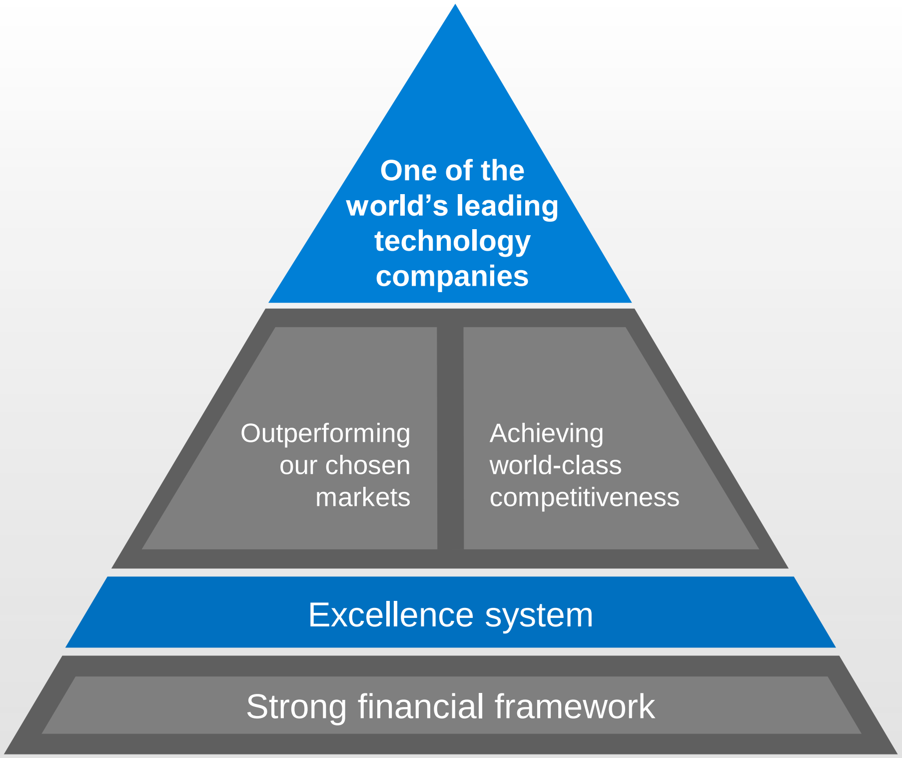
H1 Business Review
Andy Reynolds Smith

H1 Financial Review
Chris O'Shea

Strategy update
Andy Reynolds Smith

Q&A

Solid progress on strategy actions



H1 Business Review

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Andy Reynolds Smith

Chief Executive

Smiths Group - Half year financial highlights

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- Group revenue slightly up on an underlying basis; up 18% on a reported basis
- Group headline operating profit up 8% on an underlying basis; up 27% on a reported basis
- Basic headline EPS up 30%
- Cash conversion strong at 115%; FCF up 44%
- Proposed interim dividend of 13.55 pence per share

Headline revenue*	Headline operating profit*	Headline operating profit margin*	Aftermarket and consumables
£1,616m	**£277m**	**17.1%**	**53%**
-	+8%	+150bps	-200bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

John Crane - Continuing resilience

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- Ongoing challenges in global energy markets
- Aftermarket revenue* up 3%; first-fit down 15%
- Progress in non-Oil & Gas markets
- R&D: condition monitoring field trials expanded
- Disposal of Artificial Lift completed – significantly reducing upstream O&G exposure to less than 5%

Headline revenue	Headline operating profit	Headline operating profit margin	Aftermarket
£435m	**£90m**	**20.8%**	**64%**
-4%*	-4%*	+90bps	+600bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Smiths Medical - Weaker revenue but profit up

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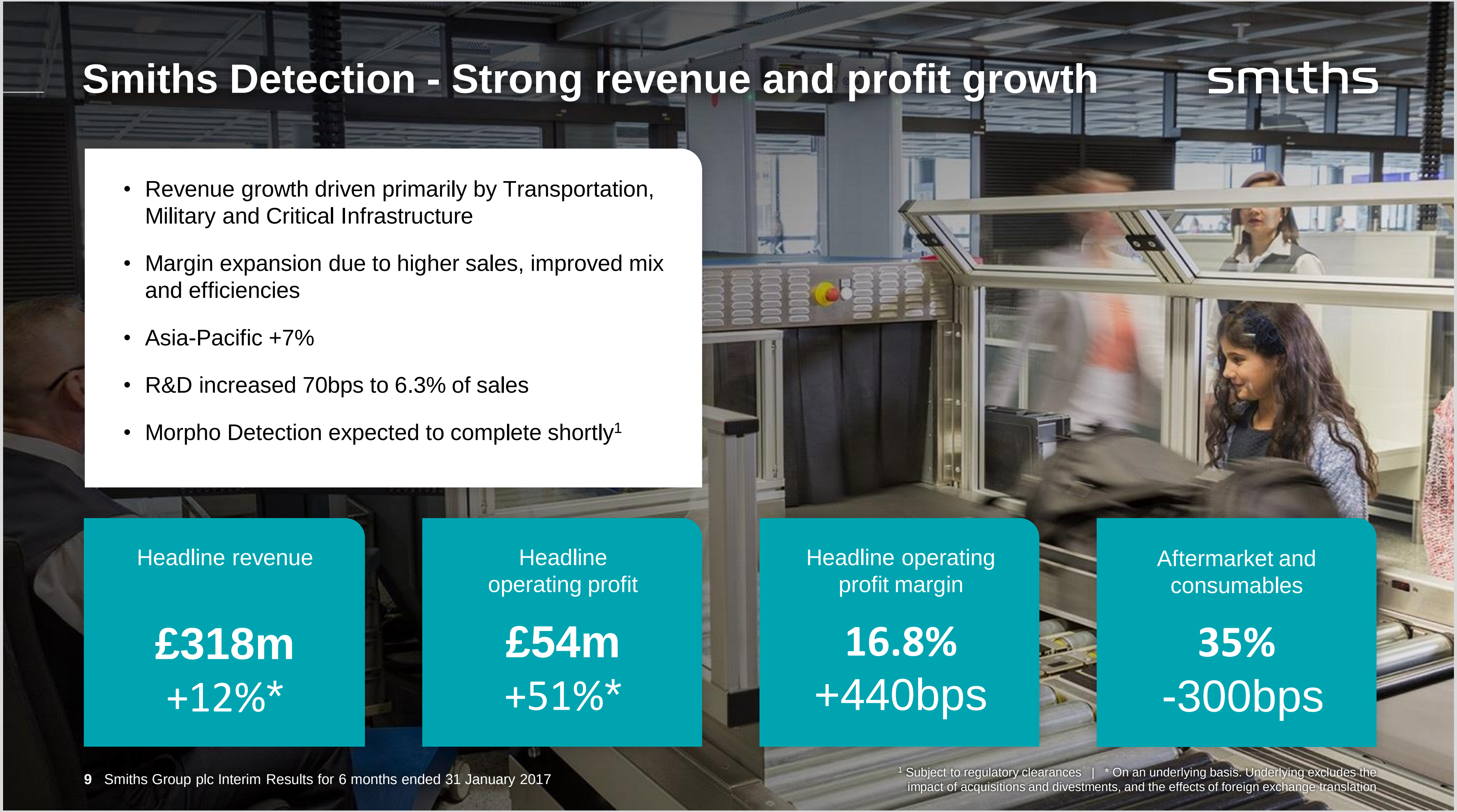
- Revenue decline driven by Vascular Access and Infusion Systems, growth in Vital Care
- Margin expansion despite pricing pressure and revenue decline, driven by efficiency improvements
- Asia market:
  - India +24%
  - South East Asia +8%
  - China -13%
- R&D increased 100bps to 6.8% of sales
- Disposal of Wallace completed

