Smiths FY2024 Financial Results

Tuesday 24th September 2024

Opening Remarks

Roland Carter

Chief Executive Officer, Smiths Group

Good morning everyone, and thank you for joining us today. As I said in March, it is an honour to be CEO of Smiths. This is a great company doing many outstanding things. As you will see, the business is in a strong position delivering good results. I will start with some initial thoughts and a short recap of our FY 2024 performance before turning it over to Clare to walk us through the numbers. I will then come back and update you on how I view our strategy and outlook, and we will have plenty of time at the end for Q&A.

Performance Recap of FY 2024

As many of you know, I have been at Smiths for well over 30 years, and during that time, I have had the privilege to run several of our businesses. This has given me a deep appreciation of this group's impressive attributes that have seasoned over time. Smiths is a portfolio of market leading businesses and has many strengths: talented people, many of them with world-class engineering expertise; differentiated proprietary technology and strong brands. We are well positioned in attractive markets that offer significant opportunity for profitable growth, and we are helping our customers to make the world safer, more energy efficient and productive, and better connected. A great foundation and I firmly believe that we are well placed to create more value in the future.

We have diverse and immense talent in the company, and we are committed to nurturing, supporting and developing this most precious of resources. I have always and continue to see my role as creating value for shareholders, customers and colleagues, and indeed, I have benefited from my experience across different businesses and regions developing and sharing best practice. I intend to ensure that more of our people have similar development opportunities. In addition, our commitment to safety, engagement and inclusion, talent development and sustainability will continue to strengthen our culture.

Our Acceleration Plan

Although our business is strong, there is always more to do; from delivering improved performance in partnership with our customers and suppliers to sharing best practice across the group and inspiring and empowering our people. Each business has a clear roadmap to improve profitability and enhance capabilities. This will take time, and although we are not looking at a radical reset, there are a number of initiatives which will drive improvements, centred around our Acceleration Plan. I look forward to sharing these with you today and updating you regularly as we deliver.

To be clear, this plan is about value creation, not just transformation, so we will optimise footprint to support customers as well as invest to enable our processes to scale efficiently as we grow. We propose to invest approximately £60 million to £65 million over the next two years and deliver £30 million to £35 million of annualised savings by FY 27.

I will also outline where I think we can improve things to achieve further growth and drive our margin sustainably to deliver the medium-term financial targets we have set and which I reaffirm today. With that, let me turn to the results.

Financial Results

I am pleased to report we have continued to have a robust delivery against our strategy, with a good operational and financial performance. Both organic revenue growth and operating margin were in line with our guidance. Our cash flow conversion has improved, and we have deployed cash into organic R&D investment and into M&A. This morning we are pleased to announce two acquisitions, which will be integrated into Flex-Tek, enhancing its HVAC and industrial heating platforms. Our balance sheet remains strong to support our continued growth strategy. Overall, we are making good strategic, operational and financial progress.

Looking ahead

So looking beyond next year, we have reaffirmed our medium-term targets. Our focus strategy and leading businesses mean that we are well positioned to create value for all our stakeholders. The opportunities ahead are significant and we look forward to executing on them.

With that, I will now turn it over to Clare to walk you through the financial results.

FY 2024 Financial Results

Clare Scherrer

Chief Financial Officer, Smiths Group

Thank you, Roland, and good morning, everyone.

Overall Financial Results

Organic revenue growth for the year was 5.4%. Acquisitions added 2%, and there was a negative 4.3% FX impact, bringing reported growth to 3.1%. We increased operating profit to £526 million, up 7.1% organically. Importantly, we continued investing for the future and at the same time improved operating margin by 30 basis points.

Operating profit, acquisitions and our share buyback activity contributed to constant currency EPS growth of 12.9%. Including the impact of FX, our basic EPS growth was 8.3%. We also increased operating cash conversion by 11 percentage points to 97%, and ROCE was up 70 basis points to 16.4% driven by increased profitability. Finally, in line with our progressive dividend policy, we are recommending a final dividend of 30.2p resulting in a total full year dividend of 43.75p, a 5.2% increase.

Detailed Financial Results

Turning to results in more detail and starting with organic revenue growth.

Organic revenue growth

We continue to extend our track record of growth and are pleased to report our third consecutive year of organic revenue growth building on FY 23's record organic growth. We converted revenue growth into 7.1% organic operating profit growth. Pricing more than offset inflation contributing 50 basis points of margin expansion. With respect to volume, John Crane and Detection volume drove 60 basis points of margin expansion of which 40 basis points was offset by volume declines in Flex-Tek and Interconnect. Mix also reduced margin by 40 basis points. And finally, consistent with our philosophy of saving where we can in order to invest where we want, we invested in several growth initiatives. These were funded by benefits from SES and other savings projects,

So in summary, we delivered a 16.8% operating profit margin and a 30 basis point expansion in line with our guidance for continued margin improvement.

EPS growth drivers

For the year, the primary drivers of EPS were growth and operating profit, our accretive acquisition of Heating & Cooling Products or HCP and the benefit of our share buyback activity. On a constant currency basis, we delivered 12.9% EPS growth and including the impact of FX, our reported EPS growth was 8.3%.

Operating cash flow and CAPEX

We delivered an 11 percentage point increase in operating cash conversion to 97%. This reflects both a tailwind from disciplined working capital management as well as a headwind from increased CAPEX supporting capacity expansion and automation investment in John Crane. John Crane's machining upgrade programme started in FY 24, but it is largely weighted toward and will complete in FY 25.

Therefore, at the group level for FY 25, we anticipate spending approximately £110 million in CAPEX. In addition to our normal CAPEX, FY 25's higher than usual spend will cover the completion of the John Crane Efficiency Investment Programme, which I just mentioned, as well as some additional CAPEX initiatives that Roland will speak to later, all of which will support continued profitable growth, and we anticipate returning to recent trend levels of CAPEX in FY 26.

