CEO review of the year

Roland Carter
Chief Executive Officer

I am pleased to report a good performance at my first set of results as CEO. We delivered further progress, with organic revenue growth of +5.4% and a +30bps increase in headline operating profit margin to 16.8%, both in line with guidance, and headline earnings per share growth of 8.3%. We improved headline operating cash conversion to 97% through a focus on working capital. In September 2024 we announced two highly attractive acquisitions for up to £110m, deploying capital in a disciplined way whilst maintaining our strong balance sheet. We are well set for continued delivery in FY2025, and beyond.

During the last six months, we have been reviewing the Group's current strategy to define our future direction. From my 35-year career at Smiths, I have a deep appreciation of the Group's compelling attributes. Smiths has many strengths, and our businesses are well positioned for the future – leading positions in attractive markets, world-class engineering expertise, differentiated proprietary technology, strong brands and talented people united by a purpose-led, innovative and continuous improvement culture.

Effective execution of our strategy has enhanced our performance, but there is more we can do – and we will build on, and out from, this solid foundation. Our strategic priorities around growth, people and execution will remain, although there are a number of important changes:

- We remain resolutely focused on delivering continued profitable organic growth, but we will work harder to focus our innovation and the commercialisation of our new products. In addition, we will increase the importance of moving into new, higher-growth adjacencies with targeted allocation of our R&D resources. Highly disciplined M&A offers additional opportunities. This is demonstrated by the acquisitions announced for Flex-Tek, and we now have a more active acquisition pipeline to accelerate the pace of strategy execution;
- Our talented people and our purpose-led culture serve us well in delivering value for our customers, but the recent foundational work in values, leadership behaviours and culture must make a real long-term difference to how we operate. We will ensure that talent attraction and leadership development initiatives permeate through the Group, benefiting all. We are also taking a more end-to-end approach to improve business-level processes by implementing a global shared business services model which will provide improved cost-effective support; and
- The Smiths Excellence System (SES) is our way of working, and Lean and continuous improvement activities will be driven at the grass roots level, rather than led 'top-down' from Group. In addition, to deliver our operating margin target faster, we are launching a Group-wide Acceleration Plan which identifies a set of business-led transformational initiatives to enhance margin, improve productivity and build capabilities.

We see significant opportunities within all our businesses to deliver substantial additional value creation from this approach.

Strategy update

Compelling portfolio of leading businesses

Our portfolio position is compelling – with resilient and competitively advantaged businesses. Our businesses have independent products, customers and go-to-market models. Even so, they share similar customer-facing capabilities and common characteristics, an opportunity we can, and will, take better advantage of. For example, deep-seated manufacturing and process knowledge, aftermarket service, digital, automation and material technologies are all mutual characteristics we can better leverage to enhance how we support our customers, how we perform, and to create and sustain Group-wide competitive advantage.

Group functions will continue to provide strong, effective oversight and governance. We will improve these by developing and expanding the remit of our global shared business services – to cover all businesses and key support functions in addition to IT, which it already manages in a cost-effective way. We will continue to deploy SES, an important element of which is Lean – reducing waste and improving efficiency to enhance our operations - with Lean leaders at our major sites, maintaining the pace of continuous improvement. This common Group approach takes operational excellence to another level of maturity, alongside talent development and capital allocation, and will ensure consistent strategy execution, optimal capital allocation and cost-effective portfolio management.

Positioned in secularly attractive markets
We are positioned in attractive markets that we believe offer significant opportunities for profitable growth – energy, safety and security, aerospace and defence, general industrial – where we are helping our customers to make the world safer, more energy efficient and productive, as well as better connected. These markets are exposed to positive megatrends:

- Safety and security – in the context of an increasing prevalence of travel and cross-border trade, alongside increasing threats and greater geopolitical instability;
- Energy efficiency – the requirement for energy diversification as well as reductions in emissions, coupled with the rise in infrastructure development;
- Productivity – within the industrial world, the need to manage the use of resources and raw materials efficiently is critical, and will support the development of the circular economy; and
- Better connectivity – the demand for data is continually increasing as the world becomes more connected and computing power expands, requiring new technologies across many sectors.

We will continue to focus on accessing the growth that these markets offer, with a clear view to capturing market share and expanding our addressable markets.

Participation in attractive new market adjacencies to accelerate growth
As well as driving growth in our existing markets, we will look to build out priority adjacencies to accelerate our growth, for example into new sealing solutions and services at John Crane; next generation threat detection at Smiths Detection; electrical industrial process heat at Flex-Tek; and high-speed satellite communications at Smiths Interconnect. Accessing these adjacent opportunities will be done both organically through dedicated R&D spend, and through disciplined M&A, to augment our organic growth focus.

We have a strong balance sheet and the flexibility to support a range of growth opportunities and will continue to allocate capital in a disciplined way for value creation. The priorities here are unchanged – organic investment (R&D and capex) will remain our primary focus, followed by strategic and disciplined M&A, and then returning excess capital to shareholders through our progressive dividend and, when compelling, share buybacks.