Headline revenue	Headline operating profit	Headline operating profit margin	Aftermarket and consumables
£472m	**£99m**	**21.0%**	**83%**
-2%*	+7%*	+50bps	+200bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation



Smiths Detection - Strong revenue and profit growth

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- Revenue growth driven primarily by Transportation, Military and Critical Infrastructure
- Margin expansion due to higher sales, improved mix and efficiencies
- Asia-Pacific +7%
- R&D increased 70bps to 6.3% of sales
- Morpho Detection expected to complete shortly[1]

Headline revenue	Headline operating profit	Headline operating profit margin	Aftermarket and consumables
£318m	**£54m**	**16.8%**	**35%**
+12%*	+51%*	+440bps	-300bps

[1] Subject to regulatory clearances | * On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Smiths Interconnect - Progress to sharpen focus

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- Flat sales from Connectors, offset by lower sales from Microwave
- Increased margin due to restructuring and procurement savings
- Divisional reorganisation implemented
- China +7%
- Disposal of Power completed

Headline revenue	Headline operating profit	Headline operating profit margin
£230m	**£26m**	**11.3%**
-1%*	+15%*	+160bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Flex-Tek - In line with expectations

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- Continued steady progress
- Revenue growth in Construction and Heat Solutions, driven by US housing market
- Margin expansion driven by efficiency savings

Headline revenue	Headline operating profit	Headline operating profit margin
£161m	**£30m**	**18.3%**
+2%*	+7%*	+70bps

* On an underlying basis, Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

H1 Financial Review

Chris O'Shea

Chief Financial Officer

Financial performance

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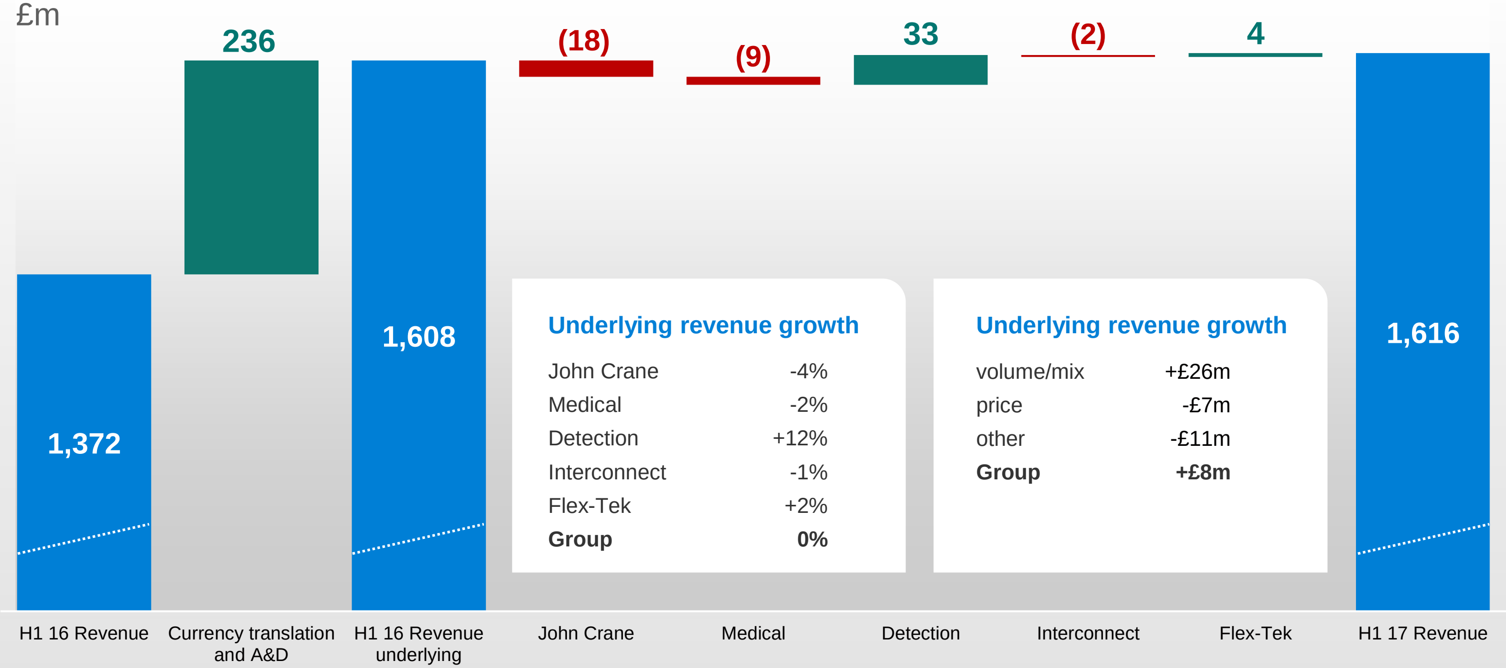
(£m)	H1 2017	H1 2016	Underlying[1] growth	Reported growth
Headline revenue	**1,616**	1,372	0%	+18%
Headline operating profit	**277**	217	+8%	+27%
Headline operating margin	***17.1%***	*15.8%*	*+150 bps*	*+130 bps*
Headline free cash flow	**252**	174		+44%
ROCE	**16.3%**	15.4%		+90 *bps*
Headline EPS	**45.7p**	35.2p		+30%
Dividend per share	**13.55p**	13.25p		2.3%