Finally, this year's £509 million of operating cash converted to £298 million of free cash flow, a notable 67% year-on-year increase. Now turning to each of our divisions and starting with John Crane.

John Crane

Strong order intake, organic revenue and operating profit growth

John Crane delivered organic revenue growth of 9.8% with an exceptional performance in the first half before moderating to strong growth as expected in the second half. Growth was led by energy, especially in aftermarket sales and notably in the Middle East and Latin America. This revenue growth translated into strong operating profit growth and 60 basis points of organic margin expansion due to good operating leverage, disciplined pricing and SES benefits, which more than offset cost inflation and mix. John Crane delivered this margin expansion while continuing to invest for future growth, including hiring additional sales reps and service engineers.

Given our ability to help customers improve efficiency and reduce emissions from their operations, we had notable wins across the world. From Kazakhstan to Canada, John Crane's energy diversification pipeline also continues to expand, and we are now actively pursuing around 125 carbon capture and hydrogen projects. Finally, our strong recent order intake growth supports our positive outlook for FY 25.

Improved productivity from SES, Lean and machine automation

The Smiths Excellence System or SES also underpins our outlook. At our John Crane deep-dive event last November, we spoke about how we are using SES, Lean and automation to improve efficiency and customer responsiveness. As just one example, we previously invested in machine data capture in John Crane's Czech plant. This enabled us to analyse and optimise machine utilisation, operator productivity and scheduling as well as shop floor layout at that location. We then invested in and rolled out those learnings to another nine John Crane locations across seven countries. We have also centralised and standardised our programming in India.

So in summary, using our SES framework to apply lean principles to automation across key value streams has driven both efficiency and cost improvements in our John Crane operations and enables us to rapidly respond to customer demand in FY 25 and beyond.

Smiths Detection

Delivering against, and further building on, strong order book

Detection also executed on a strong order book and delivered organic revenue growth of 11.1% with growth in both segments. In aviation, OE sales increased 25% reflecting strong demand for our CT airport checkpoint scanners with multiple new wins across the globe, including the US, the UK, South Korea, Saudi Arabia, New Zealand, and Germany. And we estimate that globally the current checkpoint upgrade is about 45% of the way through, so good demand should continue for the next roughly three years.

Of note, our win rate to date on CTiX tenders remains above 50%, and importantly, the OE sales we secure come with an attractive aftermarket that we expect to continue to add to margin expansion over the medium term.

2.6% organic revenue growth in other security systems reflects a strong performance in defence and urban security, partially offset by weaker ports and borders. As a reminder, in FY 24, we received an initial £88 million multi-year contract from the UK Ministry of Defence for next generation chemical detection equipment.

Growth in operating profit

Operating profit grew 18% and margin expanded by 70 basis points. This reflects higher volumes and improving operational efficiency in the second half even including Detection's continued investment in field service engineers to support record installation activity.

Strong order book

Order intake growth in the year was exceptionally strong and we ended the year with a record order book that will support growth in FY 25 and beyond. This anticipated growth, ongoing SES activities and increasing defence and aftermarket revenue underpin our expectation for continued margin expansion in the coming years.

Innovating for customers with the introduction of X-ray diffraction

In Detection, we have a heritage of innovating to meet the world's evolving security needs and most recently, we pre-launched X-ray diffraction at the Frankfurt Passenger Terminal

Expo in April. We are now working closely with regulators to gain necessary certifications and in parallel we are educating a range of hold baggage customers on the merits of this new technology. We expect to achieve modest first orders for this product in FY 25 with associated revenue coming through in FY 26 and beyond. Here is a short video, which brings diffraction to life.

Video - Explaining X-ray Screening in Airports

X-ray screening is one of the most effective and efficient technologies used at airports, ports, and borders and other critical infrastructure to ensure the safety of people and goods and detect contraband. There are three different key X-ray techniques: transmission X-ray, computer tomography and X-ray diffraction.

Conventional X-ray and CT technologies both analyse the absorption of X-rays by the scanned item to differentiate materials and reflect the result in X-ray images. Conventional X-ray scanners create 2D images from fixed generators and detectors. CT scanners rotate the generator and detector around the item and reconstruct hundreds of views into 3D images.

X-ray diffraction uses a different approach. It measures how the X-rays interfere with the molecular structure of the scanned item. As X-ray diffraction can even differentiate between materials with very similar densities, it is ideal for compounds such as improvised explosives and narcotics in powder, liquid or solid forms.

As you have just seen, X-ray diffraction provides significantly enhanced detection accuracy within a hold baggage screening operation. It reduces the number of false alarms, which are time consuming to resolve and so improves efficiency. Although designed for aviation hold baggage, we are exploring the potential of diffraction with other commercial customers such as cargo operators and customs agencies. A great example of innovation at Smiths.

Flex-Tek

Resilient operating profit despite US construction market headwinds

And now turning to Flex-Tek. Revenue declined 0.8% organically with an improved second half performance, when we returned to growth as we guided. Flex-Tek's industrial segment declined 3.5% as expected, mainly in HVAC and reflecting extended softness in US construction. Partially offsetting this, aerospace sales grew almost 11% linked to new aircraft builds.

Despite overall lower sales, organic operating profit increased 4.2% and Flex-Tek expanded operating margins by 100 basis points. Margin expansion was driven by exceptional cost control in light of lower volumes and a positive mix impact from industrial heating contracts. In addition, the integration of Heating & Cooling Products, which we acquired in August of 2023, is running ahead of plan.

Looking forward, the timing and shape of the US housing recovery will be a key determinant for Flex-Tek in FY 25, and we expect aerospace sales to remain strong given they are underpinned by a healthy order book.

Acquisitions in Flex-Tek

Today in Flex-Tek, we are also pleased to announce two strategic and disciplined acquisitions for a combined purchase price of £95 million plus up to an additional £15 million earn-out tied to the performance for one of the acquisitions over the next three years. This combined purchase price represents an average trailing EBITDA multiple of roughly 8 times. These acquisitions enable us to meaningfully expand in two of Flex-Tek's core platforms, HVAC and industrial electric heating.

