

# JOHN CRANE

## MISSION-CRITICAL SOLUTIONS FOR GLOBAL ENERGY AND PROCESS INDUSTRIES

John Crane is a global leader in rotating equipment solutions, supplying engineered technologies and services to process industries including oil & gas, pharmaceutical, chemical, petrochemical, power generation, mining, water treatment, pulp & paper, and turbo machinery.

John Crane designs and manufactures a variety of products including mechanical seals and systems, couplings, filtration systems and predictive digital monitoring technologies. John Crane sales and service is accessed through a global network of more than 200 sales and service facilities in over 50 countries.

### FY2019 PERFORMANCE

#### Revenue

**£945m** +8%\*

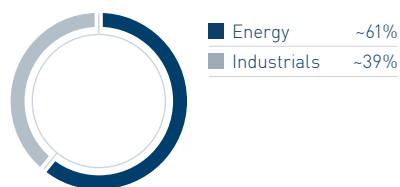
#### Headline operating profit

**£220m** +6%\*

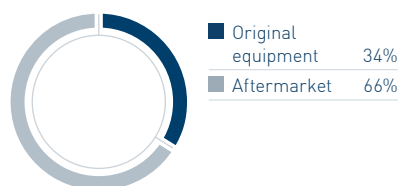
#### Headline operating margin

**23.3%** +40bps

#### Revenue by sector



#### Revenue mix



### COMPETITIVE STRENGTHS

- A global leader in flow control for rotating equipment
- Strong proprietary technology and expertise in applied engineering
- Broad installed base in energy and industrials
- Strong aftermarket service offering with c.200 sales and service centres
- Long-term customer relationships

### GROWTH DRIVERS

- Underlying energy demand
- Pent-up demand for maintenance and upgrades in oil & gas and petrochemical
- Expansion in higher-growth markets
- Need for operational improvements in industrial process industries
- Disruptive innovations, including materials science advancements and digital transformation

### COMPETITORS

Competitors range from large multinationals to small, more focused companies across the product portfolio. Examples include: Flowserve, EagleBurgmann, AES, Danaher, Hydac, Rexnord

\* Underlying change. Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.





## JOHN CRANE'S SEAL UPGRADES HELP ONE OF THE WORLD'S LARGEST GOLD MINES SAVE \$250,000 A YEAR

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One of the world's largest gold mines, located in a remote section of Peru, was experiencing high seal failure rates on their slurry pumps (designed for pumping liquid containing solid particles). In addition, the mine's existing seal provider was not producing adequate technical information for seal operation and implementation.

John Crane was asked to conduct a survey of the mine's equipment to understand the failure issues and provide a solution. The team provided first-class customer service and delivered a quick, in-depth analysis. This, paired with a track record of high-performing seals, meant John Crane was chosen as the new slurry seal provider to replace the existing seals, packing rings and bearing isolators on 120 of the mine's pumps.

The mine is now saving \$250,000 per year in purchases of mechanical seals, and the failure rate has improved from an average of once per month to once every six months. And within six months, the team was also able to improve service and product delivery of high rotation equipment from six weeks to one week.

With decades of experience serving the mining and minerals industries, John Crane has the engineering expertise and high-reliability pump solutions needed to solve the most difficult challenges in the harshest environments while delivering maximum performance.

## DIVISIONAL STRATEGY

Our strategy is to reinforce our global leadership in technologies and services for rotating equipment, with a competitively differentiated offering that will deliver above-market, long-term growth in the most attractive process industries.

We will maintain differentiation by investing in product development, continuing to diversify into industrial segments and higher-growth regions, and broadening our aftermarket value proposition. We will also evaluate strategic bolt-on acquisitions to accelerate growth.

We will further drive competitiveness through operational improvements based on safety, quality and improved lead times.

### LINK TO GROUP STRATEGY



#### OUTPERFORMING OUR CHOSEN MARKETS

- Industrial market penetration
- Product development to support end-market diversification and digitisation
- Continued focus on higher-growth regions with contract wins in China, Thailand, Singapore and Korea
- Strong new product pipeline and constant portfolio review



#### DELIVER WORLD-CLASS COMPETITIVENESS

- Continue to implement SES pillars focusing on lean and continuous improvement
- Focus on business process standardisation using automated systems
- Develop strategic manufacturing and supply strategy

## PRODUCTS

Our comprehensive product portfolio includes mechanical seals, seal support systems, power transmission couplings, specialised filtration systems and digital monitoring. These engineered solutions drive improvements in reliability and reduced environmental impact in our customers' operations.

Our large installed base – built over the last century across a number of vertical markets – drives significant aftermarket demand. We have one of the largest networks of global sales and service centres, ensuring proximity and rapid service to customers. These centres provide a range of services, including repair and refurbishment, upgrades and retrofits, root cause analysis, and alignment and condition monitoring to improve equipment performance and reduce operational downtime.

## MARKETS WHERE WE OPERATE

**Energy:** Following a period of significant downturn, the oil & gas markets continue to recover, driven by underlying energy demand. Customers are investing in growing areas such as liquefied natural gas and pipelines, and we have recently seen increased aftermarket activity in the form of demand for ongoing maintenance and upgrades.

**Industrials:** We also have a significant and growing presence in other process industries, including pharmaceutical, chemical, power generation, mining, water treatment, and pulp & paper. We expect these verticals will continue to grow in the near-term, helped by increasing demand in higher-growth regions.

**Original equipment (OE)** is cyclical and is linked to new capacity coming on stream, as well as improved efficiency in existing locations where higher performance seals are installed.

**Aftermarket:** We continue to expand our footprint through new service centres in selected higher-growth markets, as well as the best-in-class field service teams. We continue to support and partner with our customers, delivering long-term solutions and reliability contracts, focusing on operational efficiencies.

## TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as the global demand for energy and efficiencies and increased digitalisation and connectivity, will continue to generate demand for our products over the longer term.