1 Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Group headline revenue[1] in line with prior year



Underlying revenue growth

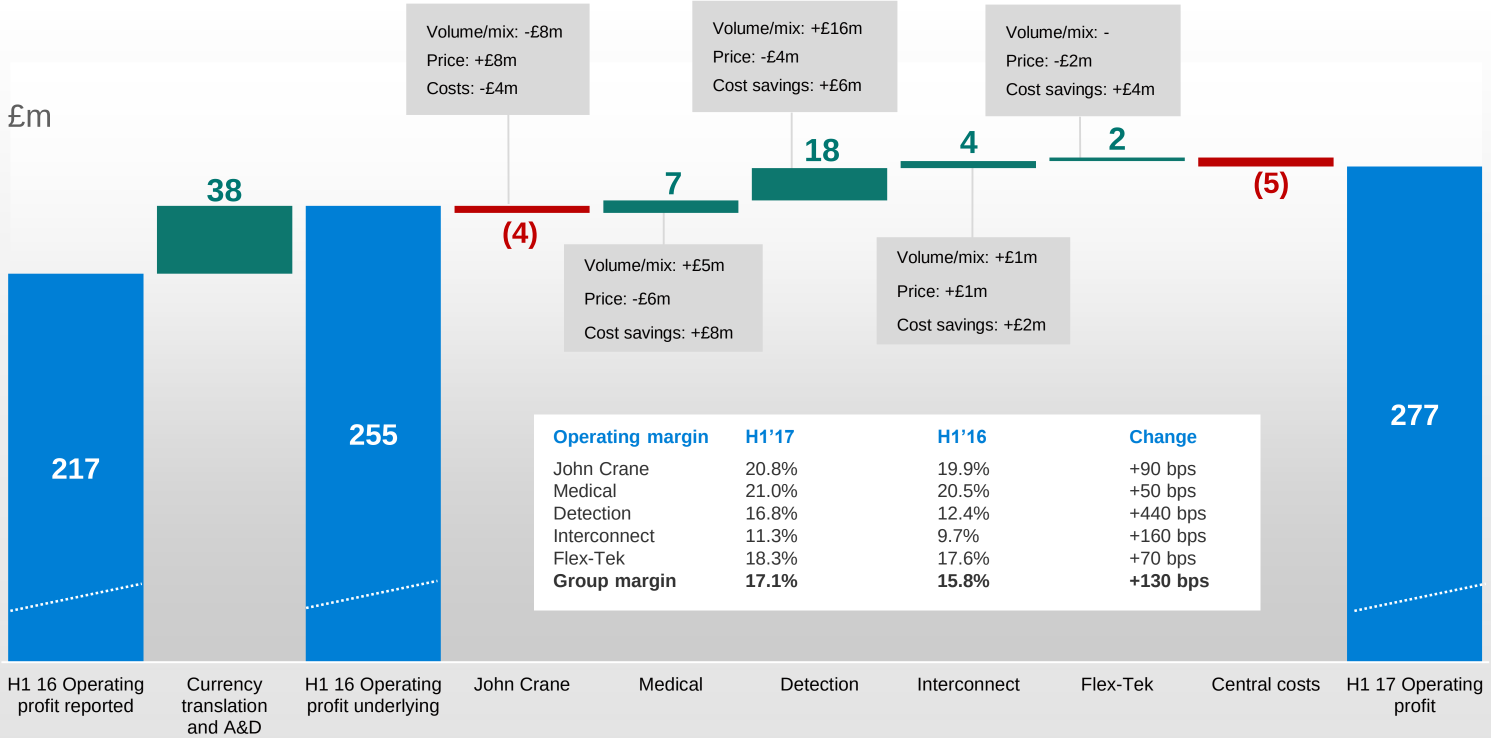
John Crane	-4%
Medical	-2%
Detection	+12%
Interconnect	-1%
Flex-Tek	+2%
Group	**0%**

Underlying revenue growth

volume/mix	+£26m
price	-£7m
other	-£11m
Group	**+£8m**

[1] Revenue on an underlying basis.
Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Headline profit[1] increased by 8%



Operating margin	H1'17	H1'16	Change
John Crane	20.8%	19.9%	+90 bps
Medical	21.0%	20.5%	+50 bps
Detection	16.8%	12.4%	+440 bps
Interconnect	11.3%	9.7%	+160 bps
Flex-Tek	18.3%	17.6%	+70 bps
Group margin	**17.1%**	**15.8%**	**+130 bps**

1 Profit on an underlying basis.
Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Headline free cash flow increased 44%

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(£m)	H1 2017	H1 2016	Variance
Headline operating profit	**277**	217	
Capex	**(51)**	(42)	**+21%**
Depreciation and amortisation	**52**	45	
Working capital	**27**	(10)	
Other	**15**	8	
Headline operating cash flow	**320**	218	**+47%**
Operating cash conversion	***115%***	*101%*	
Interest	**(22)**	(19)	
Taxation	**(46)**	(25)	
Headline free cash flow	**252**	**174**	**+44%**