Modular Metal Fabricators acquisition

Now a bit more about our acquisitions. First, Modular Metal Fabricators. Modular Metal is a metal and flexible ducting manufacturer, which extends our HVAC presence in the Western US and broadens our product range to include their sealed flexible duct solution. This acquisition is similar to our August 2023 acquisition of HCP, which expanded our coverage in the Midwest and Eastern US. We expect to complete this acquisition in October.

Wattco acquisition

And second Wattco. The acquisition of Wattco enables Flex-Tek to expand into medium temperature immersion and circulation heating, an attractive market adjacency, which is highly complementary to our existing open-coil electric heating business. We have already completed this acquisition.

Both acquisitions have been on our radar for some time and our family-owned businesses, which we acquired in bilateral discussions, clear evidence that our acquisition targeting, and cultivation is working, and we are well positioned to continue to advance an active pipeline of attractive opportunities.

Smiths Interconnect

Stable H2 and well positioned for gradually improving markets

Turning now to Smiths Interconnect, where organic revenue declined 6.5% as a result of weakness in connectors and the semi test market. Like Flex-Tek, Interconnect’s second half performance improved and posted marginal organic growth. Reflecting lower volumes, organic operating profit declined by 17.8% and operating margin contracted 190 basis points. The team in Interconnect diligently managed costs while also maintaining R&D investment to support our new product launches and longer-term new product pipeline, so we are well positioned for an improving market backdrop.

Our order activity improved sequentially throughout the year, especially for our semi test products. This together with our new product pipeline underpin our expectation for performance improvement in semi test and aerospace and defence programmes as we progress through FY 25.

Product innovation for complex applications

On the left hand side of this page is an example of one of Interconnect's new products, the DaVinci 112 Test Socket, within our semi test business. It is used by leading AI and data centre semiconductor manufacturers to test high speed and complex circuits. It eliminates false faults and functional failures so our customers can benefit from increased production yields and throughput.

On the right hand side, we are also a market leader in space grade transceivers and we have a strong order book in this product family as well. A good example of innovation here is the recent launch of the Mini-Lock Connector, which offers superior radio frequency performance, is compact and lightweight, and is designed for harsh environments such as satellites and space and defence.

Capital Allocation Framework

Turning now to our capital allocation framework. Our priorities remain unchanged. We aim to fuel organic growth, pursue strategic and disciplined acquisitions, and have demonstrated our commitment to returning excess capital to shareholders. In support of organic growth, in FY 24 we invested £181 million in R&D and CAPEX. Also, just discussed in Flex-Tek's divisional results, in FY 24 we acquired HCP and today we are announcing two strategic and disciplined acquisitions that enhance Flex-Tek's core capabilities.

Returning capital to shareholders

Our third priority is returning capital to our shareholders. Today, we are recommending a 5.2% increase in our final dividend in line with our progressive dividend policy. In FY 24, we spent a total of £70 million on share buyback. This comprised the final £29 million from the group's 2021 share buyback programme, plus £41 million from the initial £50 million tranche of the programme we announced in March of this year. Post the year-end, we completed the remaining £9 million of this first tranche. Given today's acquisition announcements, our active pipeline of potential acquisitions and the Acceleration Plan, we have not yet initiated the second tranche. During FY 24 and the start of FY 25, we also sold the majority of our stake in ICU Medical, which raised £233 million in proceeds.

In summary

In summary, our leverage at the fiscal year-end was 0.3 times net debt to EBITDA. On a pro forma basis, taking into account the two acquisitions we're announcing today, the buybacks and our ICU share sales, our pro forma leverage is 0.4 times. This balance sheet strength gives us the financial flexibility to execute our strategic and financial goals.

FY 25 Outlook

Finally, a few words about our outlook for FY 25. We are again expecting organic growth within our medium-term target range of 4 to 6%, reflecting continued strong demand and good order book visibility at John Crane, Smiths Detection and Flex-Tek Aerospace, a recovery in US construction for Flex-Tek and recovery in semi test and markets for Interconnect.

We also expect continued margin expansion in FY 25 reflecting operational leverage and continued benefits from the Smiths Excellence System and Lean initiatives in particular. Roland will describe the timing and shape of the Acceleration Plan, which he introduced in his opening remarks and which we are initiating today. The Acceleration Plan will have minimal headline impact in FY 25 as we take associated costs below the line and benefits will begin to phase in during FY 26.

Regarding cash conversion, in FY 25 we expect the full year to be in the low 90% and to be weighted toward the second half of the year. This reflects the timing of CAPEX investments in John Crane efficiency, which I discussed earlier, and a small amount of CAPEX that is part of the Acceleration Plan.

In conclusion, we have positive momentum, clear execution priorities and an energised team under Roland's leadership as we enter FY 25. With that, let me hand back to Roland.

Execution Plan

Roland Carter

Chief Executive Officer, Smiths Group

Thank you, Clare. As the new CEO, I realise that you are keen to know what is going to change and what will stay the same, so let me give you a quick overview now and then go into detail afterwards.

Taking the best of Smiths and making it better

My remit is simple: build on and out from our solid foundations and to take the best of Smiths and to make it better. Our purpose and mission remain unchanged as to the key components of our strategy, which are to deliver profitable growth from attractive markets, to invest in technology and engineering for competitive differentiation, and to implement often mission critical solutions within long-term customer partnerships.

Growth

As you will recall, we group our priorities into three areas. These are broadly the same, but there are some important changes. We are resolutely focused on delivering profitable organic growth and there is more to do to capture the growth opportunities in our core markets. There will also be a focus on our innovation agenda to get the most out of our new products, and lastly, we will prioritise moving into new growth-accretive adjacencies. These markets respond to key mega trends, and we will align our R&D resources here towards products and service innovation to enter these markets organically.

