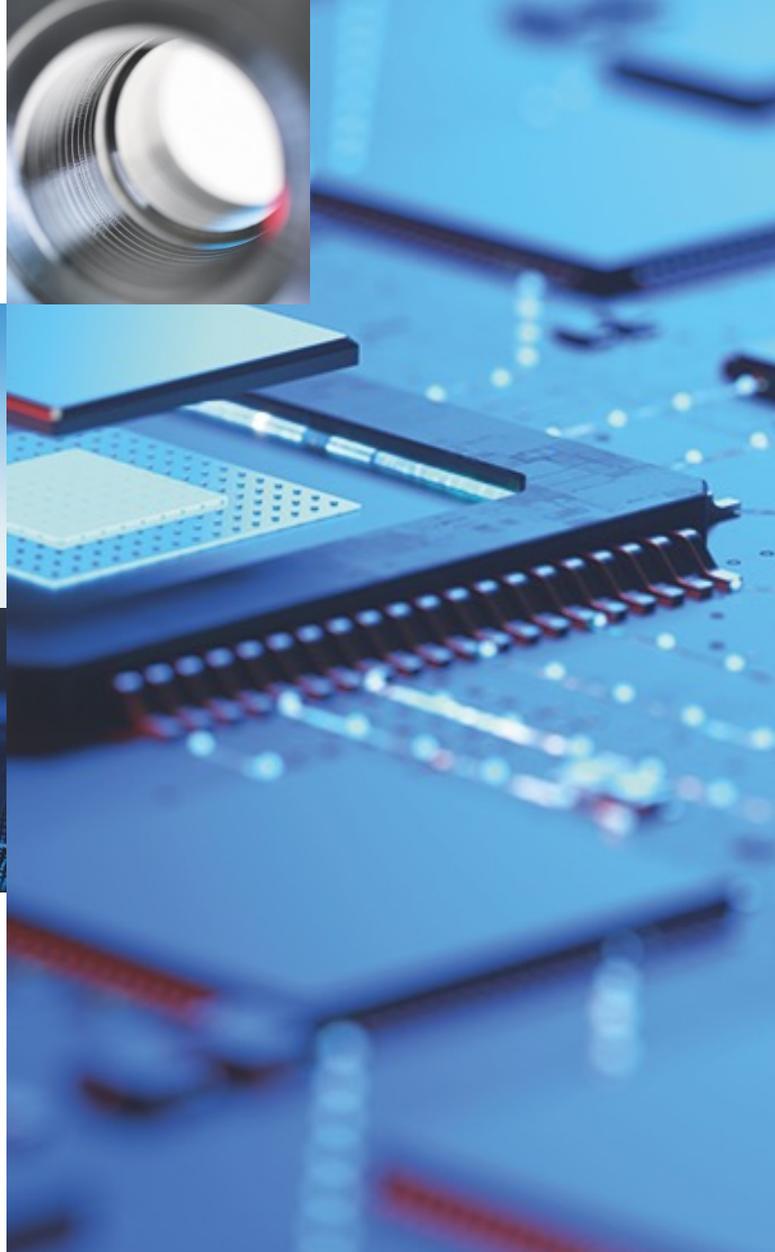


smiths

[www.smiths.com](http://www.smiths.com)



# FINANCIAL FRAMEWORK

CAPITAL MARKETS EVENT – 17 NOVEMBER 2021



CHIEF FINANCIAL OFFICER

JOHN SHIPSEY

## A simple and effective financial framework

- Business strengths translate to financial strengths
- Strong profit margin and cash conversion
- High returns from reinvestment in organic growth
- Enhanced by complementary, disciplined M&A
- Surplus capital returned through dividends and buybacks