### Megatrend

### Innovation in FY2019

#### Energy demand and efficiencies

A new dry gas seal in the Aura™ range which reduces methane emissions

An advanced seal for light hydrocarbon pipeline pumps which supports pump efficiency and tolerance of harsh operating environments

An innovative smaller footprint filtration system to enhance performance

#### Increased digitisation and connectivity

Continued development of John Crane's Sense™ predictive diagnostics systems

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>945</b>	881	+7%	+8%
Original Equipment	313	292		+13%
Aftermarket	632	589		+5%
<b>Headline<sup>2</sup> operating profit</b>	<b>220</b>	202	+9%	+6%
<b>Headline<sup>2</sup> operating margin</b>	<b>23.3%</b>	22.9%	+40bps	
<b>Statutory operating profit</b>	<b>191</b>	199	(4)%	
<b>Return on capital employed</b>	<b>23.4%</b>	22.9%	+50bps	
<b>R&amp;D cash costs % sales</b>	<b>1.7%</b>	1.3%	+40bps	

### Revenue

John Crane delivered a continued good performance, with revenue up 8% on an underlying basis. Reported revenue was up 7%, including £(13)m net impact from the disposal of the Bearings business and the acquisition of Seebach GmbH in the prior year and £10m favourable foreign exchange translation.

Underlying revenue from John Crane's Energy and Industrial activities was up c.10% and c.4% respectively, reflecting the improved trend in global energy markets and continued growth in John Crane's industrial sales. These market conditions also drove improved underlying sales of Original Equipment (OE), up 13%. Investment in OE projects and the expansion of the installed base continued during the period. Multiple new project agreements were secured, including oil & gas expansion projects in the Middle East, United States, APAC and Europe, an oil field development project in Brazil, as well as new power, petrochemical, pulp and paper, and chemical contracts across all regions. John Crane's large installed base and leading service offering position it well to satisfy strong aftermarket demand for repairs, maintenance and upgrades; underlying aftermarket revenue grew 5% during the year and now represents 66% of John Crane's revenue.

### Operating profit

Headline operating profit of £220m increased 6% on an underlying basis, mainly driven by strong volumes. Headline operating profit margin was 23.3%, up 40bps, with the positive impact of volume growth and the disposal of a lower margin business partially held back by the higher mix of OE, the costs of restarting capacity and increased investment in R&D. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

### Portfolio

In April 2019, John Crane completed the acquisition of the industrial division of Advanced Diamond Technologies (ADT) for an enterprise value of \$8m. ADT is a leader in the development and application of diamond films for industrial, electronic, mechanical and medical applications. The acquisition enhances John Crane's technological leadership.

### ROCE

ROCE was up 50bps at 23.4% driven by the impact of disposals and increased profitability, partially offset by acquisitions and investments in capex.

### R&D

Cash R&D expenditure during the period increased by 33% or £(4)m to 1.7% of sales (FY2018: 1.3%). John Crane's innovation is primarily focused on using materials science advancements and coatings to enhance seal performance and efficiency, as well as leveraging the Group's digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies. During the year John Crane launched a simplified cartridge seal design for process industries, supporting faster and easier installation. The advanced seal for crude oil pipeline pumps, launched last year, saw rapid adoption by some of the world's leading pipeline companies.

### Outlook

John Crane continues to see strong order intake for both OE and aftermarket. This supports our expectations of good growth in FY2020, albeit against a strong comparator.

<sup>1</sup> **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses

<sup>2</sup> **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements

# SMITHS DETECTION

## DETECTION AND SCREENING TECHNOLOGIES FOR THE IDENTIFICATION OF SECURITY THREATS AND CONTRABAND

Smiths Detection is a global leader in detection and screening technologies for the protection of people and assets, supporting safety, security and freedom of movement in today's world. We work with customers in a broad range of markets including aviation, ports & borders, defence and urban security, providing complete solutions that address existing and emerging threats. Smiths Detection's reputation is underpinned by extensive experience, differentiated technology, and a strong track record of success.

### FY2019 PERFORMANCE

#### Revenue

**£798m** (2)%\*

#### Headline operating profit

**£127m** (7)%\*

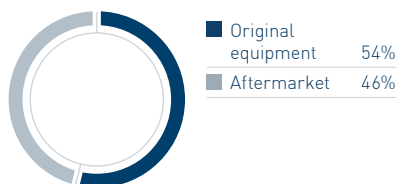
#### Headline operating margin

**16.0%** (90)bps

#### Revenue by sector



#### Revenue mix



\* Underlying change.

### COMPETITIVE STRENGTHS

- A global market leader with differentiated technologies leveraged across a broad range of markets
- Significant R&D capability
- Operating in regulated markets that require product certification
- Increasing digitisation and aftermarket revenue
- Long-term customer relationships

### GROWTH DRIVERS

- Persistent and evolving terror threats
- Changing security regulations in the aviation market
- Growing urbanisation and the need to protect people and assets in these environments
- Global growth in e-commerce and passenger numbers
- Equipment replacement cycle, typically 7-10 years
- Growth of transportation infrastructure in Asia, Latin America and Africa

### COMPETITORS

Across the product portfolio, our competitors range from large multinationals through to smaller, single product companies. Examples include: Rapiscan, L-3 SDS, Nuctech





## EXPANDING IN INDIA

India is projected to be the world's fastest-growing economy for the rest of the decade and will soon become the world's fifth largest economy.

Smiths Detection has continued to expand into India's aviation sector, which is witnessing unprecedented growth. This means it is more important than ever that airports in the country are well equipped and prepared to handle safety and security challenges for the future.

Smiths Detection is presently installing screening and detection solutions in many airports across the country so that they stay ahead of evolving threats. Within the ports & borders market, Smiths Detection is installing a High-Energy X-ray container scanner-portal for Adani, India's largest port operator in Northern Chennai. Additionally, Smiths Detection is supplying 120 chemical warfare agent identifiers, which will be deployed by the Indian armed forces.