We will also use our balance sheet strength. M&A when used well can accelerate the pace and scale of strategic execution as we have demonstrated with the announcement of two transactions for Flex-Tek today. These deals consolidate existing market segment positions, offer access to adjacent markets and bring significant engineering capabilities, and we are delighted to welcome these businesses into Smiths.

People

As I mentioned at the very start, we achieve nothing for our customers without the effort and talent of all the people who work at Smiths. Our priorities here are unchanged and we need to ensure that the good foundational work in values, leadership behaviours and culture can make a real long-term difference to how we operate. So our focus will be on ensuring that ownership of our key initiatives such as talent attraction and leadership development happens at all levels in the business. Our group functions support the portfolio of businesses and provide them with strong, flexible oversight and governance. We are making this more efficient with the controlled rollout of a global shared business services to provide more cost effective and colleague focused support.

Execution

And finally, execution. Our operational excellence journey is well underway but has more to offer. The SES function, black belts and master black belts, were set up to identify and deliver projects and this will continue. Now we need to switch the emphasis in SES to gain enduring group-wide traction. As a result, Lean and other continuous improvement activities will now be driven at the grassroots level under the direction of site Lean leaders rather than directed top-down from group. We recognise that we need to deliver our target operating margin faster and we are launching our Acceleration Plan to do just that.

Our portfolio

Supporting customers, delivering growth and optimising performance

Our businesses serve different customers and have different competitors across many end markets. Nevertheless, we share some strong customer-facing capabilities and common characteristics. We have already seen the benefit of digital knowhow transferred from Smiths Detection to John Crane, and as many of you know, they also share broad aftermarket capabilities. Deep seated manufacturing and process knowledge spans John Crane, Smiths Interconnect and Flex-Tek, as does material technology. For example, all the businesses either use or process ceramics: John Crane relies on ceramics to improve the extreme temperature and pressure characteristics of its seal faces; Interconnect uses high purity novel ceramics in radio frequency components; the open coil heating elements used in Flex-Tek heat solutions are held in place by ceramic insulators; and Smiths Detection uses high-grade ceramics in its X-ray detector boards.

A common framework

It is important to note that these capabilities or characteristics are not all shared equally or by every business, but they are real, and we can benefit from shared learnings to create and sustain group-wide competitive advantage. What is common, however, is the group framework, which supports every business in a cost effective and agnostic fashion. We have undertaken some necessary and very successful work to drive results within a common performance framework, and we are now ready to build on and out from these solid foundations. By expanding the remit of our global shared business services, we are covering all businesses and the key support functions in addition to IT, which it already manages in a cost effective way.

Powerful megatrends

Our broad portfolio means that we participate in a range of end markets whose potential for future growth is propelled by powerful mega trends. Smiths is well positioned to access these. For example, energy diversification, the world’s ever increasing security needs, the rise of the circular economy or our insatiable appetite for data. Importantly, accessing these brings us closer to our customers and enables us to deliver our purpose to make the world safer, more energy efficient and productive and better connected.

The Smiths of today is a strong business, and I am convinced more than ever of its potential. Our recent successes have been built on better accessing the many opportunities available to us in attractive core markets and to grow profitably and increasing share.

New products and services also contribute meaningfully. As I mentioned earlier, we can do more here to capitalise on organic growth potential in our core markets and commercialise new products and services more rapidly.

Participation in attractive market adjacencies will accelerate growth

Nevertheless, it is the penetration of priority adjacencies often directly connected to megatrends that can offer growth acceleration for us. Process of electrification, high-speed space and satellite communications or new sealing solutions and services are all examples of current organic innovation, which is why you have heard us speak about our involvement in green steel or participating in the world's largest green city as well as blue hydrogen projects. A combination of organic investment in CAPEX and R&D, augmented by targeted and disciplined M&A will further fuel our progress.

Well positioned in secularly attractive markets

Four primary end markets

As you can see here, Smiths serves four primary end markets and in most cases through multiple businesses. General industrial is our largest end market at roughly 39% of group sales. Just under a third of our revenues comes from safety and security. Energy represents just under a quarter of our business. And aerospace and defence represents just over 10% of group revenue. In aggregate, these end markets grow at 4-5% through the cycle, underpinning our medium-term growth target.

I will highlight just a couple of additional points. We had a particularly good year in energy and safety and security, posting double-digit organic revenue growth. By contrast, our performance in general industrial primarily reflected cyclical downturns in US construction, semiconductor testing and connectors, although we expect conditions in these markets to improve as we progress through FY 25.

In summary, we operate in growing global markets where our pioneering technologies and capabilities position us well for success.

Investment creates broad platform for innovation

First and foremost, Smiths is an engineering business. We have 3,000 highly skilled engineers working in new product development, operations and aftermarket service. We make a meaningful investment in R&D each year, £109 million in FY 24 alone, or about 3.5% of sales. If we include the targeted engineering investment in John Crane, this increases to 4.8% of sales. We invest at these levels because it makes a big difference for our customers. Around a third of our revenue today comes from products that did not even exist five years ago. Importantly, much of this investment is done for or in partnership with our customers to deliver differentiated solutions. As a result, Smiths' world-class engineering is fundamental to building the strong and defensible market positions we have earned over time.

Innovation at many levels

At Smiths, innovation takes place at many levels: new products and services, new ways of manufacturing and new ways of exploiting technology. Let me take you through just a few examples. We continue to expand our Flex-Tek HVAC product range, innovating to reduce cost and weight and to improve ease of installation. Smiths Detection is bringing two notable new technologies to market: ruggedised and miniaturised chemical agent detectors using i-mobility spectroscopy and mass spectroscopy, as well as X-ray diffraction, which you saw in the video earlier. Finally, in process innovation, John Crane's new reliability services incorporate digital predictive analytics and monitoring capabilities, and Smiths Interconnect has revolutionised the rapid development and associated manufacturing process for a new generation of isolator.

Opportunities for collaboration

I have worked in several of Smiths businesses over the past 30 years and I can see real opportunities for our engineers to work more closely together. For example, in new areas such as factory automation as well as more traditional areas such as extrusion and braiding, and we will encourage more of this collaboration in the future.