# Smiths Value Engine

## OUR PURPOSE



## PIONEERS OF PROGRESS

Improving our world through smarter engineering

## OUR STRENGTHS



World-Class Engineering



Leading Positions in Critical Markets



Global Capabilities



Robust Financial Framework

## OUR PRIORITIES



Growth



Execution



People

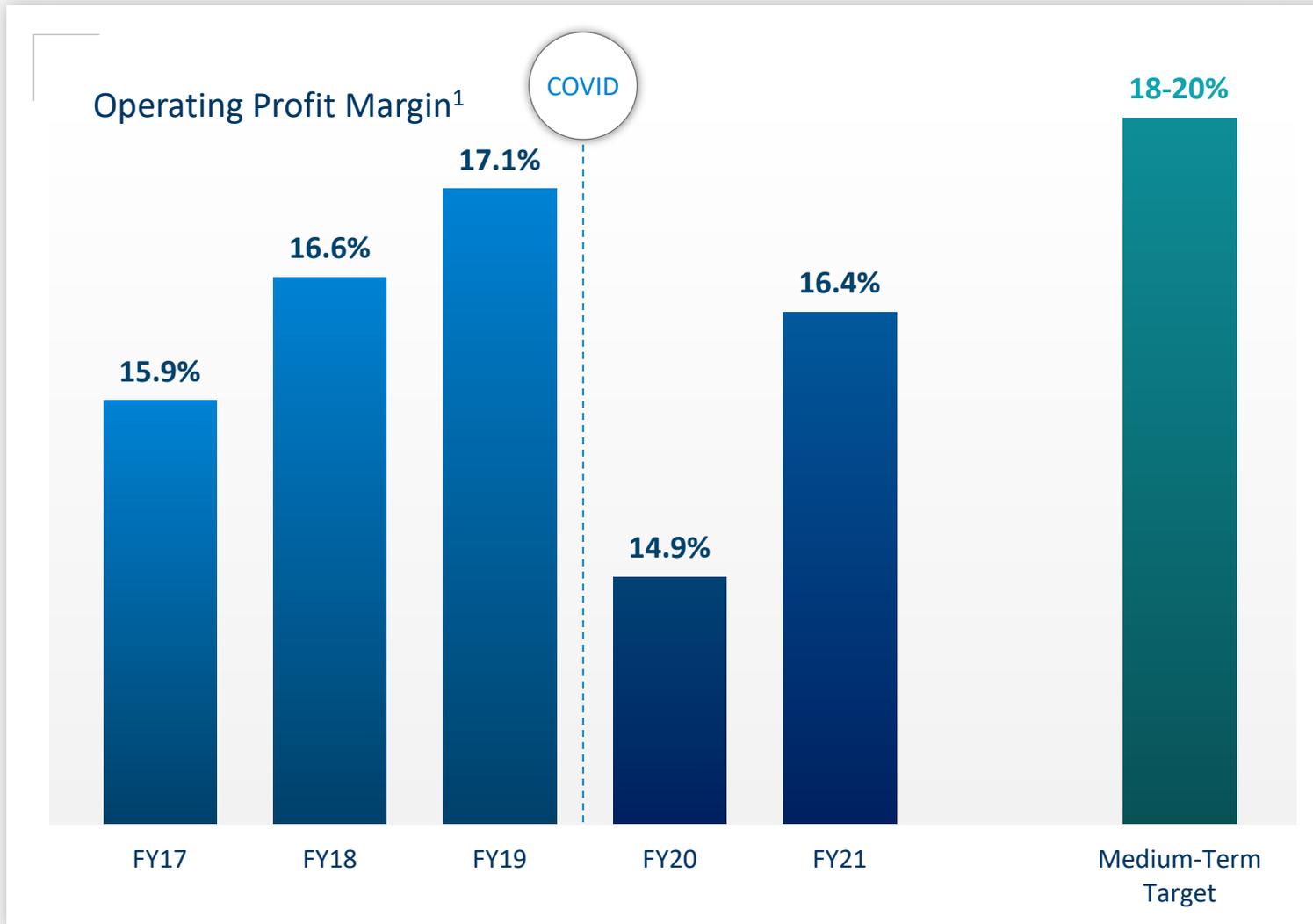