Smiths Detection has recently opened a state-of-the-art Service, Training and Experience Centre in Gurugram, India to support its customers across airports, ports and borders, hospitality industries, critical infrastructure, logistics providers and e-commerce platforms in the region.

Smiths Detection's reputation as a trusted, best-in-class partner alongside our ground-breaking detection technologies is helping drive further customer wins in all major markets across the Asia Pacific region.

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## DIVISIONAL STRATEGY

Our strategy is to maintain our position as a leading technology provider by building high-integrity detection solutions that support our customers' evolving security needs.

We will accelerate growth by working closely with our partners, suppliers and regulatory bodies to deliver a highly agile approach to changing security threats. We will create value by continually improving our hardware and digital solutions, making it easier for customers to engage with us and by becoming more efficient.

### LINK TO GROUP STRATEGY



#### OUTPERFORMING OUR CHOSEN MARKETS

- At least maintaining our share of the installed base during recapitalisation periods
- Continued product development and certifications to support growth
- Continued focus on higher-growth regions supported by contract wins



#### DELIVER WORLD-CLASS COMPETITIVENESS

- Globalise, standardise and streamline our internal processes utilising continuous improvement initiatives and leveraging global best practices
- Focus on supplier development and reduction of COPQ

## PRODUCTS

Our comprehensive product portfolio comprises x-ray and computed tomography (CT) scanners for hold baggage and checkpoint, people screening scanners, tray handling solutions and trace detection devices for checkpoint secondary screening, as well as digital solutions.

We produce portable devices for chemical, explosive and narcotic detection and identification. Our product portfolio also includes stationary and mobile heavy cargo vehicle inspection systems. CORSSYS™, our digital analytics platform, is an integrated security screening management solution that hosts purpose built applications.

## MARKETS WHERE WE OPERATE

Demand for trace and detection equipment and service is forecast to continue to grow over the long term. As ongoing geopolitical unrest and terrorist and criminal threats evolve, so do security measures – but there is variation by geography within our markets.

**Aviation**, our largest market, has strong, long-term growth drivers. Regulatory changes, combined with growing passenger numbers and increasing global e-commerce, are driving demand for integrated solutions that improve efficiencies and movement, while enhancing the security of people and infrastructure. Digital technological advances will see the continued evolution of this industry.

In **Other Security Systems** we have three sub-segments:

In ports & borders, the growth of worldwide trade volumes is expected to increase demand for security screening equipment and digital solutions that drive inspection processing speeds. Powerful digital technologies and next-generation connected hardware are needed to tackle escalating cross-border smuggling, limit illegal activities and minimise threats – without affecting trade.

In defence, emerging threats are generating global demand for mobile and adaptable detection equipment for chemical warfare agents and other threat-specific sensors in key NATO-orientated markets. This market is affected by the nature of its associated procurement cycles.

Urban security is a large but fragmented and mainly unregulated market. Critical infrastructure, mass transit and crowded spaces have specific customer needs and challenges. Demand is growing – driven by increasing urbanisation and the response by both the public and the private sector to an ever-growing range of threats – for solutions that will allow the public to go about their lives as normal, with the peace of mind that their security and welfare are being protected.

Almost half of our customers are government funded and, consequently, budget constraints affect market revenues. Original equipment (OE) drives the programmatic nature of our business. The lifecycle of OE is typically 7-10 years. Aftermarket as a percentage of revenue is increasingly driven by our growing installed base, advances in our digital capability, and our focus on providing a complete solution to our customers.

## TRENDS SHAPING OUR INNOVATIONS

Megatrends, such as increasing digitisation and connectivity, artificial intelligence, and mobility and globalisation are likely to continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
<b>Increasing digitisation and connectivity</b>	<b>CORSSYS™</b> – a digital platform for advanced security screening management
<b>Artificial intelligence</b>	<b>iCMORE™</b> – automated threat/target identification digital applications
<b>Mobility and globalisation</b>	<b>HCVM LORRY</b> – next generation mobile high energy inspection system

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>798</b>	793	+1%	(2)%
Aviation	522	540		(6)%
Other Security Systems	276	253		+6%
<b>Headline<sup>2</sup> operating profit</b>	<b>127</b>	134	(5)%	(7)%
<b>Headline<sup>2</sup> operating margin</b>	<b>16.0%</b>	16.9%	(90)bps	
<b>Statutory operating profit</b>	<b>91</b>	93	(2)%	
<b>Return on capital employed</b>	<b>11.5%</b>	12.1%	(60)bps	
<b>R&amp;D cash costs % sales</b>	<b>8.4%</b>	7.4%	+100bps	

### Revenue

Smiths Detection's underlying revenue decreased by (2)%. This reflects an improved second half performance but the customer deferral of some large deliveries in to the first half of FY2020. Aftermarket revenue grew 2% on an underlying basis and now accounts for 46% of the division's revenue (FY2018: 44%). Reported revenue was up 1%, including £22m favourable impact from foreign exchange translation.

Revenue from Aviation activities decreased (6)% on an underlying basis against a strong comparator. The compound annual growth rate of Aviation revenue over the past two years is c.6%. Aviation is Smiths Detection's largest segment, representing 65% of total revenue. We continued to see strong demand for hold baggage screening (HBS) systems in EMEA, associated with the ECAC Standard 3 Regulation, and globally as airports upgrade their HBS fleets. Some significant HBS contracts signed recently include a £128m order by Aena in Spain due for delivery through FY2020-2023. Smiths Detection's Computed Tomography (CT) based screening systems for cabin baggage are being successfully trialled globally. The new scanners enable more efficient detection of threats and eliminate the need to take liquids and laptops out of bags. The CT cabin baggage scanners have already

been purchased by airports in Korea, Japan, Australia and the TSA has recently placed a \$96.8m order for installations, some of which were originally anticipated in FY2019.

