

John Crane Deep Dive – Smiths strategy in action – Transcript

Bernard Cicut, President, John Crane

30 November 2023



Slide 1: John Crane – A powerful example of Smiths' strategy in action

Thank you Paul, good morning, all.

Slide 2: Bernard Cicut, President, John Crane

I joined John Crane as President in April 2022. I have been really impressed with the strength of the people and of the business. I am also very excited at the further potential for John Crane to be even better. Prior to this, I had an almost 40-year career at 3M where I had the fortune to work in a variety of operational and financial roles in Europe, the Middle East, Africa, Asia Pacific, and South America with my final role being in the USA, where I headed up the \$4.5 billion personal safety division, supplying safety products across a diverse range of industries and scaling up respiratory protection during COVID to answer to an unprecedented demand across the world to protect people and save lives...

This practical experience of scaling to meet strong global demand is really relevant to the recent demand growth and record order books we have seen here at John Crane.

The breadth of experience in different markets with diverse technologies and customers has given me a deep insight into how great, global businesses operate, and I am really honoured and excited to be a part of Smiths and lead the John Crane team in delivering on the opportunities ahead of us in a transforming world.

Slide 3: Executive summary

John Crane is built on strong foundations. For more than one hundred years, John Crane has equipped global process industries to meet mission-critical challenges with our technologies, which we continue to evolve to support customers' needs. Our customers depend on John Crane to ensure that their operations run efficiently and effectively. Our products are highly engineered and customized and we have extremely skilled service technicians. Together this creates customer intimacy, giving us a sustainable competitive advantage.

We are well positioned in attractive markets with long-term growth opportunities. Our superior global service network and capabilities engender deep customer relationships. We have a large installed base - more than 3 million seals globally - and this gives us a great source of recurring service revenue for many years after we supply the initial products. This has underpinned our strong track record of revenue growth, high margins and returns.

As with all Smiths businesses, we have clear strategic priorities to deliver continued growth; optimise our execution and customer delivery; and develop our people to foster an agile and high performing team. Our domain expertise and this strategy support continued delivery of growth and returns over the long term.

Slide 4: John Crane: improving our world with mission-critical technology

We deliver mission-critical products, services and solutions that enable the energy and process industries to achieve efficient, sustainable operations. Here are the key stats on the business. In FY2023, we surpassed one billion pounds in revenue for the first time in our 106-year history, with organic

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growth of more than 15% - John Crane represents 36% of Smiths group revenue. We delivered a 22.6% margin and 23.8% return on capital employed. By industry, our sales are around 60:40 energy to industrial, with the latter encompassing pharma, chemicals, water, mining and paper. A large proportion of revenue is from our aftermarket service – over 70%. And we operate globally with a good balance by region.

Slide 5: The Smiths Value Engine advancing John Crane

You will recognise the Smiths Value engine - which Paul showed earlier. I would now like to highlight how John Crane supports this framework, Starting with our strengths.

Slide 6: John Crane's fundamental strengths

John Crane's strengths are very much aligned to those of Smiths Group. With world-class engineering – we have more than 100-years of history supporting our customers with highly-engineered mission critical products. This engineered to order model embeds us with customers, creating sustainable competitive advantage.

We are well positioned in attractive markets – with structural growth trends. Our competitive advantage is underpinned by our large installed base, specialised engineering expertise, longstanding customer relationships and global network.

Our global presence helps us support our customers – we have more than 2,000 engineers, located in close proximity to our customer base, enabling a rapid response so our customers can avoid the significant cost of a shutdown.

We have a robust financial framework, delivering strong growth, returns and cashflow. And we'll explore each of these in more detail and how our strengths support delivery of our priorities.

Slide 7: World-class engineering

Starting with world-class engineering. Our technological expertise enables us to deliver a highly engineered product portfolio of seals, support systems, filters, and couplings. Our product sales represent around 30% of the total and our main product offer is our mechanical seals. They are used in rotating equipment such as pumps, mixers and compressors in critical energy and industrial applications. They ensure maximum sealing to prevent or minimise the leakage of liquids or gases. We operate in highly engineered and complex applications, and in harsh environments where the performance of the seal is truly mission critical.

This technical knowhow also applies to our differentiated service offer which is designed to improve equipment reliability, lower cost, reduce downtime and support our customers' energy efficiency, decarbonisation, and overall energy transition goals. This encompasses activities such as the provision of spare parts, repairs, ongoing maintenance and retrofitting, as well as customer training and education. And this aftermarket revenue lasts for more than 25 years and delivers a higher margin than our equipment sales at around 1 point seven five times. Aftermarket represents 70% of sales.

