Smiths Group Strategic Update

Friday 31st January 2025

Opening Remarks

Roland Carter

Chief Executive Officer, Smiths Group

Good morning. I'm Roland Carter, CEO of Smiths Group. I'm joined by Julian Fagge, our new CFO.

Strategic actions to unlock significant shareholder value and enhance returns to shareholders

Today, I'm excited to share with you a number of strategic actions that we are taking to unlock significant value and enhance returns for our shareholders.

We've made substantial strategic progress and notably improved our operational and financial performance in the past four years. Our strategy is delivering and will continue to do so, but this has not yet been reflected in the valuation of the company.

Today's news is a result of an exercise that the Board and I have been working on together over the past year to evaluate options to maximize shareholder value and to address this discount, to unlock the real value that we see inherent in our business.

We believe these actions will deliver significant value for our shareholders. Let me take you through this in more detail, first addressing the portfolio structure:

- We will focus Smiths on our world-class, high performance industrial technology businesses - John Crane and Flex-Tek
- Smiths Interconnect is to be divested, and
- Smiths Detection will then be separated for either a demerger or a sale.

In parallel, we are increasing our capital return to shareholders:

- We will increase our buyback program to 500 million pounds and
- In addition, we are also planning to return a large portion of all disposal proceeds.

As we execute this strategy, we will become a more focused business with a higher quality financial profile and significant potential for growth and future value creation.

We are conscious of the impact of such changes on our people and will do so in a manner that is respectful of our colleagues, our customers and our suppliers, and in the long-term interests of all our stakeholders.

Focus on high performance technologies for efficient flow and heat management

Our priority has been on driving an improvement in our operational and financial performance, and you will have seen that in the results that we have been delivering, recently reflected in the recent upgrade of our FY2025 guidance.

Given this delivery, now is the right time to reshape our portfolio to focus on our world-class performance technologies for efficient flow and heat management:

- John Crane and mission critical flow control solutions supplying highly engineered mechanical seals and support systems
- And Flex-Tek providing high performance, engineered fluid movement and temperature management solutions

They have leadership positions in attractive energy and industrial markets, with growth supported by a broad range of energy diversification scenarios.

They have a track record of operational and financial performance with strong cash generation. Their operating profit margin and return on capital employed are in excess of 20% and 25%, respectively, notably higher than the current group average. Critically, they provide a strong platform for continued growth and margin expansion.

These businesses will be supported by a streamlined group cost structure, which we will address through our already announced acceleration plan.

We will provide further details on our strategic focus on our interim results in March.

Intention to separate Smiths Detection and Smiths Interconnect

Our portfolio actions start now.

Smiths Detection and Smiths Interconnect are both attractive businesses, have strong market positions, leading technologies and close customer relationships and have delivered significant recent performance improvement.

However, the Board and I believe the separation of these two divisions is the best strategy for our shareholders.

Consequently, Smiths Interconnect is to be divested. Targeting a transaction announcement by the end of this calendar year. We will then progress the separation of Smiths Detection, either by way of a demerger in the UK or via a sale. We look to deliver this as soon as practicable.

Disciplined capital allocation, with enhanced capital returns

Alongside the repositioning of our portfolio we are accelerating execution against our capital allocation policy.

We are excited by the future potential of a more focused Smiths and will continue to invest in our businesses organically. Our R&D investment will remain focused on new product development and commercialization, underpinning our organic growth.

We will also continue to pursue disciplined and value creating bolt on acquisition in attractive, high growth market adjacencies. Alongside this, we are enhancing our returns to shareholders.

We will increase our buyback program to 500 million pounds. We will do this as follows:

- Our current 150 million pound share buyback program has 65 million pound remaining, and we intend to complete this by the end of March 2025.
- Four months ahead of our original target date of July, we will then initiate an additional buyback of 350 million pounds. We expect this to be completed by the end of calendar year 2025.

In addition, we will return a large portion of all the disposal proceeds as they are realised. We will undertake these measures while keeping a strong balance sheet, and our intention is to maintain investment grade rating.

Strategic actions to unlock significant shareholder value and enhance returns to shareholders

So, in summary, starting from a position of strength with good operational and financial performance, now is the right time to set out the next phase of our strategy.

As we execute this, we will become a more focused business with significant potential for growth and future value creation.

focusing on our world-class Chong, Crane and Flex-Tek businesses. Carefully managing the separation of Smiths, interconnects and Smiths Detection and enhancing our capital returns will deliver significant value for all stakeholders. We are excited about the opportunity this presents and look forward to updating on the delivery of this plan as it progresses.