Revenues from Other Security Systems grew by 6%, reflecting an improved focus in Smiths Detection's other core vertical markets, particularly ports and borders. Major deliveries during the year included Egypt, India and Azerbaijan. Further wins included a contract with Meridian Port Services Limited (MPS) to provide scanning portals for the major Tema Port Expansion project in Ghana.

### Operating profit

Headline operating profit decreased (7)% on an underlying basis, reflecting pricing pressure in the latter stages of the European hold baggage recapitalisation cycle and the mix of programmes delivered. This is partially offset by a higher proportion of aftermarket revenues, which typically have higher margins than original equipment sales. Headline reported operating margin decreased (90)bps to 16.0%. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

### ROCE

ROCE decreased by (60)bps to 11.5% reflecting the division's lower profitability and higher working capital during the period.

### R&D

Cash R&D expenditure during the period was 8.4% of sales, or 6.6% excluding customer funded R&D (FY2018: 7.4% and 6.3% respectively). We continue to invest in the development of the next generation of detection devices for the defence market, new algorithms to improve the detection of dangerous goods for cargo applications and operational efficiency, and digital solutions to strengthen our aftermarket proposition.

### Outlook

In Smiths Detection, we expect low single digit revenue growth for the year supported by a robust order book, with deliveries weighted towards the first half.

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# FLEX-TEK

## INNOVATIVE COMPONENTS TO HEAT AND MOVE FLUIDS AND GASES

Flex-Tek is a global provider of engineered components that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets. Our flexible hosing and rigid tubing provide fluid management for fuel and hydraulic applications on commercial and military aircraft, deliver gas and conditioned air in residential and commercial buildings, and provide respiratory care for medical applications. Flex-Tek heating elements and thermal systems improve the performance of medical and diagnostic equipment as well as that of domestic appliances such as clothes tumble dryers and HVAC equipment.

### FY2019 PERFORMANCE

#### Revenue

**£436m** +3%\*

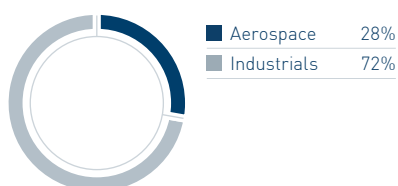
#### Headline operating profit

**£84m** +4%\*

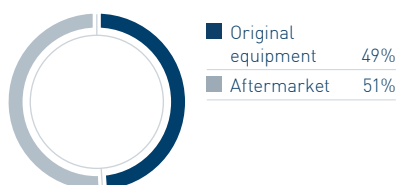
#### Headline operating margin

**19.2%** +30bps

#### Revenue by sector



#### Revenue mix



\* Underlying change.

### COMPETITIVE STRENGTHS

- High performance products
- Leading capability in design and manufacture
- A market leader in residential gas tubing products
- High performance flexible tubing for aerospace
- Strong customer relationships

### GROWTH DRIVERS

- Through cycle growth of the US housing construction market
- Expanding international market for corrugated stainless steel tubing for residential housing
- Continued increase in large commercial aircraft production
- Growth of medical devices, especially for the treatment of sleep apnoea
- Expansion in higher-growth markets

### COMPETITORS

Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Parker-Hannifin, Eaton, Omega Flex, Nibe



## INTEGRATING UNITED FLEXIBLE

The integration of United Flexible into Flex-Tek is progressing to plan. The rebranding and re-organisation of the United Flexible companies is now complete and cross business and cross-functional teams are in place, focused on delivering the acquisition synergies and implementing the Smiths Excellence System across the business.

In Aerospace, the combination will help penetrate new markets and expand the existing customer base. Shared capabilities will open up new product opportunities, for example applying United Flexible's capability in hydroforming technologies for the manufacture of larger diameter, complex ducts with greater quality and efficiency than other forming methods.

In the Industrial business there will be benefits from new product capabilities, for example, in the metal bellows and thermal actuator platforms, as well as the opportunity to leverage United Flexible's footprint in Europe to help accelerate Flex-Tek's growth in new geographies.

## DIVISIONAL STRATEGY

Our strategy is to outperform our chosen markets through technological differentiation, with the need for safer, more energy-efficient solutions providing opportunities for us to establish leadership positions across our segments.

We aim to do this by developing our product portfolio, expanding in our target regions, growing existing market share and driving operational excellence to increase competitiveness. We also consider the right strategic bolt-on acquisitions to support growth.

Specific focus areas include growing our market share in the US housing market, expanding our international markets for gas tubing and securing positions on next-generation aircraft.

We drive competitiveness through operational improvements.

### LINK TO GROUP STRATEGY



#### OUTPERFORMING OUR CHOSEN MARKETS

- Integration of United Flexible progressing to plan
- Launched new innovative products including FlashShield+™
- Progress in international expansion



#### DELIVER WORLD-CLASS COMPETITIVENESS

- Continue the lean transformation of all sites, including the newly acquired United Flexible sites using the SES site development guide
- Focus on quality by adopting a formal supplier quality methodology and optimise supply base

## PRODUCTS

In **Aerospace**, we are a market-leading provider of specialty tubing assemblies that provide reliable, efficient delivery of hydraulic fluids and jet fuel for commercial and military aircraft globally.

In **Industrials**, we are one of the world's largest manufacturers of open coil heating elements, supplying electric resistance heating elements for a broad range of applications, including compressors, clothes dryers, duct heaters, heat pumps, window air conditioners, and vending machines. We also provide flexible ducting for commercial and residential HVAC applications, hoses for the automotive market to deliver fuel and brake fluid, as well as corrugated stainless steel tubing that supplies natural gas or low-pressure gas to appliances.

## MARKETS WHERE WE OPERATE

Key markets include US residential and commercial construction, global aerospace tubing and hoses, and electrical heating elements.