Underlying reduction in net debt of £343m

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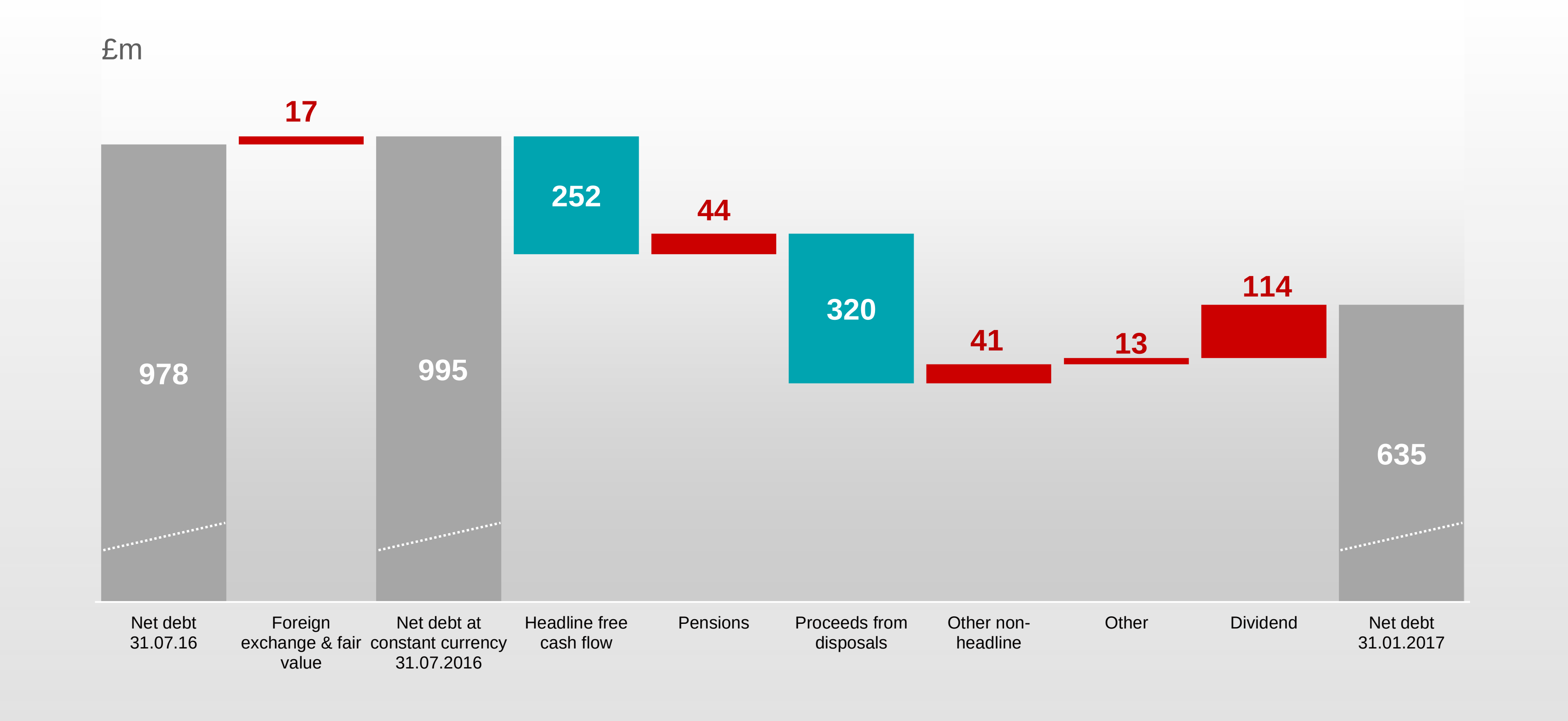
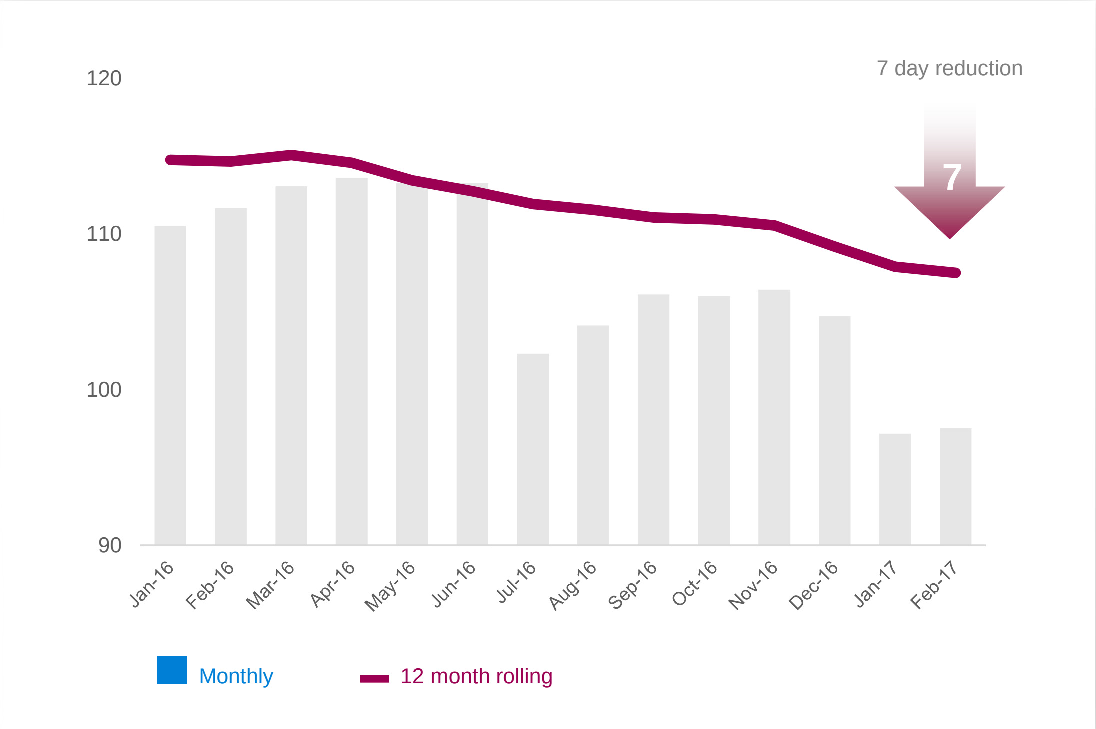