Sook Won Moon and Frank Ma will talk more about how our product and services offers support both

our existing customers, and addresses our new customers in new energy.

Slide 8: John Crane has built leading positions in critical markets

We have leading positions in critical markets: John Crane's total addressable market currently exceeds £15bn. In energy, our total combined addressable market for energy and new energy is currently around £9.3 bn and is expected to grow to around £12.3bn to the end of the decade with sustainability, reliability, decarbonisation, and the energy transition trends being key drivers of this growth.

The energy transition is an exciting opportunity for us as we see new projects emerge in Areas such as hydrogen and carbon capture utilisation and storage where our portfolio and market presence position us very well. It is becoming increasingly clear that this transition will likely take longer and require yet more innovation than many expected. As a leader in those markets, this gives us confidence that we will continue to succeed in these new applications as demand grows beyond 2030.

In the meantime, we will continue to service our installed base of more than 3 million seals and help our traditional energy customers to decarbonise their operations through progressive upgrades and the provision of added value services. The industrial addressable market is also sizeable and expanding.

Slide 9: Our industrial market segments have attractive growth opportunities

40% of our sales are generated across various Industrial market segments and we have lots of opportunity for future growth. Here too a focus on sustainability in terms of efficiency improvements and emissions control are key underpins, along with increasing regulation around safety, reliability, and environmental standards.

For example, in chemicals and pharma, ever-increasing safety standards to ensure product integrity, as well as local environmental regulations, are underpinning demand in all regions. Similarly in mining, ensuring environmental integrity within a complex operation in a harsh environment is underpinning demand for the advanced materials and robust components of our mechanical seals. Alongside this, stricter controls for the disposal of waste, protecting scarce resources such as water, or managing runoff, are supporting growth for our products in paper.

Across all Energy and Industrial market segments, demand for aftermarket and services will continue to accelerate.

Slide 10: Global footprint enables unparalleled customer intimacy

We have global capabilities across a network of just under 200 locations - notably wider coverage than our peers. This global network means that we are well-placed to respond quickly to our customer needs. Our service engineers are located in close proximity to our customers - so we have a local for local approach, but we can leverage our global network and centres of excellence. Rob Sharman will talk to this in more detail later.

Slide 11: John Crane enjoys a robust financial framework

These strengths have helped us deliver a strong financial performance. We posted 15% organic growth

last year, with a particularly strong performance in aftermarket. Our robust orderbook gives us confidence in delivering good growth again this year, despite this record comparator. Similarly, operating profit growth was very strong in FY 2023 and our margins and returns are robust, around 20% and above. Cash conversion is also very good, with opportunity to improve this further as Rob Sharman will mention later.

Slide 12: John Crane is accretive to Smith's medium-term financial targets

Earlier, Paul set out the Group's medium-term financial targets. Here you can see how John Crane compares to these and how our performance has been accretive to them in 2023. The 15% organic growth we delivered last year was notably above the Group target range. Similarly, operating profit growth was very strong, supporting the Group's record 40% EPS growth. Our margins and returns have consistently been about the Group's target range, at 20% and above. And cash conversion is strong, just below the Group's 100% target. So we are contributing strongly to the Group's financial targets.

In the past, when historically this may not have been the case, and growth was not as strong as it is now, during those times John Crane benefited from being part of the wider Smiths group.

Slide 13: The Smiths Value Engine advancing John Crane

Turning now to our priorities of Growth, Execution and People which again support and align with those of the wider Group.

Slide 14: How John Crane is accelerating growth.

As with other Smiths businesses, our top priority is delivering organic growth given the wealth of opportunities ahead of us. The market segment growth opportunities are very attractive, and we expect them to continue in the medium term. Firstly, ensuring a stable energy supply. Secondly, supporting our customers' increasing demand for efficiency, environmental safeguarding and cleaner processes. And finally, the increasing number of 'new energy' projects such as hydrogen and CCUS in the energy transition.

In new product development – meeting the higher spec required and digitisation opportunities – for example our seal gas recovery system, carbon LF seal platform for LNG applications, and our Sense product portfolio leveraging the digital platform already developed by Smiths Detection. You will get to hear about our focus areas for new products in Frank Ma's presentation.

And in adjacencies – we are supporting our customers through the energy transition with existing technologies and by expanding our services portfolio.