**BUSINESS STRENGTHS  
TRANSLATE INTO  
FINANCIAL STRENGTH**

**OUR PURPOSE**  
PIONEERS OF PROGRESS  
Improving our world through smarter engineering

**OUR STRENGTHS**  
World-Class Engineering  
Leading Positions  
Global Capabilities  
Robust Financial Framework

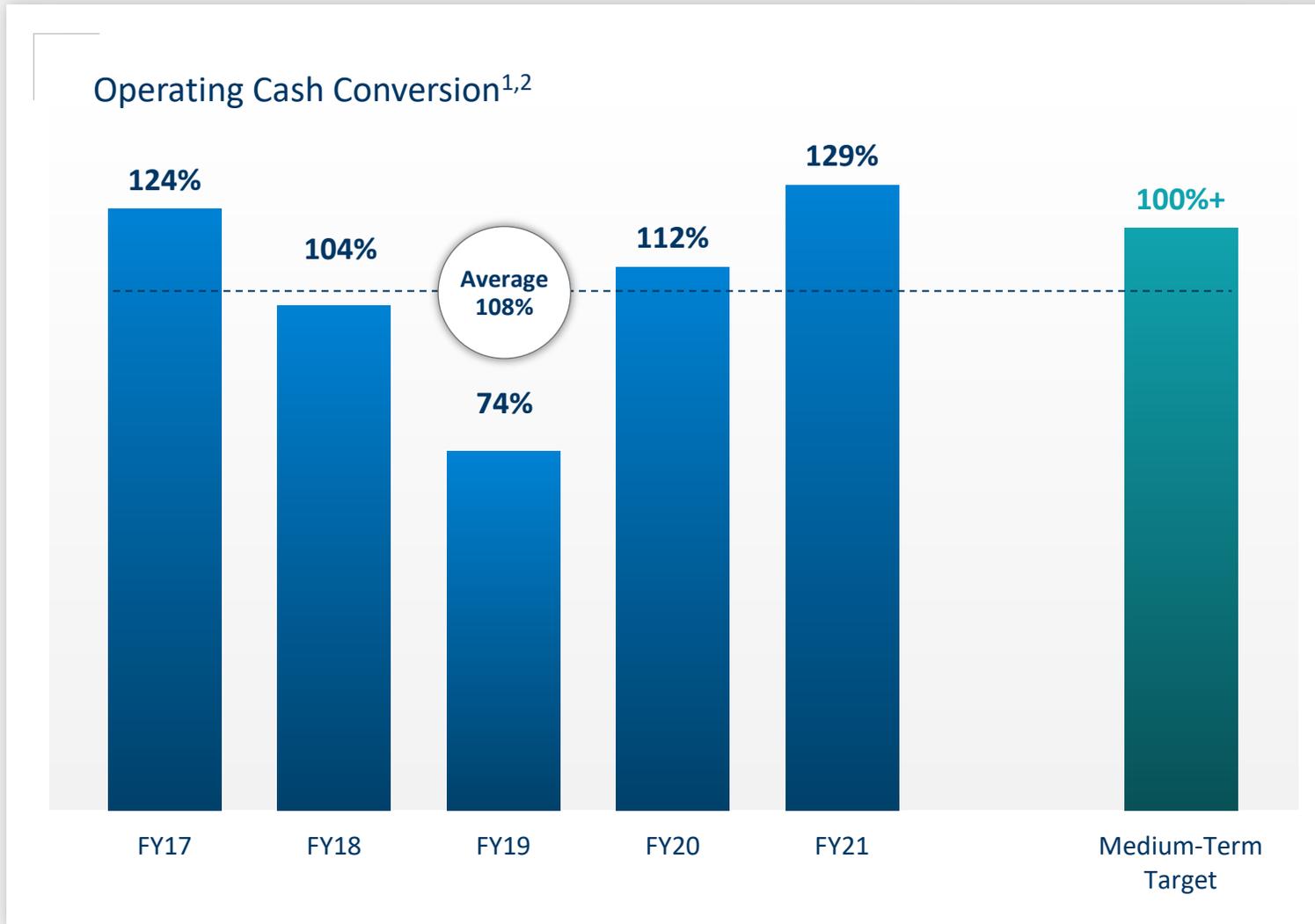
**OUR PRIORITIES**  
Growth  
Execution  
People