Inventory Days



- 1 day of inventory = £5m
- In 6 months = 4 day reduction
- In 12 months = 7 day reduction
- Opportunity to improve further inventories

Strong and continuous cash generation

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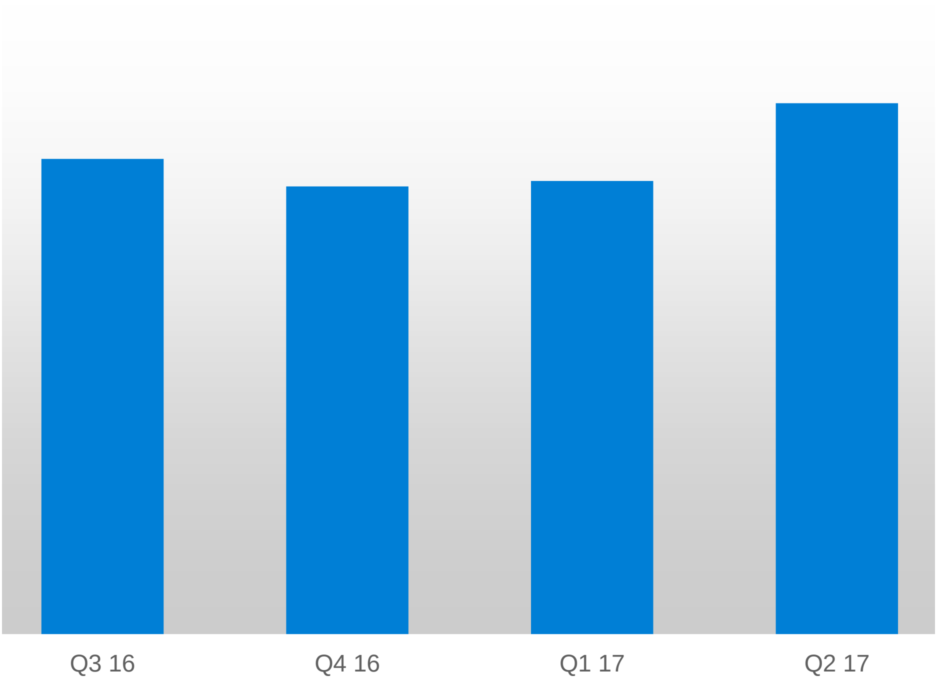

- Cash positive every month
- Steady cash generation quarter after quarter
- Ability to de-leverage every month

The Group has a good range of debt maturities

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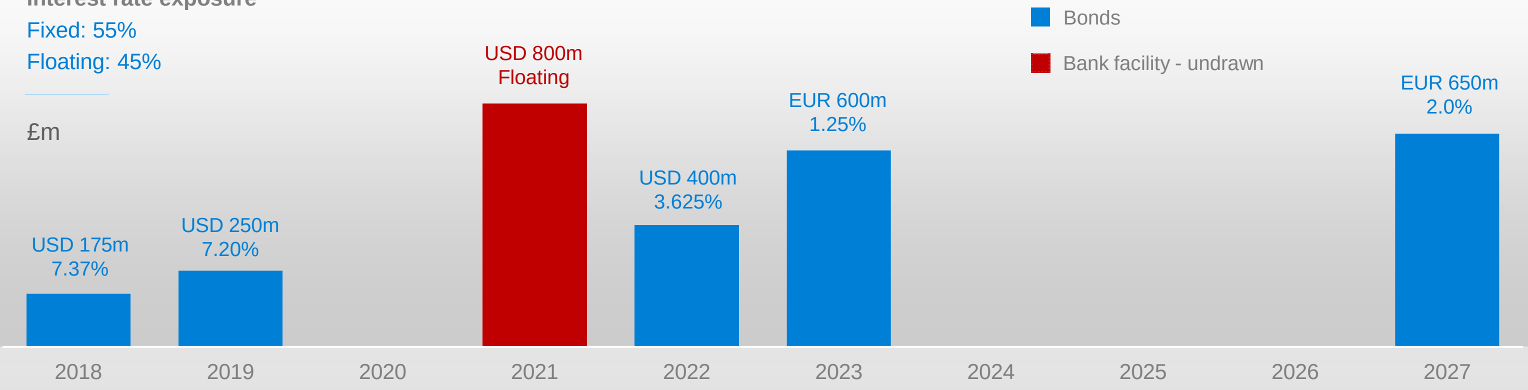
Weighted average debt facilities maturity	Weighted average interest rate[1]	Credit ratings
6.5 years*	**3.5%***	**BBB+/Baa2**
+2.0 years	***-20bps***	**stable**

Interest rate exposure*
Fixed: 55%
Floating: 45%



1 Weighted average interest rate of gross debt
* Includes the new EUR650m bond concluded in February 2017 and excludes the 2017 maturity bond which will be repaid