Julian and I are now happy to take your questions.

Q&A

Lushanthan Mahendrarajan (JP Morgan): Hi. Morning, guys, and thanks for the presentation. I've got a few questions, if that's okay. The first is really on timing. I guess why now? It's clearly been it's been an ongoing conversation for years. I guess a lot's happened recently with the activist investor. I'm sure these things don't happen that quickly but could I get an update on why now and the timeline to getting here. And I guess, what's the rationale for keeping John Crane and Flex-Tek? I know you sort of touched on it but might be good to get a bit more detail around that.

And then the third is just on Detection, just in terms of divesting or demerger. What are the factors you're weighing up there in terms of, which, which way you go?

Roland Carter (Smiths Group CEO): Thank you Lush for the three questions. Why now? We have strong performance across the whole business. And you know, we have definitely got significant momentum within Smiths Detection and Smiths Interconnect. Since I became CEO a little over nine months ago, we have been very active and we have been doing a full strategic review of the whole business. We made the decision that this was the path to maximize value. And therefore, as we made that decision and as we were a public company, we had to therefore, update the market. We can certainly provide more detail, in, in March at our H1 results.

To answer your question about John Crane and Flex-Tek, these businesses have and continue to have exceptionally strong operational and financial performance, and we're confident in the growth of the markets that we're aligned to, and very confident in our ability to create value with these businesses. As you know, both businesses are exposed to energy and the industrial markets where we can all see very positive growth trends. They have, as been often reported, highly complementary business models and financial profiles. And we feel that it's much more value we can add to those businesses as we go forward. And we know that the shareholders recognize that and appreciate that the value of those businesses. Just to reiterate the presence in attractive markets and leading positions, high margins, returns notably above the group averages and above our target ranges in fact, and also you know there is M&A potential in growth adjacencies for that as well.

Moving on to your third question. The Detection options, demerger or sale. Again, Detection, as you've seen in the results and how we've been updating the market, Detection is in an excellent state with substantial momentum. We haven't looked at divesting this business before, but in our strategic review of the whole company, we identified that value could be created either through demerger or sale. And you know, we are all about value creation and we will pursue the route that delivers the most value. We see considerable upside in this business. So we will consider all options. So thank you for those questions Lush.

Christian Hinderaker (Goldman Sachs): Morning Roland and good morning Julian, and thanks for the opportunity. I wanted to ask maybe about how you see the potential set up across Detection and Interconnect in terms of profiles of potential buyer. I guess maybe the demerger element in terms of the Detection decision might be linked to competitive dynamics in that industry, but also security concerns that might constrain a potential trade buyer. Is that a fair assessment? And do you have any color on shape of the prospective buyers?

Roland Carter (Smiths Group CEO): Yes. Thank you, Christian, for the question. Yes. These businesses do deliver very important and critical, products and components. So yes, there will be issues that we will have to deal with and we’ve accounted for in our plans about national security and also, control issues. So, yes, absolutely we will, and we have diligenced that as well. From the point of view of the, the timing of this, we have we've laid out the timing that we will go into a process.

We began the process today for Interconnect and we anticipate announcing the transaction, not completion, but the transaction, by the end of the calendar year 2025. As for Detection, after that we will look at Detection and we are on an approach which is either demerger or sale, whatever the best value is at that point.

Christian Hinderaker (Goldman Sachs): Thank you. Roland. A second question. I just want to cover off, an update, perhaps on the cyber incident. There was some comment on that in the press release, but any added color would be welcome. Thank you.

Roland Carter (Smiths Group CEO): Absolutely. Thank you, so as we said in the press release, further to Tuesday's announcement regarding the cyber incident, we continue to manage the response for very effectively. The impact was very limited to just the company's internal enterprise systems. We have made very good progress with the recovery of these systems. And most of the critical systems are now back on online. This is the result of the excellent team that we have here and the proactive measures that that we put into place to minimize anything that could happen to us.

Obviously, we will continue to relook at our cyber defenses and analyse how we can improve those. In terms of financial impact, maybe I should add a little bit of clarity around that. Our guidance for the full year, I'd like to be very clear, is unchanged. However, noting the proximity to it to our half year, which is of end of January, the last week of January, some of that, some of those sales will shift into the second half of our financial year. But just to be very clear that doesn’t affect our recent upgrades to our guidance at all. We are still very committed to and the FY guidance is unchanged.