# Financial strengths: operating profit margin



- Operating profit margins climbed steadily pre-COVID to 17%
- Resilient during COVID
- Benefits of the restructuring programme reflected in H2 FY21 operating margin<sup>1</sup> of 18%
- Confident in our ability to deliver operating margins within the target range of 18-20%
- On the back of recovering topline and restructuring benefits
- Whilst still growing organic reinvestment in R&D to ~5% of net sales

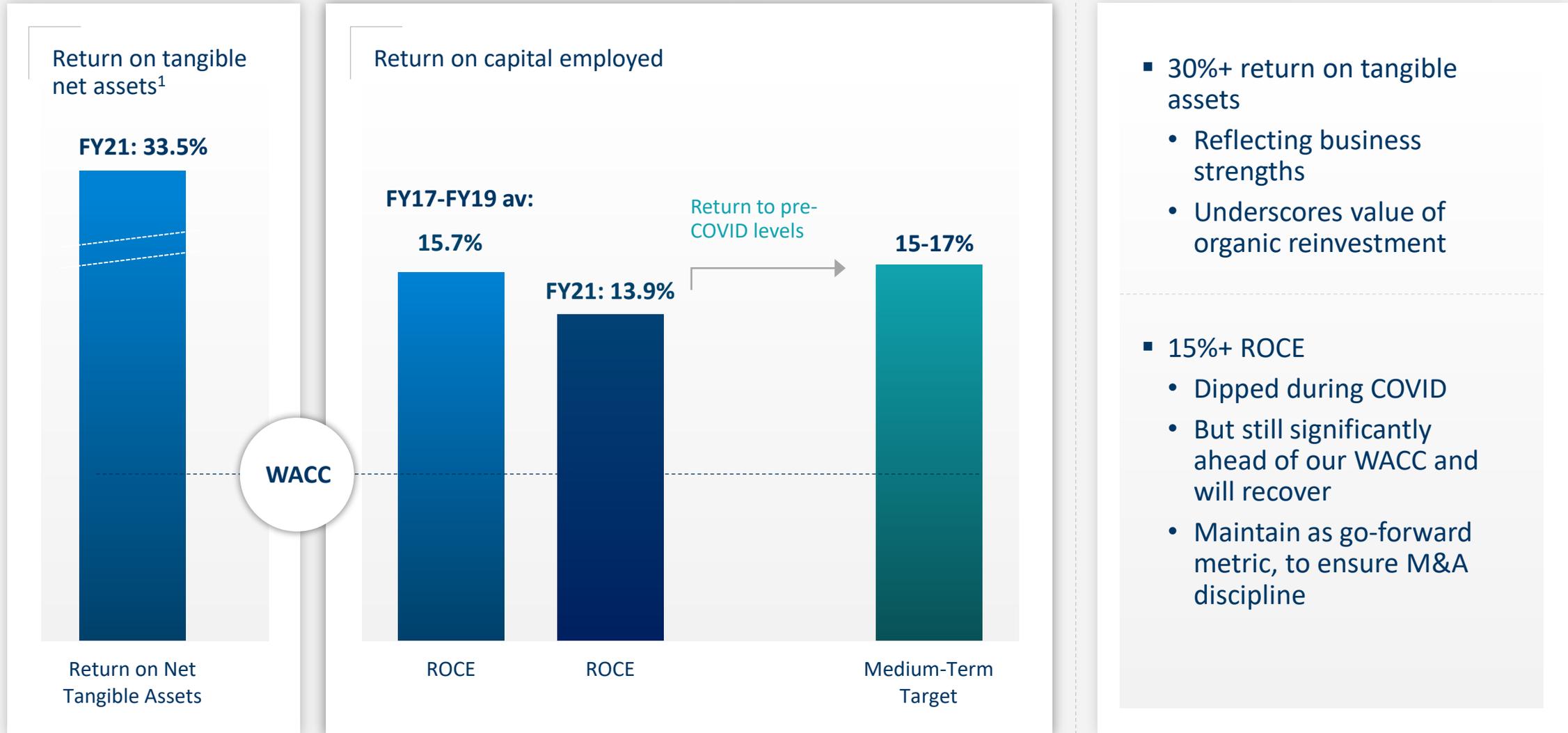
# Financial strengths: cash conversion



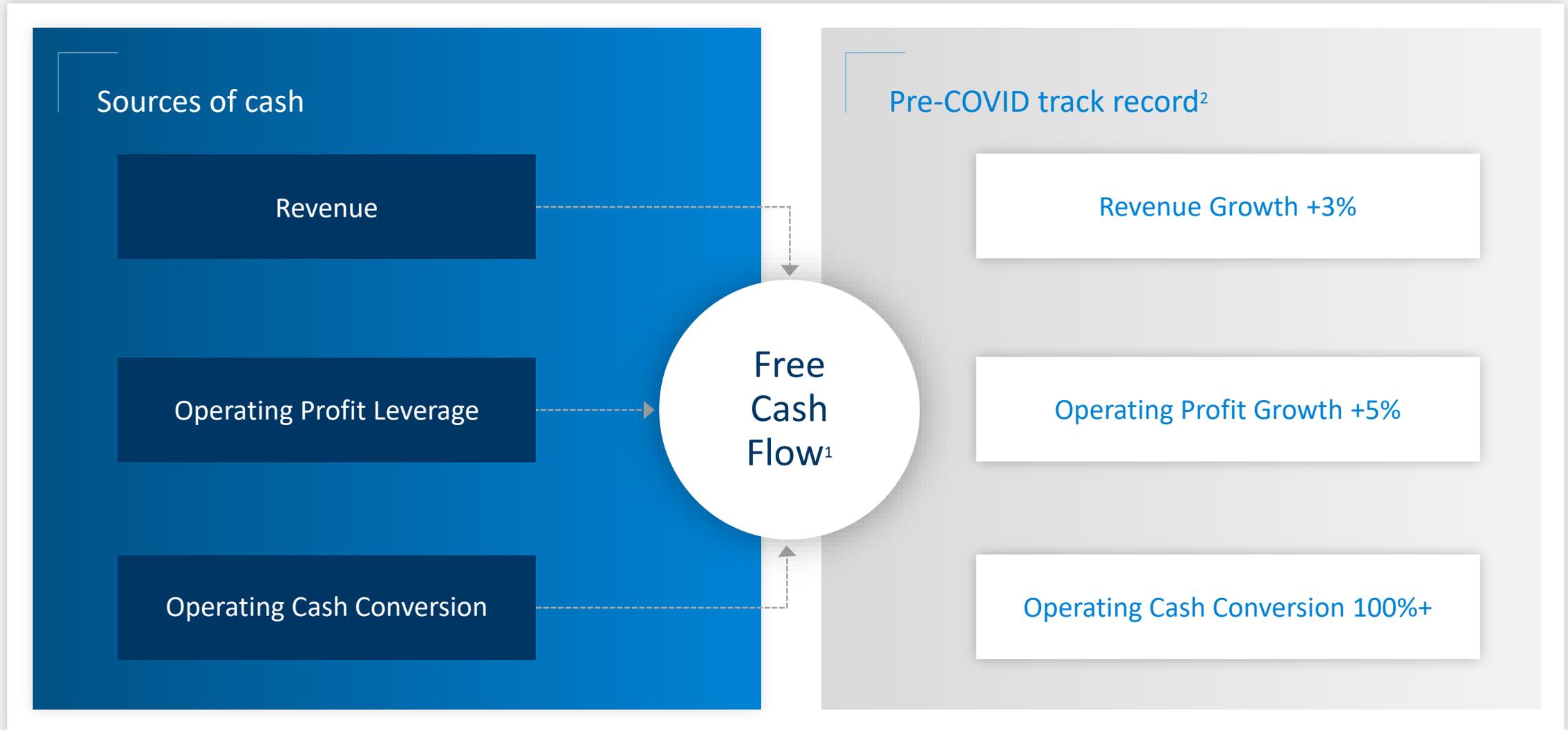
- We are IP-owning assemblers
  - Asset-light
  - Low capital expenditure as % sales

- Group-wide best practices for working capital management
  - With still more improvement to come from consistent execution