Global presence delivers real-time, mission-critical customer support

Execution begins with customers. We serve market leading global players in critical industries where uptime is everything. When airports, communication networks or energy grids go down, entire communities are disrupted. Our global presence allows us to deliver real-time, mission-critical support to our customers, and importantly embeds us with them more closely. The trust and confidence that comes with this has helped us build large installed bases, which in turn drive predictable aftermarket revenues: now over half of Smiths Detection sales and over 70% of John Crane's.

This ethos of customer intimacy and long-term partnership also extends to Flex-Tek and Interconnect, where even though we do not have installed bases of equipment, we enjoy high levels of incumbency with important customers.

Global presence, local-for-local design

To serve global customers, we have to be global as well. Smiths has long architected our global supply chains with a local-for-local design. We aim to source where we manufacture, and we manufacture where we sell. We have operations in over 50 countries, 75 manufacturing or R&D facilities paired with a network of 170 service centres. Customer proximity coupled with service delivery across large installed bases allows us to create real competitive advantage.

SES is delivering more consistent performance

It is how we work

Today at Smiths, SES is simply how we work. It is central to how we solve problems and deliver results. It is also central to how we develop our talent and advance operational excellence across the group. As we seek to develop capability for the longer term, we now have Lean leaders in all major sites to drive operational excellence effort from the grassroots while our black belts and master black belts continue to lead projects and leverage activity deep within the business.

Investment delivering results beyond finance

Recent investments are now delivering. We have a high performing full-time team in place, and we generated approximately £23 million worth of savings this year. The importance of SES in building an ever-stronger Smiths extends beyond financial benefits. For example, it plays a key role in accelerating talent development across our company. Our first wave of black belts and master black belts have re-entered the company in high impact roles and have been replaced by the next cohort of talent. This cycle helps us lock in operational gains and further embeds SES culturally in the way that we work at Smiths.

SES driven from the site

As I said earlier, we are focused on building enduring group-wide traction, so Lean and other continuous improvement activities will now be driven at the grassroots level under the direction of site Lean leaders rather than directed top-down from the group. We are impatient for success, and whilst SES has and will continue to deliver bottom-up benefits from continuous improvement, we believe that certain transformational actions can deliver a step change in our performance.

Acceleration Plan

An opportunity to enhance Group-wide productivity and capabilities

We are undertaking a fundamental review of operating leverage and cash generation potential and have identified a set of business-led initiatives which will enhance operating margins, improve productivity and build capabilities faster. To be clear, and as I said earlier, this plan is about value creation, not just transformation. Importantly, these initiatives will deliver end-to-end process improvements for resilience and scalability over the longer-term. Our Acceleration Plan will increase the pace with which we can deliver against our medium-term targets.

The plan covers the whole group, and each business has identified a specific set of proposed actions. For example, investment in process and capability improvements such as the more systematic deployment of sales and operations planning systems, as well as reviewing footprint optimisation to locate activity closer to the customer and to consolidate product families in centres of excellence. The plan also covers the rollout of our global shared business services. Where required, we will consult appropriately with colleagues around the plan changes and we will keep them informed.

The total cost of the planned investment is expected to be £60 million to £65 million, which will be spent over FY 25 and FY 26 and be treated as exceptional for accounting purposes, as well as £10 million in CAPEX. We expect to deliver benefits of £30 million to £35 million on an annualised basis in FY 27 of which a quarter is expected in FY 26.

A clear roadmap to improve profitability and enhance capability

Growth and execution agendas

Each business has a clear roadmap to improve profitability and enhance capabilities. This slide shows both the growth agenda and the execution agenda over the near to medium term. It should come as no surprise that we see significant opportunities for cross-business collaboration in areas of innovation and operational excellence. Much of this is familiar to you. Essentially this is business as usual, although it is much more focused and structured. It also puts the Acceleration Plan into context and demonstrates that this is the next step on our journey to delivering our targets. Importantly, it highlights the attractive trajectory for each business and demonstrates the value creation opportunities we see in all our businesses.

A purpose-based and customer-oriented culture with innovation in its DNA

Let us turn to people. This slide shows four aspects of what matters to us.

Safety

Firstly, safety. We are committed to maintaining our culture of care and strive to improve our top quartile performance, where our recordable incident rate has been at or below 0.44 for eight straight years, roughly 20 basis points stronger than even the top quartile of global manufacturers.

Engagement and inclusion

Next, engagement and inclusion. In terms of engagement, 85% of us participated in our annual survey, and our latest overall satisfaction rating was the highest we have ever achieved. We live our purpose every day, and this is underpinned by our commitment to safety, innovation and putting the customer at the heart of everything that we do. We work hard to make Smiths a company that people want to join and where they can build rewarding careers, so we are committed to bringing in the most diverse talent and then investing in people as they grow and develop. As you would expect, we have a particular focus on extending our technological capabilities and leadership.

Sustainability

Finally, our commitment to sustainability is deeply practical. Our codes of doing business ensure that we work with like-minded suppliers and customers. And the early success of the Smiths Group Foundation demonstrates how important it is to my colleagues to improve our world with our communities, and to invest locally where we work.

We have committed to net zero for Scope 1 and 2 by 2040 and Scope 3 by 2050, and we have delivered another year of robust reductions in greenhouse gas emissions from operations. We underpin this by aligning a portion of both executive and management remuneration to improving energy efficiency and achieving greenhouse gas reductions in the coming years. Our reduction pathway was validated by the Science Based Targets Initiative in December. We have published new targets for a number of environmental metrics for FY 25 to FY 27, which you can find in the appendix.

We are making good progress against all medium-term targets, and the delivery of the Acceleration Plan will help us meet the one target, our operating margin, where our progress has been slower than we would have liked.