Martin Wilkie (Citi): Good morning. Just a couple of questions. The activist letter that you, or that was published a couple of weeks ago, but also talks about the potential for a listing in the US. Was that part of the review that some that you have considered? Is that something that could still be considered just to hear your views on that one? And then secondly, you talk about returning majority of the cash. Is that because there were some dis-synergies where that is pension or tax, these kinds of things, or to keep some powder dry for future deals in the retained divisions?

Roland Carter (Smiths Group CEO): Thank you for the question. On the US listing, we we're looking at all the levers. And as I said, we did a full strategic review across the whole business. We have reviewed that and we see that the actions we are taking are the ones that can create the most value.

From the point of view of returning the majority of the proceeds, this is our stated priority do that and maintain strong investment grade rating on our balance sheet, which is part of that. Just to address directly your questions, which I think, guided towards asbestos and pensions, perhaps, all our liabilities are adequately provided for across asbestos. And perhaps, Julian, you'd like to take us through how well we are doing on pensions.

Julian Fagge (Smiths Group CFO): Absolutely, Roland. Sure. So, over the last few years, we've been taking all the right actions on, on our pensions to insure our schemes. I think, you know, that one is now fully insured. The other is partially insured. And we're well advanced to insure the rest. It won't be done immediately but over the next few years. But, we're in a good position there. Yeah.

Roland Carter (Smiths Group CEO): And let me address that final part of your question about tax. Because of our structure, our structure allows for minimal leakage. That is probably the easiest answer to that.

Mark Davis-Jones (Stifel): Thank you very much. Morning, Roland. Morning, Julian. If I can just get back to one of Martin's points around the US, looking through all this, you're going to end up with two major operating companies, both headquartered in the US. The majority of ongoing revenue and profit in the US. So doesn't ultimately a US listing make more sense once this transition is complete? And then the second one was just on phasing. Why wait until Interconnect is done before starting a Detection process? Is that just in terms of capacity? The businesses are obviously run very independently. So what can be done in parallel? Thank you.

Roland Carter (Smiths Group CEO): Thank you for those for that for those questions. So your first question again is about a US listing. So just probably a little bit of sort of realigning on that. The majority of John Crane isn't actually in the US, and it’s actually headquartered here in the UK as well. About 27% I think of John Crane is actually in the US, if I recall that number exactly. So, we are a global business, and we have been served very well by the UK Stock Exchange since 1914. Is it one of the levers that we've considered? Absolutely. But we feel that the other levers to create value, are much more powerful. And, there would be obviously a lot of challenges about our current shareholders in here in the UK as well.

On the phasing, we have reviewed this and we believe that this is this timing gives us the best opportunity to create value, and ensure that we do create the maximum value for our shareholders and that is why the timing stands as it is.

Andrew Douglas (Jefferies): Morning, gentlemen, and thank you for the presentation of the Q&A. Most of my questions have actually been answered. However, I would like to go back to the question from Christian on Detection.

My understanding was that from a trade sale perspective, it wasn't actually that straightforward given the competition, and where you are for the market position. So can you confirm the trade sale is possible? Is private equity the kind of right owner for this business, given the Homeland Security and the whole question on that front.

I am not sure I fully listened to your whole answer to Christian’s question as to how many potential bidders there could be for this business.

Roland Carter (Smiths Group CEO): Is there is a sale feasible? Yes. a sale is feasible. Will there be national security discussions challenges and other competitive challenges around that? Yes. I'm not going to comment on particular buyers, but quite clearly a demerger or a sale are both the options we have on the table. Thank you for the question. Thanks anyway.

Mark Fielding (RBC Capital Markets): Good morning. A slightly more technical question around the process. Just can you clarify the businesses that you're exiting? I mean, you haven't got a lot of debt anyway, but to exit them debt free, are there any specific liabilities that do go with the exited businesses? I'm thinking in a German pension, that sort of thing.

And secondly, related as well. You know, central costs currently around 8% of Ebit. Does that change that, sort of ongoing group level? How do we think about that in terms of what goes with the exited businesses, etc.? Thank you.

Julian Fagge (smiths Group CFO): Thanks for further questions. Mark. I think it's a bit too early to comment right now on the future balance sheet structure of the of the two assets that we are exiting. To some extent depends on the buyers. But that's work for us to get into over the next few months. On the question on central costs. Just to be clear, today we are committing to right size, our central costs. We'll have more details on them, over coming months. But to be clear, we will be ambitious.

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