# Financial strengths: return on capital



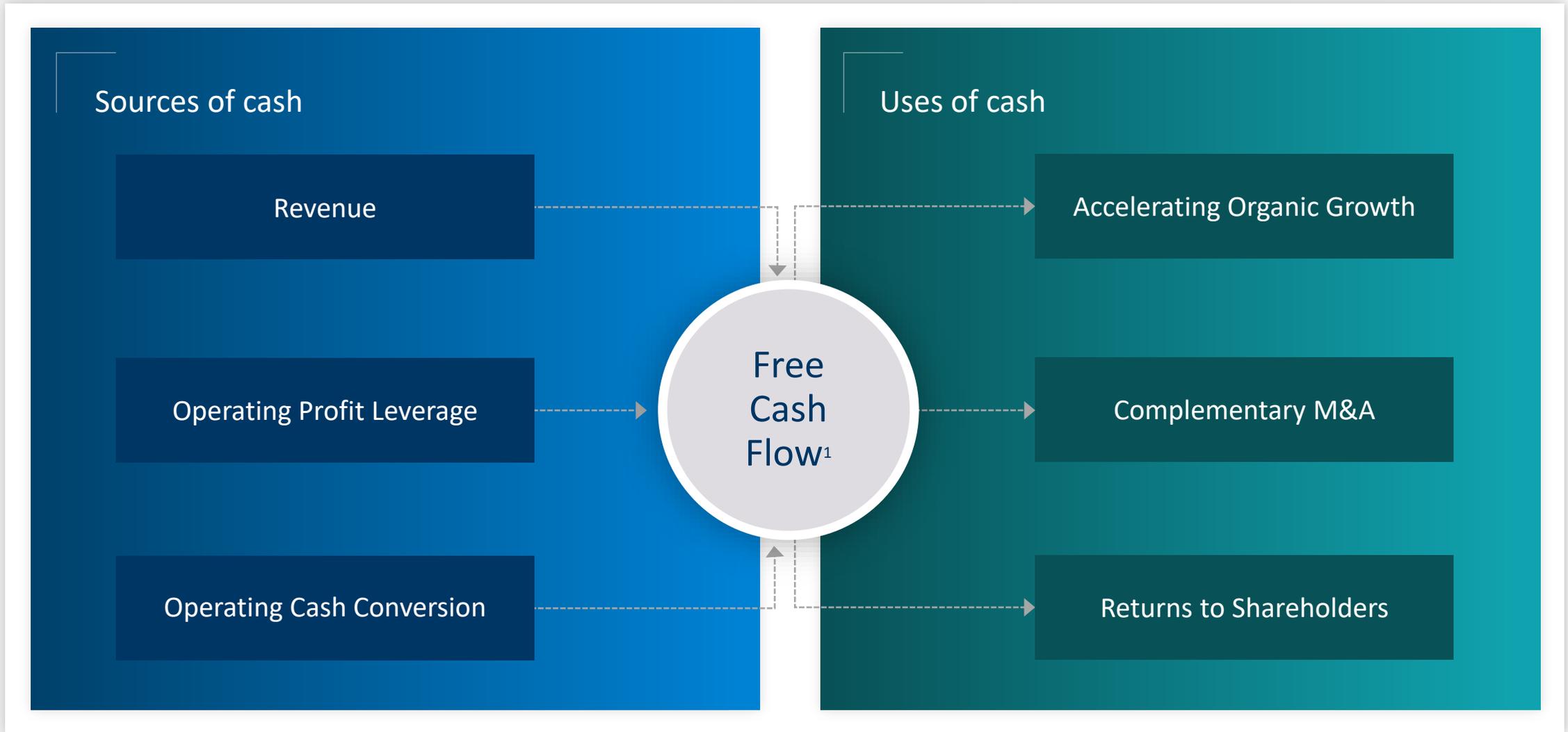
# The Smiths Financial Framework



# Accelerating Organic Growth



# The Smiths Financial Framework



# Uses of Cash: reinvesting to accelerate organic growth

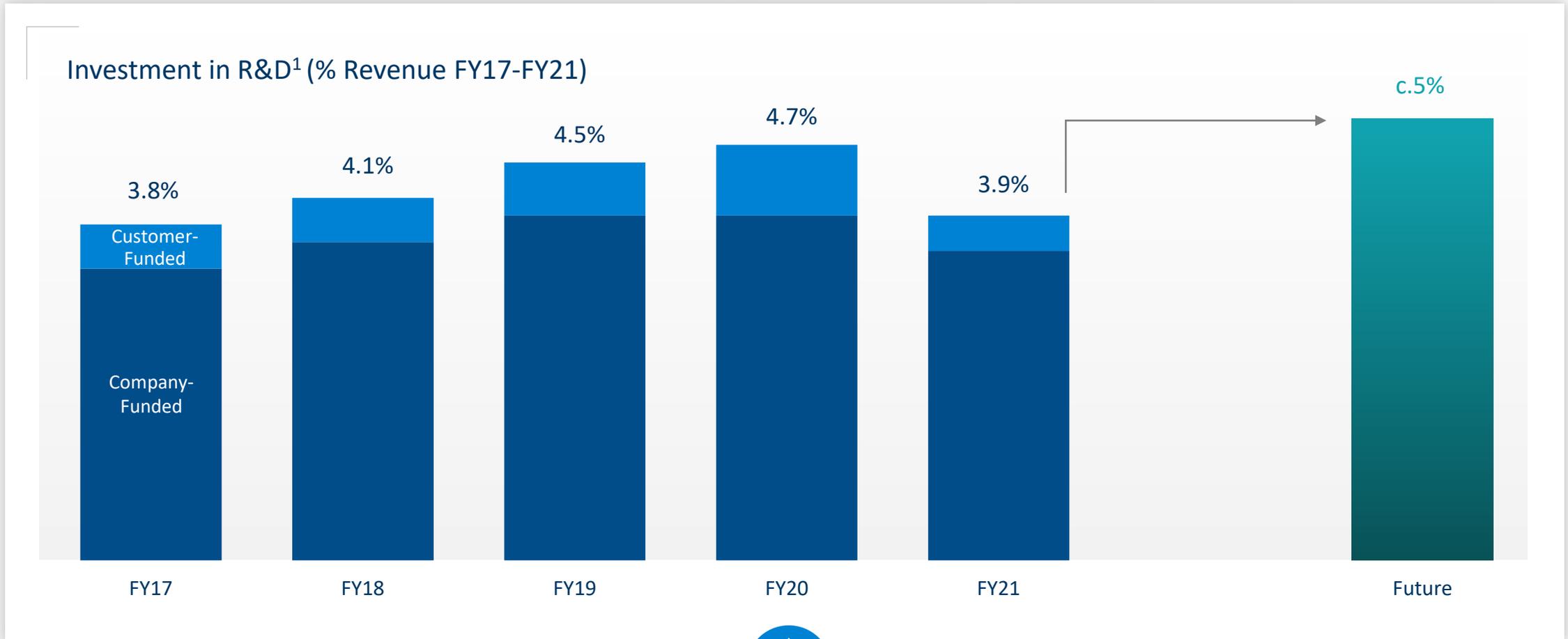


→ Accelerate from pre-COVID 3% to target 4-6% organic revenue growth  
**Knowing that this will convert to profit... and cash**