Re-affirming medium-term financial targets

So to confirm what I said at the very start of this presentation, we are reaffirming our commitment to delivering these targets over the medium-term. FY 24 was another good year for Smiths. Strong organic revenue growth of 5.4% yielding EPS growth of 8.3%. We also delivered year-on-year gains in all medium-term financial commitments, and effectively meeting four out of our five targets. And although at 97% this year, our average operating cash conversion has been 99% over the last five years. And we have actionable plans to deliver against our operating profit margin target.

With all this momentum, we are well positioned for another year of good progress and performance, expecting 4 to 6% organic revenue growth and continued margin expansion with further investment in sustained growth through the Acceleration Plan. Our continued progress is made possible by our talented, committed and capable colleagues around the world. Thank you all for what we are achieving together.

Strategy builds on, and out from, solid foundations

So, to summarise, we remain firmly grounded in our purpose, engineering a better future, and we are clear about our strategy. We are focused on our priorities, maximising profitable growth in our core markets and driving high value innovation, investing in growth accretive, profitable adjacencies, developing and supporting our people, driving operational excellence to continue to increase margin, improve cash flow and process efficiency, and maintaining a strong and flexible balance sheet to support our growth.

Three important catalysts

Finally, we have three important catalysts, which are designed to accelerate value creation and to help us to deliver enhanced performance: a continued focus on investment in innovation to drive organic growth in core markets and enter attractive adjacent segments. Our group-wide Acceleration Plan will enhance operating margins, improve productivity, and enhance capabilities. Importantly, it will also deliver end-to-end process improvements for resilience and scalability over the long-term. And with M&A, we can accelerate the pace and scale of our delivery, and we now have a more active pipeline than previously, as demonstrated with the two transactions for Flex-Tek today. We are delighted with these deals, and we will continue to remain disciplined and focused. The combined average trailing EBITDA multiple of roughly 8 times demonstrates this.

Intrinsic strength

Smiths is an intrinsically strong company with serious world-class engineering, leading positions in critical and attractive markets, distinct global capabilities, and a powerful financial framework, all of which signal real potential. Our strategy builds on and out from these foundations and a sharpened focus on maximising growth opportunities in our core markets through innovation, driving a step change in execution through the Acceleration Plan and using M&A appropriately will drive increased value for all stakeholders.

And with that, I will ask the operator to please open the Q&A.

Q&A

Lushanthan Mahendrarajah (JP Morgan): Morning guys. Thanks for the presentation. Thanks for taking my questions. I have got three, I think. The first is just really on current trading and orders, please and sort of what you have seen across the divisions. I think at the H1 point you guys said orders across the grid were up 16.5% and you had some divisional detail there. If there is any sort of any similar kind of sort of numbers for the second half that would be quite helpful just to see what the trends are.

The second question is just on John Crane and general industrial. Bit of a slowdown in the second half, particularly in aftermarket. Just any colour in terms of what is happening there and sort of how you expect to develop over the next year.

And then the third is just on capital allocation and sort of the buyback and M&A. I guess sort of your point around not starting the second tranche yet, just given the sort of M&A pipeline and sort of the deals done today, I guess even post that, leverage does not seem particularly high. Just wanted to get a bit more colour around that pipeline that you said is more active. Are these bigger deals than perhaps you have been used to in the last couple of years, or are these sort of still bolt-ons and is it just Flex-Tek, or are these sort of across all four divisions? Thank you.

Roland Carter: Thank you Lush for that. Let me pick up on your first point about current trading first. We have had consistent and good performance over the past three years and that has continued, as we have seen. I think what comforts me for the – going forward is the order book growth that we have seen and really the strength that we have seen. To give you a bit of the colour by division, the strength that we have seen in John Crane, the strength that we have seen in Flex-Tek aerospace as well, and also the record order book that we have come into the year with from Detection. We did see some challenges at the end of last year with Interconnect and also Flex-Tek, but we did see in the second half there was growth in both of those, which was comforting.

As you heard Clare mention, US housing news is not as strong as it might be, but we are encouraged by the Fed cut as well, and then also in Interconnect tech connectors, we saw the destocking and we are waiting for that to bounce back. But in the medium-term, we are confident in our medium-term guidance on the current trading because of the strength of the order books that we are going into the year with around that.

On particularly the John Crane industrial point, we did see last year the comparator in the second half was – we were comparing against a very strong comparator on that. We are now seeing strength in the John Crane order book, and we believe that will return with the market as well. Again, confidence around that.

I will let Clare talk a little bit about the detail of capital allocation as well but let me just tee that up. We intend to be very disciplined in our use of capital allocation, whether that is for R&D, supporting organic growth, whether that is M&A or buyback or what you have seen about the Acceleration Plan that we put forward. I do not know if there is anything you would like to add on that, Clare.

Clare Scherrer: Well, I would add that we have a clear track record of returning excess capital to shareholders, and over the last three years that has been over £1.2 billion through both our progressive dividend and our buybacks.

In terms of your question, Lush, we are so excited today that we do have two really strategic acquisitions that we are announcing in Flex-Tek, and as you mentioned, we do have an active pipeline. Our active pipeline of other opportunities we are looking at spans all of the businesses. It is more active in John Crane and in Flex-Tek, but we do look at opportunities across all of the businesses.

Finally, you asked about size. So most of the opportunities we look at are bolt-ons, similar to the size of acquisitions we announced today or have announced in the past, but we do not limit ourselves to look only at bolt-ons. Of course, we also explore larger opportunities when we feel that there is real value that we could create and where they would be strategic additions to Smiths. So we have not yet initiated the second tranche of the buyback in light of the pipeline that we are looking at, and also in light of the spend that we will be making near-term as we launch today the Acceleration Plan.

Lushanthan Mahendrarajah: Okay, thanks. Can I just get a point of clarification on John Crane? Were orders up in the second half and sort of were they similar to H1?