Our business performance generally follows macroeconomic indicators such as US GDP, US housing growth, healthcare spending and capital goods expenditure. Population growth drives residential construction and domestic appliance demand in the US, while high-growth markets drive commercial aerospace demand through increasing air passenger and freight volumes and investment in next-generation aircraft. The diverse nature of our markets reduces our reliance on any specific technology, although we are primarily exposed to the US economy.

In **Aerospace**, the market for commercial aircraft remains strong, with a current strong Original Equipment Manufacturer (OEM) order book.

In **Industrials**, growth is driven by the US housing market, along with an increasing number of specialty heating applications and flexible gas piping and HVAC ducting in North America and Asia. Our products are also used in the manufacture of medical devices such as sleep apnoea devices, where increasing global healthcare spend is driving growth.

## TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as energy demand and efficiencies, and mobility and globalisation, will continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
Energy demand and efficiencies	Energy efficient heating, lower weight aerospace products and more sustainable building practices
Mobility and globalisation	Expanding in Europe with Gastite and leveraging the United Flexible European footprint  Expanding product breadth in China to support industrial applications

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>436</b>	354	+23%	+3%
Aerospace	121	87		+3%
Industrials	315	267		+3%
<b>Headline<sup>2</sup> operating profit</b>	<b>84</b>	67	+25%	+4%
<b>Headline<sup>2</sup> operating margin</b>	<b>19.2%</b>	18.9%	+30bps	
<b>Statutory operating profit</b>	<b>68</b>	68	-	
<b>Return on capital employed</b>	<b>23.3%</b>	35.0%	(1,170)bps	
<b>R&amp;D cash costs % sales</b>	<b>0.6%</b>	0.6%	-	

### Revenue

Flex-Tek delivered a good performance with revenue up 3% on an underlying basis, driven by growth in both the Industrial and Aerospace segments. On a reported basis, revenue increased 23%, including £56m incremental revenue associated with the acquisition of United Flexible and £14m favourable foreign exchange translation.

Aerospace revenue was up 3% on an underlying basis, driven by growth in new engine and airframe platforms including the Joint Strike Fighter, the GE GENx engine and Airbus A320 models as well as growth in the aftermarket business. Industrial revenue was up 3% driven by growth in specialty products for process heating solutions and US housing construction, and Gastite penetration in Europe.

### Operating profit

On an underlying basis headline operating profit increased 4% to £84m, driven by revenue growth and a £3m credit from a litigation settlement offset by a £(3)m one-off cost relating to a facility closure in Asia. Headline operating margin increased 30bps to 19.2%. The difference between statutory and headline operating profit is primarily due to a reduction in the provision for Titeflex Corporation for subrogation claims, and acquisition costs.

### Portfolio

In February 2019, Flex-Tek completed the acquisition of United Flexible for an enterprise value of \$345m. This acquisition strengthens Flex-Tek's positions in aerospace and industrial end markets globally. The integration is progressing well.

### ROCE

ROCE decreased (1,170)bps to 23.3%, driven by the acquisitions of Osram's heating element business in the prior year and United Flexible this year.

### R&D

Cash R&D expenditure remained consistent at 0.6% of sales (FY2018: 0.6%), focused on market-leading innovative solutions to meet specific customer needs. The most significant product launch was Gastite Flashshield+ which provides easier installation for contractors while maintaining best in class safety performance.

### Outlook

In Flex-Tek, we expect to deliver a similar rate of growth in FY2020 bolstered by the impact of the acquisition of United Flexible. Strong demand for aerospace and heating solution components, as well as increased penetration into the European construction markets, is expected to be partially offset by some signs of softening in the US housing construction market.

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# SMITHS INTERCONNECT

## SOLUTIONS FOR HIGH SPEED, SECURE CONNECTIVITY IN DEMANDING APPLICATIONS

Smiths Interconnect is a leading provider of technically differentiated electronic components, subsystems, microwave and radio frequency products that provide secure connectivity of critical applications in the defence, aerospace, communications and industrial markets. Our advanced, high-quality solutions ensure high speed connectivity, reliability and safety for demanding applications operating in harsh environments.

### FY2019 PERFORMANCE

#### Revenue

**£319m** +3%\*

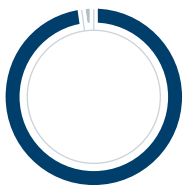
#### Headline operating profit

**£47m** +6%\*

#### Headline operating margin

**14.7%** +60bps

#### Revenue mix



Original equipment	98%
Aftermarket	2%

### COMPETITIVE STRENGTHS

- Innovative and technically differentiated products
- Ultra-high reliability solutions used in demanding applications
- Strong research and engineering capabilities
- Customer intimacy, responsiveness and product customisation
- Global presence, reach and support