**Accelerating organic growth fuels free cash flow generation**

# Accelerating organic growth: R&D investment



Going forward: re-invest at 5% of revenue - and make it more productive

# Uses of Cash: complementary, disciplined M&A

## COMPLEMENTARY

- Strengthening leadership positions
- Access to new adjacencies
- Ability to accelerate growth
- Advancing technology roadmap

## DISCIPLINED

- Value creation
- High confidence synergies
- Focus on return on capital



# Complementary, disciplined M&A in action

Acquisition	Division	Date	Deal size (£m)	Synergies	Improved existing positions	Access to new adjacencies	Advances technology roadmap
							
XPD8	John Crane	October 2015	8	✓	✓	✓	✓
Morpho Detection	Detection	April 2017	564	✓	✓	✓	✓
SureHeat	Flex-Tek	August 2017	15	✓	✓	✓	✓
Seebach	John Crane	March 2018	56	✓	✓	✓	✓
United Flexible	Flex-Tek	October 2018	272	✓	✓	✓	✓
ADT	John Crane	April 2019	6	✓	✓	✓	✓
Reflex Photonics	Interconnect	October 2019	24	✓	✓	✓	✓
Access Scientific	Medical	May 2020	12	✓	✓	✓	✓
PathSensors	Detection	August 2020	5	✓	✓	✓	✓
Royal Metal Products	Flex-Tek	February 2021	78	✓	✓	✓	✓

# Uses of Cash: a progressive dividend

## Historical track record

- 70 years of uninterrupted dividends
- Reflects the cash generative nature of the business through past cycles, including COVID

## Forward policy unchanged

- Committed to a progressive dividend
- Growing in line with earnings
- With a minimum cover of 2x earnings



# Sources of Cash: sale of Smiths Medical

## Timetable

Announcement	8 September 2021
Circular posted	29 October 2021
Shareholder vote	17 November 2021
Expected completion:	Early CY 2022

## Initial cash proceeds **\$1.85bn**

Returned to shareholders via buyback	\$1.02bn
Retained to strengthen balance sheet	\$0.83bn

## Equity stake in ICU Medical

- 2.5m shares; ~10% of enlarged equity
- NASDAQ-listed, liquid financial investment
- 6 month lock-up
- Tax benefit to holding for more than 12 months
- At least 1.25m shares retained to qualify for earnout

## VALUATION

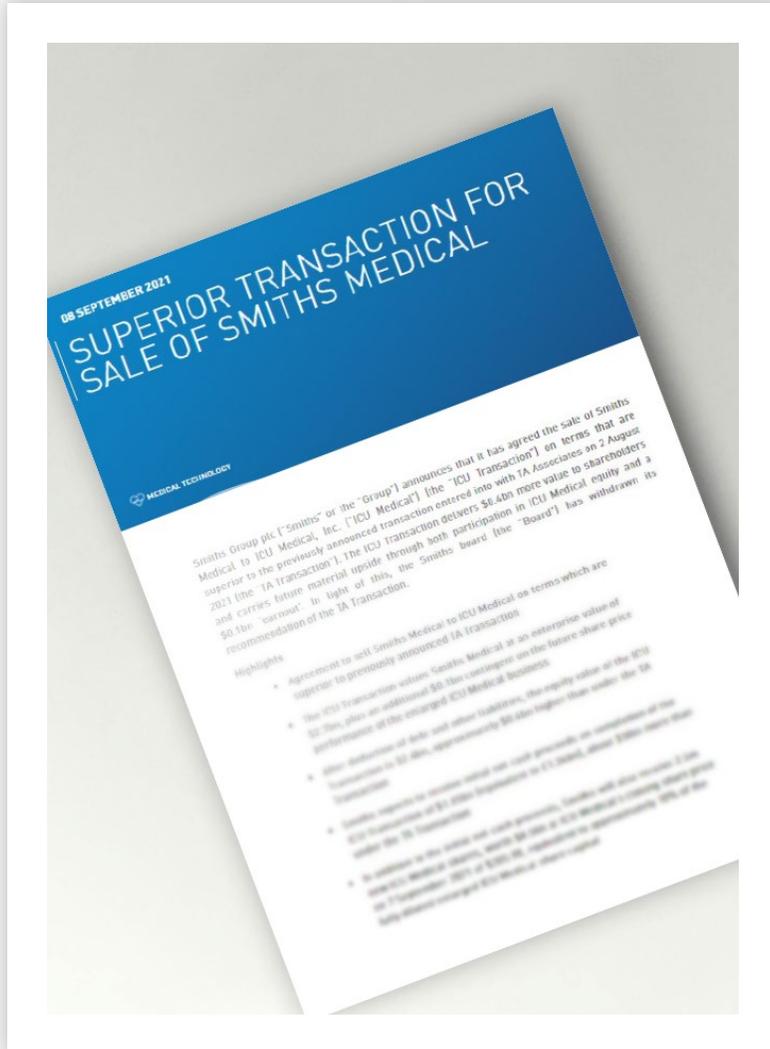
	\$bn
Enterprise value	2.70
Uplift in equity stake	<u>0.05</u>
<b>Valuation (29 October)</b>	<b>2.75</b>

Contingent earnout	0.10
Further uplift in equity stake	<u>0.15</u>
<b>Upside valuation<sup>1</sup></b>	<b>3.00</b>

<sup>1</sup> If ICU equity increases a further 25% in the four years following completion of the sale