Continued de-risking on pensions

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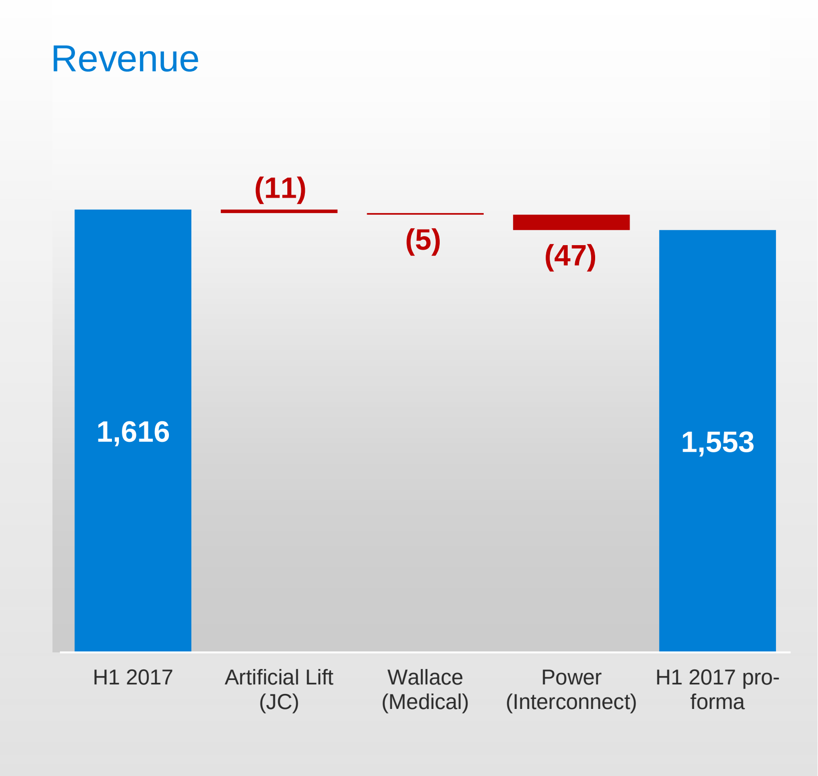
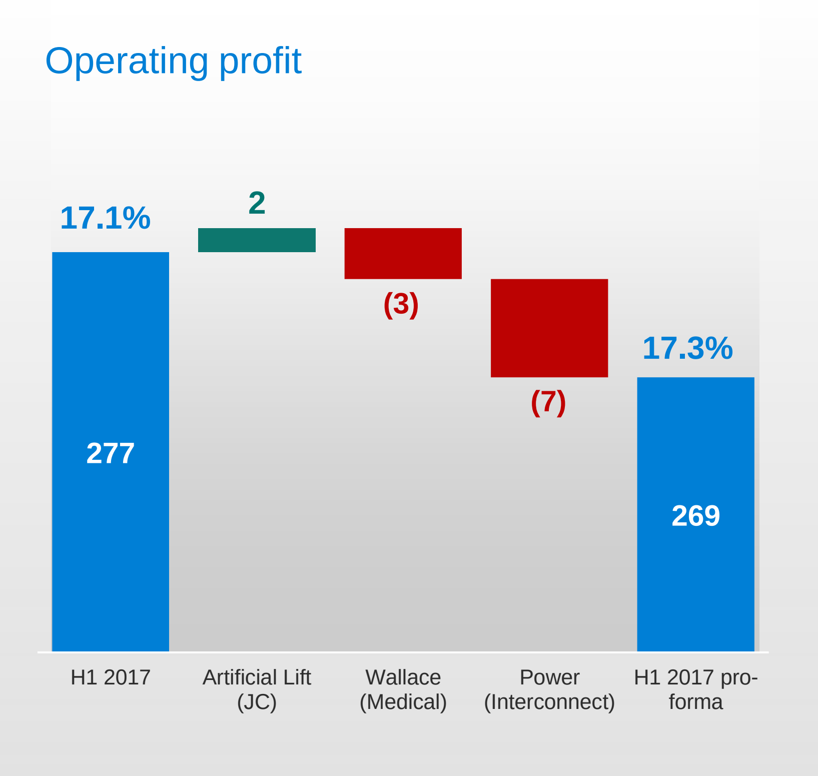
UK Pension Scheme Assets	31 January 2017	31 July 2016	Hedge
Corporate bonds	26%	23%	Interest
Government bonds	41%	49%	Interest + Inflation
Insured liabilities (buy in contracts)	26%	19%	Interest + Inflation + Mortality
Total LDI Assets	**93%**	**91%**	

- Reduced annual required contributions to c.£60m following the outcome of the 2015 triennial valuation
  - Certainty of funding over next three years
  - Boost to free cash flow
- Pension assets substantially de-risked, deficits lowered
  - Further de-risking of UK schemes with £380m buy-ins

M&A activity to high grade the portfolio





Morpho Detection acquisition

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- In final stages of regulatory approval
- Completion expected shortly
- Remedies: Morpho Detection’s Trace business being marketed and following close of transaction will be held separate until disposal.
  - Morpho Trace detection revenue = c. 25% of Morpho Detection
  - Lower aftermarket content than Morpho Detection
- Targeting annual cost synergies of c.$20m by the third full year after closing (post remedies)
- Strategic and value case remain compelling

Our financial strategy remains focused

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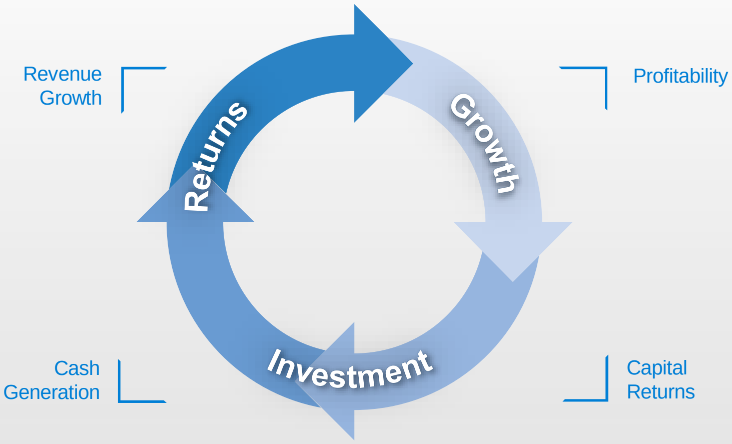
✗ Underlying revenue flat
(H1 2016: -3%)

17.1% margin ✓
(H1 2016: 15.8%)



✓ 115% cash conversion
(H1 2016: 101%)

16.3% ROCE ✓
(H1 2016: 15.4%)