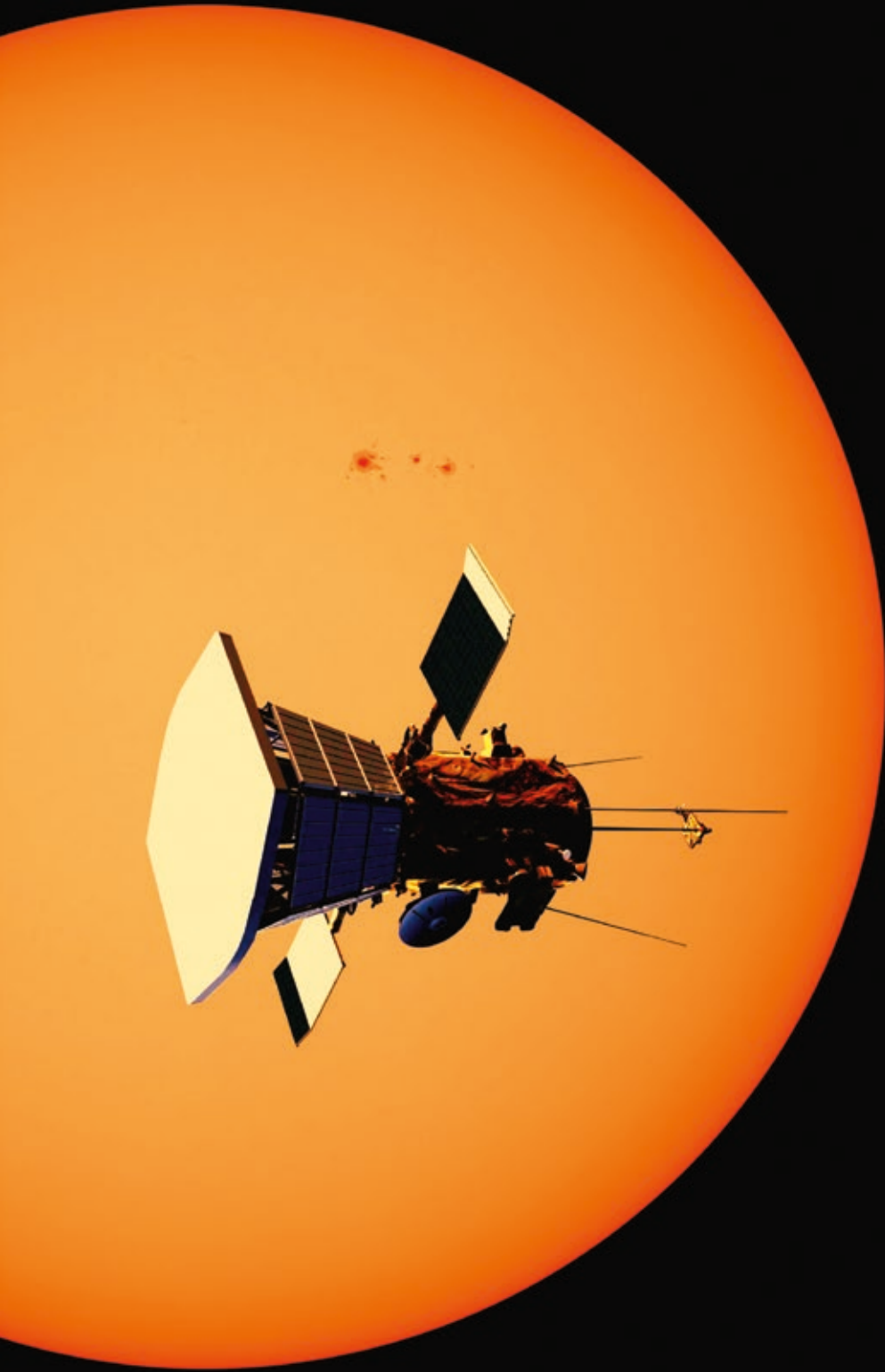
### GROWTH DRIVERS

- Increased connectivity in space and aerospace
- Growing urbanised population requiring transport and infrastructure
- Increasing geopolitical uncertainty
- Extension of internet connectivity to improve efficiency and data accuracy (Internet of Things, Industry 4.0)

### COMPETITORS

Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Amphenol, TE Connectivity, Molex, Leeno, Cobham

\* Underlying change.



## SPACE CONNECTORS GET TOUGH FOR NASA'S ROBOTIC SPACECRAFT

The most mission-critical of aerospace systems are the ones that journey into space, where they encounter the toughest environments. When they leave the Earth's surface they must contend with huge radiation levels, vibration, shock and temperature extremes, making durability and reliability critical features of our connectivity components.

Smiths Interconnect's microwave RF (radio frequency) components, delivering high-reliability and connectivity performance, are used in the data and control transmission systems of the Parker Solar Probe, a NASA robotic spacecraft. It was launched in 2018, with the mission of repeatedly probing and making observations of the outer most part of the sun's atmosphere. In 2024, it is expected to approach to within 3.83 million miles of the centre of the sun, achieving a top speed of about 430,000 miles (700,000km) per hour. That's fast enough to get from Washington D.C. to Tokyo in under a minute.

The Parker Solar Probe has just successfully completed its second close approach to the sun, the closest any other spacecraft has been before. For projects of such significance, Smiths Interconnect's engineering expertise, superior technology and customer service enable our customers to push the limitations of what's possible and help bring the boundaries of the universe a little closer.

## DIVISIONAL STRATEGY

Our strategy is to outperform our chosen market segments through customer focus, new technology, operational excellence and targeted geographical investment. We aim to be a supplier of choice to customers that value our broad portfolio of innovative and technically differentiated connectivity solutions by having strong key account partnerships and efficient channels to market.

We will continue to focus on specific market segments including defence and aerospace, communications and industrial applications. We will drive competitiveness through R&D and we will fund our investments through manufacturing efficiency.

### LINK TO GROUP STRATEGY



#### OUTPERFORMING OUR CHOSEN MARKETS

- Continued emphasis on key account management to develop customer intimacy
- Increased focused R&D investment of over 7% of sales to drive growth in our Vitality Index
- Build presence in India, focusing on defence, satcom, space and rail market segments
- Continued focus on higher-growth regions with our Sichuan Huafeng JV in China



#### DELIVER WORLD-CLASS COMPETITIVENESS

- Continuous improvement and lean manufacturing through Six Sigma process improvement, deployment of mechanised/automated processes, and use of disruptive technologies to enable new manufacturing methods
- Simplified global operational structure through single enterprise resource planning (ERP) implementation, legal entity simplification and network optimisation (regional end-to-end supply chain)

## PRODUCTS

We provide technically differentiated electronic components, subsystems, microwave and radio frequency products that connect, protect and control critical applications in harsh environments in a number of focus market segments.

Our products are used in radar, communication and surveillance systems that are mission-critical and operate in extreme environments in aerospace and defence. Our solutions in engine systems, power distribution and avionics ensure reliability in flight-critical systems. Our microwave components and connectors ensure optimal performance, durability and safety in space, including LEO, MEO and GEO (Low, Medium and Geostationary Earth Orbit) satellites.