# Uses of Cash: share buybacks



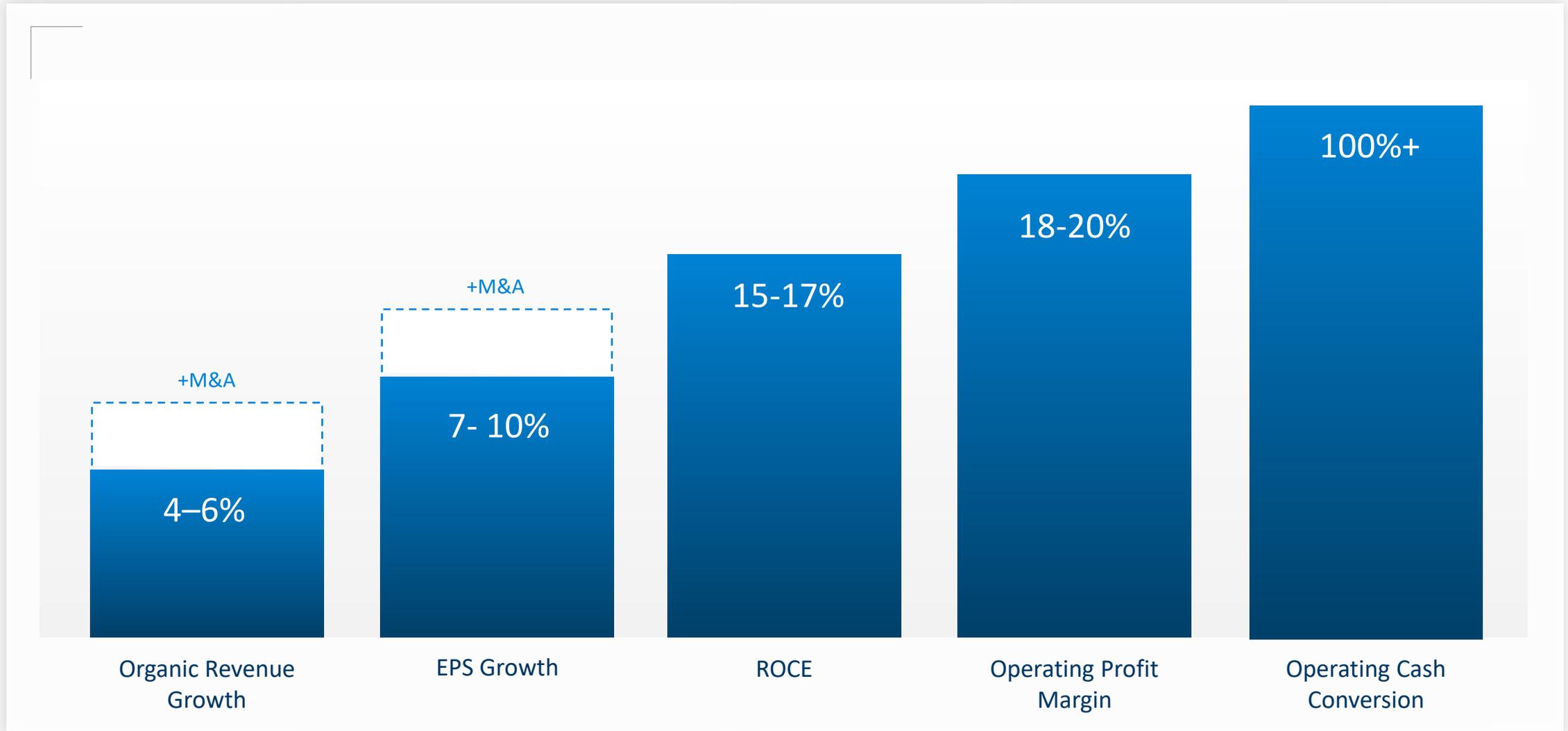
## Sale of Smiths Medical

- Initial cash proceeds of \$1.85bn
- \$1.02bn (55%) to be returned to shareholders
- Share buyback programme to start imminently

## Going forward: disciplined capital allocation

- Reinvestment in accelerated organic growth
- Complementary, disciplined M&A
- Proactive return of surplus capital to shareholders

# Medium-Term Financial Targets



# Closing Remarks

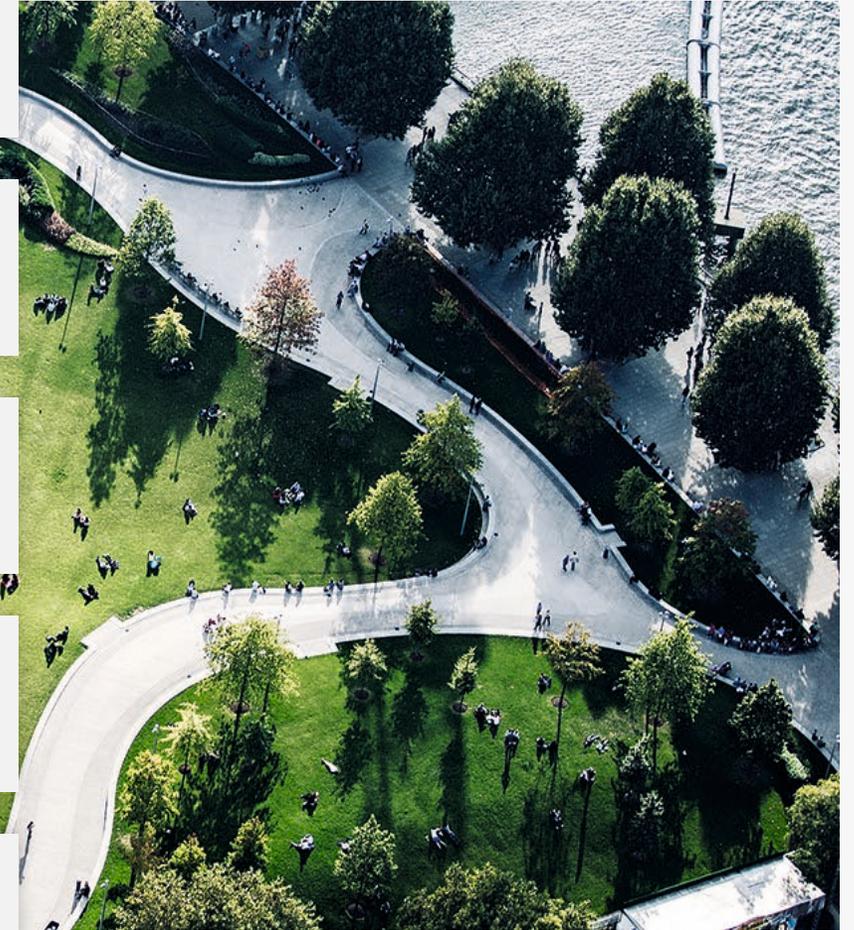
→ Simple and very effective financial framework