Clare Scherrer: We are standing on firm ground in John Crane. Our current order intake is strong. When you look at where the softness was in the second half for John Crane, it is very clearly in the industrial segment. As Roland mentioned, when we look at this second half versus last year, it was a difficult comp in industrials because we had some very strong industrial revenue that came in last year in the second half, and to point to where the particular softness was, it was in chemicals. We had good growth in food and beverage, pharma and marine, but as you know, chemicals has been a particularly soft end market for everyone recently.

Lushanthan Mahendrarajah: Okay, brilliant. Thank you very much.

Mark Davies Jones (Stifel): Morning, both. Could I turn to the subject of the balance between the divisions and the centre, and particularly some more colour around what you are saying about global shared services? The operating companies have always been quite autonomous within Smiths. Are you flagging effectively that you are going to run those more from the centre? Does that implicate – have implications for what the ongoing level of central cost might be? Can you give us some slightly more tangible examples of what will be changing and what processes will be now managed from the centre and what benefit you think that brings?

Roland Carter: Yes, thank you. I think there are several aspects to the answer for this question. Firstly and foremost, it really is about empowering the businesses. We are very much focused on making sure that the customer-facing parts of this organisation really are facing the customer and allowing our customer to differentiate and be more successful. The innovation and the commercialisation of that innovation is very much what the business is about. You will also see the other aspect of how SES is maturing within Smiths. It is the way that we do business, but with the site lean leads that will be driven much, much more from the grass roots, where we believe that it is much more effective. So there is definitely empowerment of the businesses going on.

Stepping back to what can the group do well and how does it support the businesses for things that are not as customer focused or as technology focused, that is about how we support them. Already within Smiths, there is a very powerful model for this, and we have seen it work very effectively and we have seen it mature and deliver. That is our IT infrastructure. Our IT support and infrastructure is already centrally delivered. We are also seeing that pockets, and the businesses have been doing themselves about shared services. To get to the nub, this is talking about HR services. this is talking about finance services, for example, and to a degree a little bit of indirect procurement as well. We are already seeing that. We have seen successes within Detection, a lot of success within John Crane. This is really pulling together those non-customer-facing aspects of the business. I know there is always challenges about how we do it, so we are going through a very mature way of approaching this and a thoughtful way of approaching this, but we believe that we can deliver value on a global scale on this.

Mark Davies Jones: Okay. Does that have implications for the cost base held centrally? Do you have to invest more at the centre in terms of ongoing central costs?

Roland Carter: From the point of view of the efficiency and the effectiveness, you have seen what our central costs look like. This is not about increasing central costs substantially at all. This is about becoming more effective, in fact. The whole point is to empower the businesses rather than to create some large central functions.

Mark Davies Jones: Thank you. Then Clare, just to get back to Lush's point on buybacks, it does seem odd in the circumstances, even with M&A on the horizon, that an additional

£50 million is an issue given your current balance sheet. Is the message that that is on hold until you know what you are buying, or is it just that you are being a little more careful on the timing?

Clare Scherrer: We always intend to be thoughtful and nimble as we assess all of the options for capital return that are available to us. As we said, we have not initiated it yet. We do have some other irons in the fire, and so as you have seen us in the past, we are always looking foremost at what we can do from an organic perspective. We are always looking if there are good acquisitions on the horizon, and as I said, we have a full pipeline. Then when we deem that we have excess that can be returned, our actions have spoken louder than our words in terms of getting after returning the capital. Please continue to think of us as being committed to returning excess capital when we feel we can and to be nimble in terms of constantly evaluating the balance of all of the options where we can put our capital. Our aim is always to get the best return for shareholders.

Mark Davies Jones: Okay. Thank you.

Kyle Summers (Redburn Atlantic): Hi, all. Thank you for taking my question. Just the one from me, please. I just want to ask for other security systems within Detection, could you please provide just a bit more colour to the contract timing issues you are seeing there in ports and borders?

Roland Carter: Yes. Thank you for the question. As you saw, we did experience growth in other security systems driven by the urban security market, but especially with our focus on our defence products. As Clare pointed out, we did have weakness in the ports and borders. These are always very long-term contracts. Usually at ports and borders, as you would see from the title, there is a lot of infrastructure that goes around there, and these are often challenging environments. We see this as a hiatus in the revenue in that business, however, we see in the long-term there is still a lot of demand for our products out there.

Kyle Summers: Thank you.

Jonathan Hurn (Barclays): Hey, guys. Good morning. Just three questions for me. The first question was just on John Crane. Obviously, you continue to put capacity into that business, and you are talking about that obviously concluding in FY 25, but if we look about, or if we look at the comments in terms of the outlook, you are saying that that growth is going to slow 2025 versus 2024. The question really focuses on, obviously the capacity is going in, growth is slowing, are we going to have a bit of an overhang in terms of overhead in that business, and could that become ultimately a drag to the margin going forward? That was the first question. Yes, let's go one by one.

Roland Carter: Okay. As with many of our plans, this is about building resilience and about building scalability in our businesses. From the point of view of what we have just said about the John Crane order book, we actually feel confident in the John Crane order book going into the year. We are not seeing that slowing across the broad business of John Crane. In fact, we are very positive on that. To answer those two pieces, I think the capacity will help us actually respond to the growth we expect to experience.

Jonathan Hearn: Okay. The second question was just on SES. Probably two parts. One is, could you just give us a feel for maybe the scale of the benefits you are expecting in 2025 for

SES? Then secondly, if we look to 2024, you obviously got benefits from SES, but they are all offset by taking that money and reinvesting it back into growth opportunity. As we go to 2025, are we going to see any net benefits coming through from your SES programme?

Roland Carter: Okay. From SES, the previous year, we saw about £14 million coming through from SES as it as it began to mature. What we are seeing this year is we anticipated £20 million and we in fact managed £23 million out of that. As SES changes its shape, and as I mentioned earlier, we are moving towards a yet more mature model within this, building on the great foundations of the black belts and the master black belts, really, this is going to be driven into the businesses and driven from the grass roots going forward as opposed to a top-down initiative. We have already got site Lean leads in pretty much all our sites, over 100 people. This is going to be mixed in with how we then work with the businesses and support the businesses, not only within the pure SES but looking across the VAVE, the engineering savings we can make through better engineering and also pure play procurement savings as well. Going forward, this will be brought together. We will not report the SES savings separately going forward, but I am very confident we will still be driving savings through the businesses.