Our semi-conductor test products are used to test highly sophisticated semi-conductors and electronic circuits in use in communication systems, gaming products and computing devices. Our in-flight antenna systems give passengers internet connectivity gate-to-gate on planes around the world. Our connectivity solutions are used in surgical and monitoring systems, imaging systems and disposables applications. Our products control the reliable operation of train rolling stock (driver cabin braking systems) and ensure the integrity and speed of data transmission in signalling (train monitoring by satellites).

## MARKETS WHERE WE OPERATE

Increasing geopolitical uncertainty and operations in extreme environments create a platform for growth for defence applications. Increased demand for communication and data transmission requires additional satellites, especially LEO and MEO. Increasing passenger numbers and freight demand, as well as upgrades to aircraft fleets to more efficient models, generate growth for our aerospace business.

The growth in big data, which requires more bandwidth and increased computing power, combined with a high rate of technology refresh with increased functionality and connectivity, creates further opportunities for the growth of Smiths Interconnect products. An ageing population and the rise of chronic diseases continues to drive growth for our products in medical applications. Sophisticated digital train systems that improve safety, security and high data-rate connectivity for passengers drives growth in our rail market segment.

## TRENDS SHAPING OUR INNOVATIONS

Megatrends, such as increased digitisation and connectivity and mobility and globalisation are likely to continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
Increased digitisation and connectivity	High speed data, smaller packaging and increased power needs Smart devices, intelligent systems, device to device
Mobility and globalisation	Space constellations, increased bandwidth, big data and 5G

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
Revenue	319	300	+6%	+3%
Headline <sup>2</sup> operating profit	47	42	+10%	+6%
Headline <sup>2</sup> operating margin	14.7%	14.1%	+60bps	
Statutory operating profit	45	37	+22%	
Return on capital employed	12.8%	11.9%	+90bps	
R&D cash costs % sales	7.2%	7.0%	+20bps	

### Revenue

Smiths Interconnect built on its return to growth with underlying revenue up 3%, reflecting good growth in Asia and North America. On a reported basis, revenue increased by 6% including £11m favourable foreign exchange translation.

Revenue growth was driven by sales associated with large defence and aerospace programmes in the US – notably the Joint Strike Fighter, Next Generation Jammer and B-21 programs, as well as successes in the semiconductor segment in Asia. We are beginning to see benefits from investments we have made in capacity and capabilities in the region, including the joint venture with Sichuan Huafeng Enterprise Group Co. Ltd established in 2018. The joint venture is supporting our growth in the commercial aerospace and high-speed rail segments in Asia.

### Operating profit

Headline operating profit increased 6% on an underlying basis to £47m, reflecting the division's sales growth as well as procurement and restructuring savings. Headline operating margin of 14.7% increased 60bps. The difference between statutory and headline operating profit reflects adjustments for amortisation of acquired intangibles.

### ROCE

ROCE increased 90bps to 12.8%, driven by increased profitability.

### R&D

Cash R&D expenditure was 7.2% of sales (FY2018: 7.0%) (6.4% excluding customer funded R&D, FY2018: 6.0%). Product launches included connectors from our SpaceNXT range for space applications, board level components, cable assemblies and high-speed contact technology for defence and space applications as well as next generation power connectors for rail applications.

### Outlook

Smiths Interconnect is expected to make further progress, with continued growth in our key end markets, partially offset by softening in the semiconductor market.

1 **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses  
 2 **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements



## DISCONTINUED OPERATIONS

# SMITHS MEDICAL

Quality medical devices and consumables that are vital to patient care

### FY2019 PERFORMANCE

#### Revenue

**£874m** =\*

#### Headline operating profit

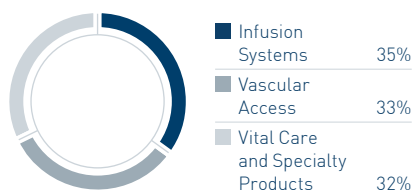
**£147m** (6)%\*

#### Headline operating margin

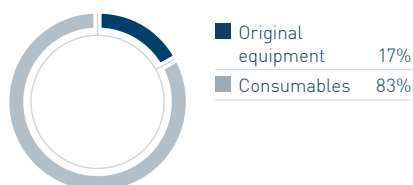
**16.8%** (110)bps

FY2018 performance has been restated for IFRS 15

#### Revenue by sector



#### Revenue mix



\* Underlying change.

### COMPETITIVE STRENGTHS

- A category leader in served segments
- Trusted brands with a reputation for safety
- Strong, defensible intellectual property
- C.80% of revenue from single-use devices and proprietary consumables
- Strong customer relationships and extensive global sales network

### GROWTH DRIVERS

- Ageing populations with increasing personalised healthcare and patient expectation/quality of life
- Increasing incidence of chronic diseases
- Increasing need for connected systems and data analytics
- Growth of alternate site and home-based healthcare
- Growing healthcare spend in developing markets

### COMPETITORS

Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Becton Dickinson, Baxter, B-Braun, Medtronic

## DIVISIONAL STRATEGY

Our strategy is to achieve category leadership in the infusion segment and selected vascular access and vital care segments. We will achieve this with commercially focused innovations, differentiation in our customer support model, and delivery of complete solutions that optimise patient outcomes. We will continue to enhance both our own R&D and our external partnerships to execute our strategy in line with healthcare megatrends.

In order to invest in our future, we will continue to improve our efficiency and operational excellence. Part of this investment, besides customer solutions, will include further developing our people.

We will also continue to improve our capabilities in growing markets outside of North America and Western Europe, enhancing our current global footprint and sales reach. In addition, we will continue to pursue channel optimisation and access to care outside of hospitals.