Strong financial framework

- Maintain a strong investment grade credit rating
- Invest in opportunities which create value
- Measured balance sheet management
- Active portfolio management
- Maintain a competitive tax rate
- Robust enterprise risk management

Invest wisely and manage the investments well

Overall outlook is unchanged

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- Continued revenue pressures in John Crane
- Performance slightly weighted to H2
- Strong cash conversion
- Foreign exchange tailwind
- Completion of acquisition of Morpho Detection[1]

  [1] Subject to regulatory clearances
- 26%-27% effective tax rate for 2017, expected to increase to 30%-31% in 2018

Strategy update

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Andy Reynolds Smith

Chief Executive

Strategy in action

Outperforming our chosen markets

Achieving world-class competitiveness

Repositioning the portfolio for future growth

Building a bigger, better and more focused Smiths

Outperforming our chosen markets - organic growth

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Technology differentiation

Increasing digitisation

Positioned in growing markets

High proportion of aftermarket and recurring revenues

Sustainably competitive and asset light

Outperforming our chosen markets - innovation

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New Product Introduction process

- Standardised process across the Group

  → *Consistency*

- Quarterly audit process led by *i*^{3} and divisional peers

  → *Unbiased review*

0	**Phase 0** Product Concept
1	**Phase 1** Project Planning
2	**Phase 2** Dev. and Verification
3	**Phase 3** Pilot & Validation
4	**Phase 4** Launch
5	**Phase 5** Product Lifecycle Review
6	**Phase 6** Product Retirement

***i*^{3}**

- Group-wide technology roadmaps
- Now commissioning projects - ultra high speed data transmission & machine learning
- More ambitious roll-out of new technologies
- Group R&D increased from 4.0% to 4.5% of revenue

Outperforming our chosen markets - targeting the right geographies

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- Asia exposure is too low
- Requires fundamental shift in approach
- Appointed Smiths Group Asia President at Executive Committee level
- Leadership across region to build commercial presence and operations

Strategy in action

Outperforming our chosen markets

Achieving world-class competitiveness

Achieving world-class competitiveness - the Excellence system

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Supply chain excellence

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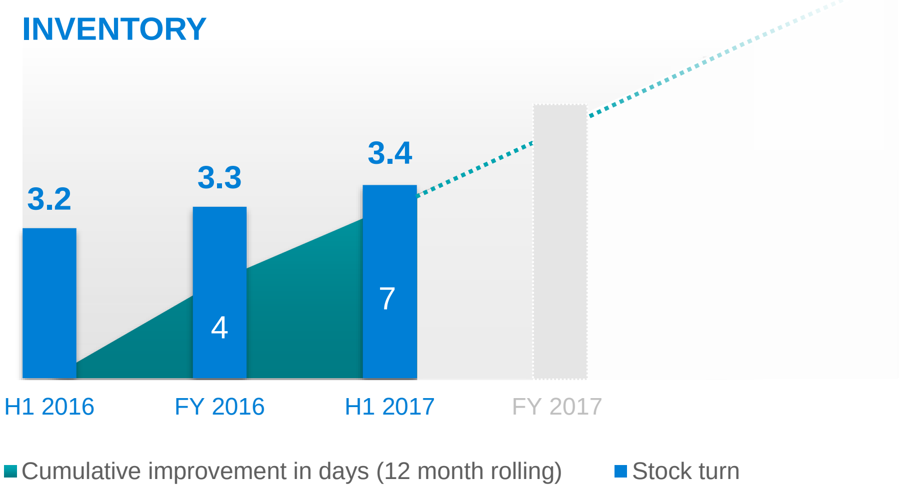

- Strong cash conversion
- 1 stock turn = £150m to invest in future growth
- Modest in H1 but more to come over time

- Group initiative on Strategic Supplier development
- Connectors suppliers cut from 2,500 to 350
- Benefits:
  - Procurement savings
  - Collaboration to improve processes, reduce waste and focus on innovation

Channels to market and sales effectiveness

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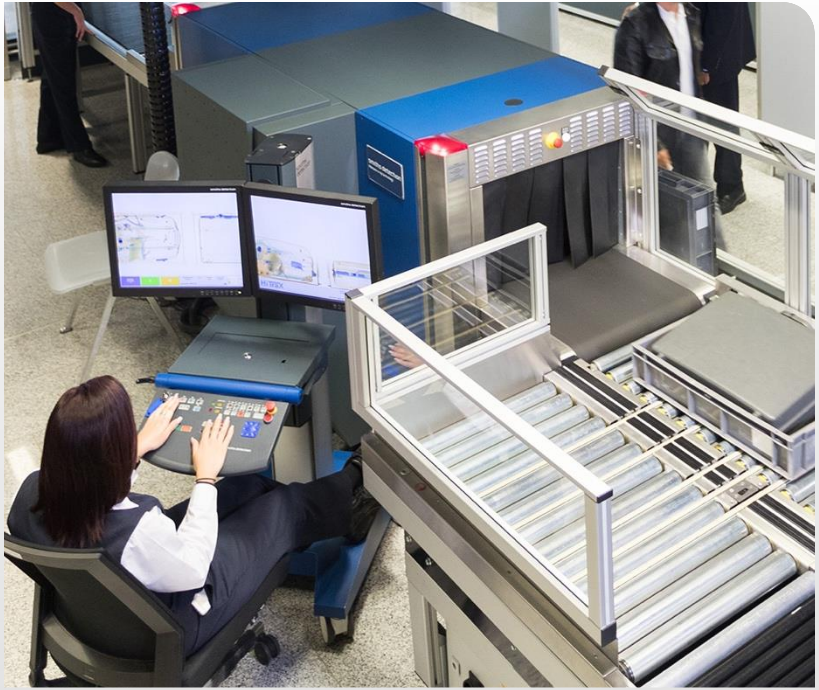
- Undertaking review of channels to market
- Reviewing sales effectiveness and incentivisation across the Group
- Initiatives underway to drive more effective selling
  - Detection: distributors role in aftermarket sales and servicing
  - Interconnect: halved number of distributors