From the point of view of where we have guided on continued margin expansion, we anticipate that SES, just as it has in previous years, will contribute to that, but also we are very keen. If you think about the 200 sort of basis points that we saw from our R&D investment from new products, for example, we are very keen that we continue to invest. This is an engineering business, so that we continue to invest in services and new products going forward. You will see us again, as always, in the same way that Clare was talking about being disciplined in the M&A space, we will be very disciplined in the organic space as well.

Jonathan Hearn: Okay. Very clear. Then the last one is just on the aerospace market. Obviously, you are putting it out there as an area of strength in terms of order book going into 2025. If we just kind of look at the wider aerospace market, there is quite a lot of disruption there in terms of build-rate and supply chain. I mean, have you seen that at all? Obviously, in terms of how you are guiding, are you factoring any of that potential weakness coming through to the businesses that are exposed to that aerospace order book?

Roland Carter: So if we think about our – and thank you for the question. If you think about our aerospace and defence business, it is roughly 12% of Smiths at the moment. Much of that is to do with isolators for RF systems, tubing for engines. At the moment we have actually a very positive outlook both on – across that whole broad range of markets actually. We are very aware of the noises in the industry at the moment and some of the engineering challenges people are having, but really that plays well to our strengths. We are seeing a positive outlook in our aerospace and defence area.

Jonathan Hearn: Okay. Very clear. Thank you very much.

Bruno Gjani (BNP Paribas): Thank you for taking my questions. The first one was just on the John Crane margin. I think you highlighted in the release, the systems headwind in John Crane. I wonder if you could provide us with some colour around the magnitude of the mix impact or the systems mix headwind in H2 of this year, if that is possible.

Roland Carter: Yes. Let me talk broadly and then I will hand to Clare to talk about the mix impact. What we see, very much in the same form as we see in Smiths Detection as well, that the OE has lower margins, as I am sure you are aware, than the aftermarket. All these system sales that we see go in either of those businesses are good news from the point of view of the margins that they actually develop over the lifetime of the product through the service tail. So yes, short-term challenging on the margins, longer-term beneficial footprint and market share. Clare, would you like to talk about the margins?

Clare Scherrer: Yes. The OE-aftermarket mix is one that you have heard us talk about frequently. It is the same in John Crane as it is in Detection, which is on a relative basis OE is a lower margin sale than the aftermarket sale is. We had a heavy – and interesting set of opportunities in OE in the second half for John Crane. As we always say, those will lead to higher margin aftermarket revenues as we go forward, so we still had margin expansion in John Crane in the second half. It was 10 basis points.

Bruno Gjani: Okay, that is understood. What I thought was quite interesting as well was just the Detection margin, half of the half, and it improved quite a bit, 80 basis points. When I look at the mix within that, it is heavily skewed to the OE. A lot of the incremental sales came from OE. Can you help us understand what drove the better Detection margin, half of the half? Is it the OE margins improving or executing on richer priced orders? Just any colour there would be appreciated.

Roland Carter: Yes. Thank you for the question, Bruno. We did deliver 70 basis points organic improvement in operation margin. Really, that does reflect some of the OE growth. Clare already mentioned the 25% growth in OE and some growth in the aftermarket. It is very much aviation focused and– if you recall us, we were talking about how long it was taking us to install. You definitely saw we installed 21% more last year than we had previously, and we only had to bring on another 7% of field service engineers. Definitely, there is an improvement through the installation process, the hard work of SES coming through. Definitely SES savings writ large there as well. Then you have got the mix with the MoD contracts starting to come in, which are – traditionally the defence contracts are traditionally higher margin. Obviously, there was a volume recovery as well. Clare, I do not know if there is anything you should add to that.

Clare Scherrer: We had some good contracts in the second half for Detection. It is a programmatic business, all of the trends that Roland was talking about. We also had some programmes where we had very good margins.

Bruno Gjani: Understood. The last thing I was struggling a little bit with was in terms of the restructuring programme. There is quite a bit of incremental benefits to flow through, that add about circa 100 basis points to the margin, but the midterm margin aspirations do not change. I guess, are we reinvesting a lot of these cost savings back into growth so therefore you have not revisited the midterm margin aspiration, or why have not you, I guess?

Roland Carter: Thank you for the question about the Acceleration Plan. This plan is very much focused on improving efficiency, resilience and supporting growth. Through this, we do see, and we certainly intend to deliver the better margins which we have guided to in the medium-term. I am very impatient to get on with and to meet that medium-term guidance and that is where we are going to see the main thrust of that. If we think about how that is broken up in its constituent pieces, a third of it is about footprint optimisation. This is about the footprint being in the right place for our customers. As our customers are developing their businesses, we need to be – we have always said we are local for local; we need to be closer to our customers. You will see about a third of that going through there. But two thirds of it is all about process improvements. We have grown a lot, and we intend to grow more, and we need to have those processes in place. This is very much setting us up for the future by making us scalable, but also resilient for the future as well.

Bruno Gjani: That is very clear. Thank you very much.

Roland Carter: Thank you very much.

To summarise, a good set of results extending our track record of growth and margin expansion. We are guiding to 4 to 6% organic revenue growth in FY25 with continued margin expansion. I am delighted to announce two acquisitions today, enhancing Flex-Tek's HVAC and their industrial heating businesses. We are very clear on our strategic priorities, which will build on and out from solid foundations: sharpened focus on maximising growth opportunities through innovation and a step change in execution through the Acceleration Plan, as well as disciplined M&A, all of which will drive increased value for our stakeholders. Our next update to the market will be Q1 trading and the AGM on the 13th of November. Thank you for your interest in Smiths.

[END OF TRANSCRIPT]