### LINK TO GROUP STRATEGY



### OUTPERFORMING OUR CHOSEN MARKETS

Launched 12 new products in the past year including:

- The CADD®-Solis VIP multi-therapy ambulatory infusion pump
- Acapella® choice vibratory positive expiratory pressure therapy system
- HOTLINE® blood and fluid warmer



### DELIVER WORLD-CLASS COMPETITIVENESS

- Continuous improvement and lean manufacturing
- Sales focused on: customer retention and top line growth; implementation of cloud based sales technology; expanding market reach with an increased emphasis on commercial partnerships

## PRODUCTS

In **Infusion Systems**, our products deliver medication treatment for conditions including acute and chronic pain, cancer, pulmonary hypertension and Parkinson's disease. Smiths Medical products are used in acute settings, surgery centres, oncology centres, and home settings. We have strong positions in ambulatory infusion and in the syringe market.

In **Vascular Access**, our products cover a range of venous access methods including drawing blood, peripheral intra-venous catheters, ports and needles for the infusion of fluids and medication, and invasive blood pressure monitoring.

Our **Vital Care and Specialty Products** cover a wide range of critical-care and chronic disease management products including tracheostomy, temperature management, general anaesthesia, respiratory and bronchial hygiene.

## MARKETS WHERE WE OPERATE

The medical device industry remains attractive, with strong growth drivers. The global market we serve is estimated to be c.£7.5bn and growing at 3-4% annually, with growth drivers such as expansion of developing markets, ageing populations, increasing need for connected systems and data analytics, and growth of alternate site and home-based healthcare and innovation.

In **Infusion Systems**, the increasing rate of chronic conditions and outpatient treatment favour ambulatory infusion solutions. Healthcare providers are advancing digital integration between infusion devices and their respective hospital information systems.

In **Vascular Access**, continued growth is expected due to safety regulations driving to prevent needlestick injuries, blood exposure, and hospital-acquired infections.

In **Vital Care and Specialty Products**, key growth drivers include the expansion of enhanced recovery after surgery and the prevalence of chronic obstructive pulmonary disease (COPD).

## TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as ageing populations and healthcare demand and increased digitisation and connectivity will continue to generate demand for our products over the longer term.

Megatrend	Innovation
<b>Ageing populations and healthcare demand</b>	<ul style="list-style-type: none"> <li>– Focus on alternate site and home-based healthcare in developing markets</li> <li>– Developing focused technologies targeting chronic conditions</li> </ul>
<b>Increased digitisation and connectivity</b>	<ul style="list-style-type: none"> <li>– Smart pump programming with electronic medical record system integration</li> <li>– Launched software subscription and service model</li> </ul>

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 <sup>3</sup> £m	Reported growth	Underlying <sup>1</sup> growth
Revenue	874	869	+1%	-
Headline <sup>2</sup> operating profit	147	156	(6)%	(6)%
Headline <sup>2</sup> operating margin	16.8%	17.9%	(110)bps	
Statutory operating profit	151	152	(1)%	
Return on capital employed	11.7%	13.1%	(140)bps	
R&D cash costs % sales	6.0%	5.9%		

## Revenue

Smiths Medical's underlying revenue was flat year-on-year. The division returned to growth in the second half with revenue up 2%. The improved trend reflects the increased contribution from new products and a change in sales channel for our chronic obstructive pulmonary disease (COPD) product, both of which offset the previously announced impact of the transition to a new Notified Body in Europe. Reported revenue was up 1% including £16m impact of divestments and £23m favourable foreign exchange translation.

The costs associated with the Notified Body transition and implementation of the new EU Medical Device Regulation were £15m, as anticipated. For FY2020 we continue to expect costs of £10-15m.

Underlying revenue was flat year-on-year in Infusion Systems, with good growth in ambulatory pumps offset by the delayed release of the new Medfusion syringe pump as a result of component supply issues. Vascular Access underlying revenue declined by (3)% as a result of lower peripheral intravenous catheter (PIVC) sales but showed 1% growth in the second half due to strong performance of ViaValve in the blood control space. Underlying revenue from Vital Care and Specialty Products grew 3%, with strong growth in the COPD product line, which is now being sold directly, offsetting lower volumes in tracheostomy, general anaesthesia and respiratory products.

## Operating profit

Headline operating profit declined (6)% on an underlying basis. Operating profit during the year was impacted by the costs associated with the new EU Medical Device Regulation and operational inefficiencies in the first half which are being addressed. Headline operating margin was (110)bps lower than the prior year at 16.8%, with margin showing signs of improvement in the second half at 17.0%. The difference between statutory and headline operating profit included £17m profit on disposals and separation costs.

## ROCE

ROCE decreased (140)bps to 11.7%, reflecting lower profitability during the period.

## Portfolio

During the year, Smiths Medical completed the disposal of two non-core businesses for a total consideration of c.£30m.

## R&amp;D

Cash R&D expenditure was 6.0% of sales (FY2018: 5.9%). Smiths Medical continues to invest in the development of innovative, commercially focused products across the portfolio to support long-term, sustainable growth. In the last 24 months, 33 products have been launched, including 12 in this year.

## Update on separation

In March 2019 we announced plans to separate Smiths Medical, to create two stronger, industry-leading companies with distinct strategies and focus. We are on track to complete the demerger of Smiths Medical in the first half of CY2020, conditional on the approval of Smiths shareholders.

Smiths Medical successfully achieved its FY2019 performance milestones supporting the separation process. The division returned to growth in the second half, with the sustainability of this growth underpinned by the ongoing launch of new products. One of the division's most significant new product investments, the large volume pump, has now been submitted to the US regulator for first phase review. The large volume pump market represents a c.£2bn extension to Smiths Medical's addressable market.

In July, JehanZeb Noor joined as Chief Executive Officer of Smiths Medical to oversee the separation and continue building a strong, sustainable future for Smiths Medical. He is focused on accelerating growth and driving enhanced performance to deliver the division's medium-term ambition of growing ahead of its markets, with operating margins in excess of 20% and attractive returns.

## Outlook

The increasing contribution from new products, and the actions being taken by the reinvigorated management team to accelerate growth and enhance margins, support our confidence in Smiths Medical's improving performance in FY2020.

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3 **FY2018:** has been restated for IFRS 15