Production excellence

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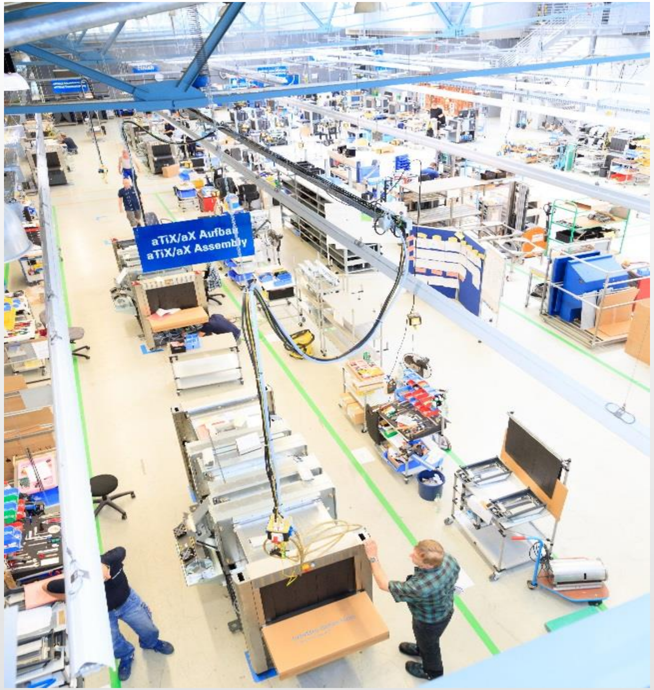
- Layout optimised: “doing more with less”
  - 59% reduction in lead time
  - 57% reduction in work in progress
  - 32% in headcount reduction
- Frees up people and space to support other business activities
- Smiths Excellence System aims to transfer best practice across the Group



Introduction of the Smiths Way

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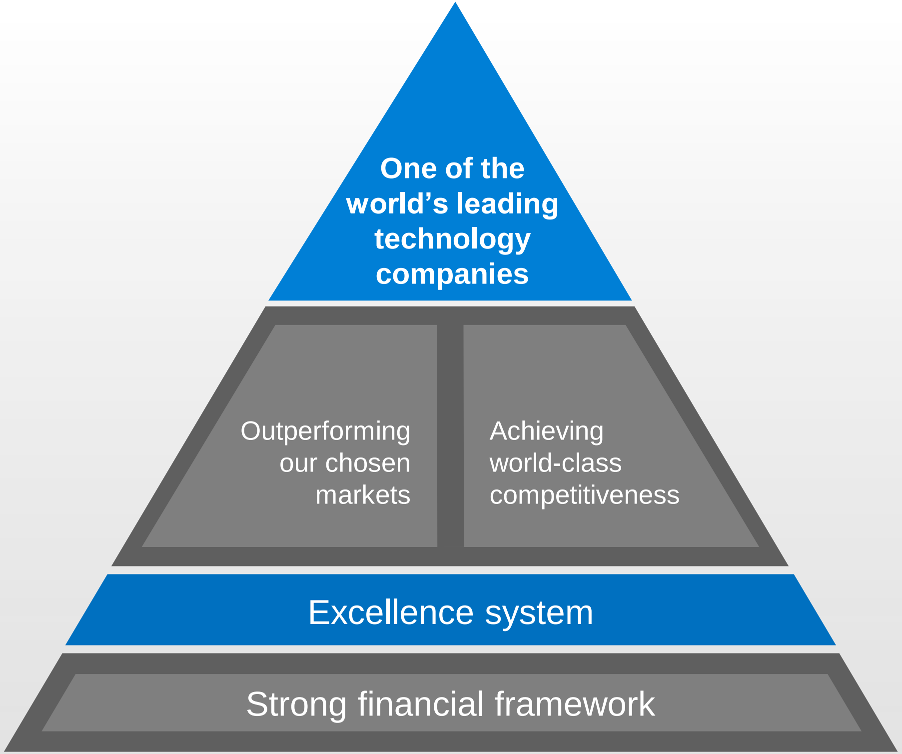
- Building an organisation based on Talent and Leadership
- ‘Smiths Way’ culture change programme
- Leadership programmes launched
- Incentivising leaders on key metrics

the smiths way

Solid progress on strategy actions




Questions
& Answers
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Appendix

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Non-headline items in operating profit

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(£m)	H1 2017	H1 2016	Change
Headline operating profit	**277**	**217**	*+27%*
Fuel For Growth	(15)	(15)	
Legacy liabilities - litigation	5	5	
Retirement benefits	(4)	(15)	
Amortisation of acquired intangibles	(6)	(9)	
Acquisition costs	(6)	-	
Profit of disposals	126	-	
Total non-headline items	**100**	**(34)**	
Statutory operating profit	**377**	**183**	***+106%***

Current foreign exchange rates could provide a tailwind in reported profits

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- Sensitivity
  - For each $0.1 movement, +/- £15m on operating profit
  - For each €0.1 movement, +/- £3m on operating profit

- H1 2017 FX tailwind
  - Revenue £251m (+18%)
  - Operating profit £39m (+18%)

- FY 2016 average rates vs spot rates

	FY 2016 average rates	January 31st 2017 rates	
USD	1.46	1.26	USD strengthened 14%
EUR	1.32	1.17	EUR strengthened 11%

Exceptional items - H1 2017

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£m	John Crane	Medical	Detection	Interconnect	Flex-Tek	Central	HY 2017
Headline operating profit – existing basis	90	99	54	26	30	(22)	**277**
Existing operating margin %	*20.8%*	*21.0%*	*16.8%*	*11.3%*	*18.3%*		***17.1%***
Restructuring programmes	(3)	(6)	(1)	(2)	(1)	(2)	**(15)**
Pension admin costs						(4)	**(4)**
Headline operating profit – revised basis	87	93	53	24	29	(28)	**258**
Revised operating margin %	*20.0%*	*19.6%*	*16.6%*	*10.4%*	*18.2%*		*16.0%*