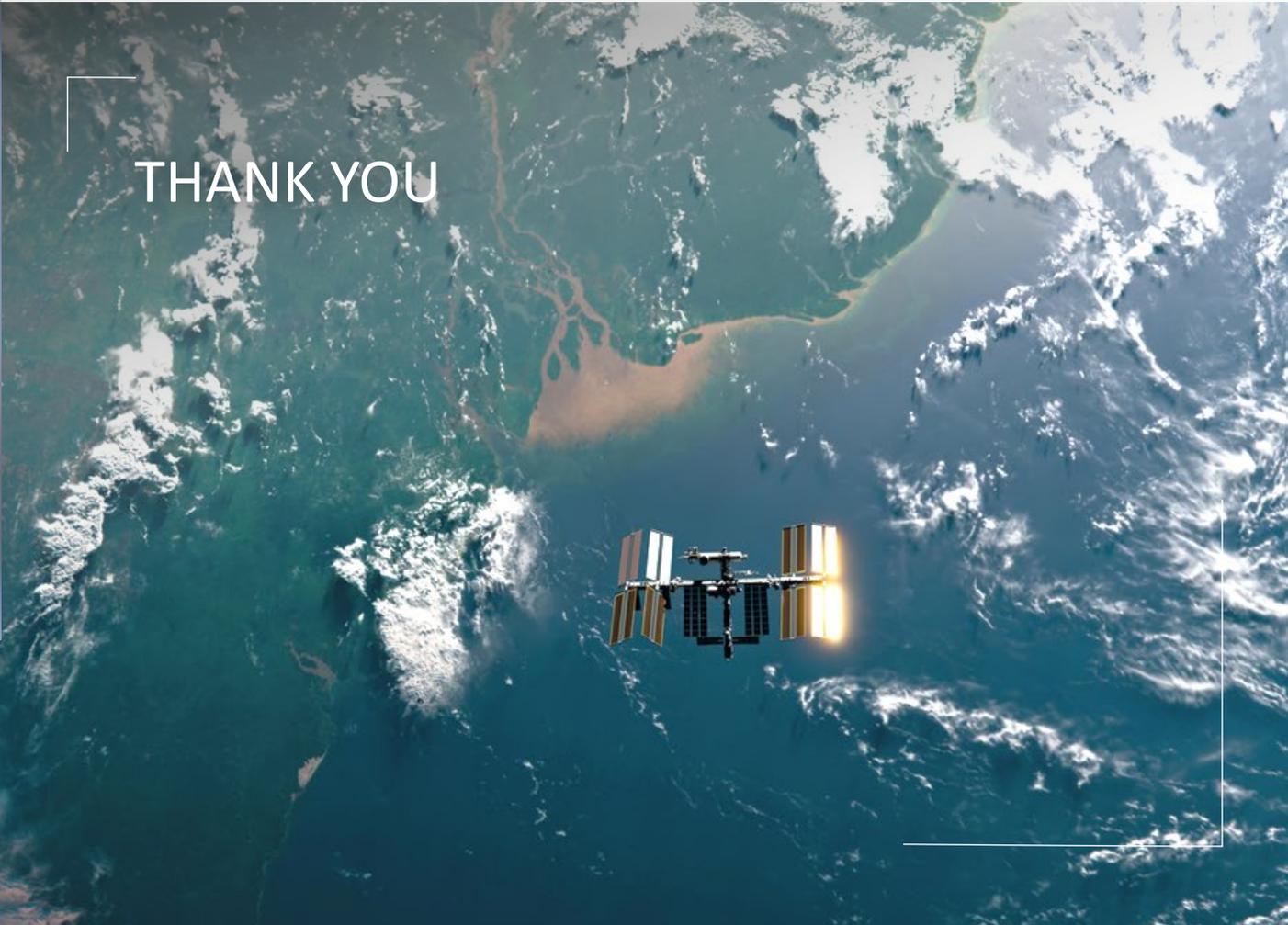
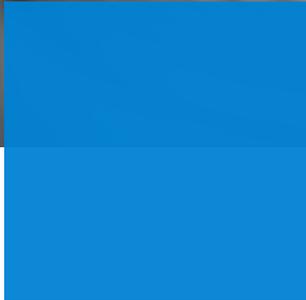
→ Accelerating top-line growth

→ ... as we execute on our growth agenda

→ Feeding into inherently strong profit and cash conversion

→ Enabling powerful and attractive returns





THANK YOU