Whilst organic opportunities are our current focus and offer notable growth potential, we will also actively cultivate acquisition opportunities – where we can accelerate access to new technologies or geographies and, or, broaden our service capability. Two examples include the acquisitions completed a few years ago of the industrial division of Advanced Diamond Technologies and Seebach. These acquisitions added diamond film technology and highly engineered filtration solutions to our portfolio, enhancing and complementing our product portfolio. And we have a pipeline of acquisition opportunities that we refresh and keep under continuous review.

Slide 15: Executing our strategy to deliver success

Moving now to execution, which is a key focus for myself and the team – it's how we implement our strategy on a day-to-day basis. We set very clear medium-term strategic priorities. Some examples at John Crane include our strategy to accelerate our growth in product and service offering, improve our productivity and supply chain flexibility in the pursuit of operational excellence.

We then break this down into clear annual objectives that we track and measure against in our monthly performance scorecard. This is a common approach across all of Smiths businesses. It ensures ownership and accountability and creates opportunities for us to share best practice and address similar challenges together. Some examples include: revenue from new product or service development, pricing, value delivery from SES, inventory management, driving diversity, developing our People, and reduction in Green House Gas emissions. I am really pleased with how the team has embraced these.

We have record levels of demand for our products and services, and we are executing well. We operate a highly “engineered to order” process, customising our products to customers’ bespoke requirements. We manage this by optimising our supply chain, and use continuous improvement through the deployment of the Smiths Excellence System to drive better efficiencies to serve our customers.

We work closely with our customers through the life cycle of the product - 25 years or more - so ensuring a high-quality service delivery is absolutely essential a combination of technical expertise and quick response times. All of this drives the consistently high returns and margins we have delivered.

Slide 16: Sustainable execution

Execution is a key priority and doing so sustainably is just as important. Our sustainability strategy is broad and is aligned with the Smiths priorities of growth, execution, and people. I'm really pleased with how our team is approaching this and working with our Smiths colleagues. Nearly 30% of sales are from products which provide some form of decarbonisation benefits. Our new energy strategy is supporting hydrogen and CCUS projects globally. And we are delivering on our net zero targets.

On the people side, we have significantly improved our safety metrics, which were already top quartile. We continue to develop our talent and have improved our metrics on promoting internally and have in place a diverse leadership team. Turning to specific examples of what we are doing.

As well as supporting our customers on their sustainability journeys and path to net zero, we too have a clear strategy. Our internal goal is consistent with the rest of Smiths to achieve Net Zero Scope 1 & 2 by 2040 and Scope 3 by 2050. We have a detailed five-year roadmap to achieve this and have already implemented several projects. For example our Lutin facility, in the Czech Republic, worked with its energy provider to certify its electricity use as renewable. This reduced Green House Gas emissions by around 700 tonnes in FY2023. And this year, our facility in Dubai will deploy solar panels. We are also working with an external consultancy to review and cost larger energy saving projects at our high energy-consuming sites. These energy efficiency assessments are shared across all John Crane and other large Group sites, helping other Smiths businesses achieve their net zero aims, a real example of sharing best practice across the Group

Slide 17: John Crane Senior Leadership Team

Turning now to the John Crane leadership team. It is incredibly diverse, has a broad strength of expertise and is fully committed to the strategic direction for the development of John Crane.

The team is diverse both from a gender and nationality perspective. The vast majority, 70%, of the team have lived in countries other than the UK and are able to bring a global mindset which is important for the customers in the 50 plus countries we serve. We also have a broad range of experience within the team. 50% have deep expertise within the markets John Crane serves, 30% are from the wider Smiths Group and the remainder have experience from other industrial sectors. 80% of the team has been internally promoted from within John Crane and, or, Smiths Group.

Today, I'm delighted that you will get to see that expertise and enthusiasm first hand. Sook Won will talk about how John Crane leads the market and how our growth is led by the value we provide to our customers. Frank will talk about how our expertise and proven portfolio of products and services position us to support both existing customers and new entrants in New Energy. And Rob will talk about the successful execution through the entire life of a seal, right from first order through to OE delivery and aftermarket service.

Slide 18: Closing remarks

So, in summary. We are a leading provider of highly engineered mission-critical technologies with a sustainable competitive advantage. Our markets have attractive, long-term growth drivers and we have leadership positions. Our global capabilities and service expertise underpin our deep customer relationships. We are delivering a strong financial performance with high margins and returns. And we are well positioned to deliver growth over the long term. Thank you for listening.