As evidenced by the new acquisitions for Flex-Tek, we have a more active acquisition pipeline than historically, providing us with a greater set of opportunities through which we can grow our businesses, but will maintain our strict value creation discipline.

Investing in proprietary technology, differentiated products and service capability
Innovation takes place on many levels within Smiths: new products and services, new ways of manufacturing and new ways of exploiting technology. Our innovation capability and ongoing investment in developing differentiated, proprietary technologies and solutions ensures that we maintain a robust, value-oriented approach to commercialising new products. Our new product pipeline is focused on responding to emerging customers' needs and bringing next-generation technology to market.

We have a high proportion of recurring revenue through our aftermarket and services in John Crane and Smiths Detection, and we are looking at additional ways to improve customer intimacy and capture greater value here; for example through expanded services, as well as digital and software applications. We will also partner with customers to develop solutions to demanding specifications, again leveraging Group-wide skills and experience to better commercialise these types of growth opportunities.

Launching Acceleration Plan to drive Group-wide productivity and capability enhancements
We continue to drive productivity and process improvements and further embed deployment of SES which has delivered tangible benefits and contributed to recent margin expansion. However, we now need to capture the next level of improvements to accelerate the realisation of our medium-term margin target and deliver process improvements for resilience and scalability over the longer term.

To achieve this, and in addition to our planned SES activity, we are now launching a Group-wide Acceleration Plan. This comprises a number of discrete initiatives focused on delivering the next wave of productivity and capability enhancements across all our businesses.

This proposed programme has identified £30-35m of potential annualised benefits, of which around a quarter are planned to be realised during FY2026, with the full benefit in FY2027. Delivering these ongoing savings will result in one-off costs totalling approximately £60-65m, of which approximately £30-35m will be spent in FY2025 and £30m in FY2026, plus an additional £10m of capex in FY2025. Benefits and savings areas are focused on: process, improving organisational effectiveness through simplifying interaction and processes for our customers and our colleagues, and property, through a footprint optimisation review. Where required, we will consult appropriately with colleagues around the planned changes. It is now the right time to invest in these ambitions, to drive operating margin expansion and competitiveness more rapidly as we continue to grow.

Purpose-based and high-performing culture
Delivering on our growth and execution priorities requires the dedication and commitment of all our colleagues; and we are committed to doing more to inspire and empower them. Safety will continue to be our highest priority and we remain committed to maintaining our top quartile performance by elevating the focus on this around the Group even further. Our purpose-based culture is strong, and we continue to evolve our approach where talent development, engagement and inclusion and sustainability all define how we operate. I have worked with, supported and been supported by many colleagues over the years, and I am excited about what the future holds and what we can deliver together.

Reaffirming medium-term targets, underpinned by our performance framework
This focused strategic and operational plan is the means through which we will realise the medium-term financial targets that we previously set. We have again

made solid progress against these targets in FY2024 and continue to believe these are the right metrics and set the right ambition.

We are reaffirming these financial targets. In FY2024, we are already within the target range for three of these metrics and are clear on the key actions needed to achieve them for operating profit margin. Each of our businesses has a clear roadmap to improve profitability. Given our investment in growth, we now believe a cash conversion of around 100% through the cycle is more appropriate than 100%+.

Targets	Medium-term target	FY2024
Organic Revenue Growth	4-6% (+ M&A)	**+5.4%**
Headline EPS Growth	7-10% (+ M&A)	**+8.3%**
ROCE	15-17%	**16.4%**
Headline Operating Profit Margin	18-20%	**16.8%**
Headline Operating Cash Conversion	~100%	**97%**

FY2025 outlook

For FY2025, we expect organic revenue growth to be within our medium-term target range of 4-6%. A strong demand backdrop and good order book visibility underpin our positive view for John Crane and Smiths Detection, although growth is expected to moderate from the strong performance seen in FY2024. Good demand in aerospace, alongside the pace of market recovery in US construction, will determine the pace of growth in Flex-Tek, and recovery in semiconductor test alongside growth in aerospace and defence-related programmes underpins our expectation for an improving performance in Smiths Interconnect.

We also expect continued margin expansion in FY2025, reflecting operational leverage, continued deployment of SES and Lean initiatives, and our reinvestment to support future sustainable growth. Headline operating cash conversion is expected to be in the low nineties percent given an increase in capex to around £110m. This will be weighted towards the second half of the year, reflecting timing of machining capacity and automation investments, mainly in John Crane.

FY2024 business performance

Smiths delivered organic revenue growth of +5.4% in FY2024. We generated £526m of headline operating profit, up +7.1% on an organic basis year-on-year and a +30bps margin improvement as we continue to drive growth, improve execution, and invest in our people.

Revenue grew +3.1% on a reported basis to £3,132m (FY2023: £3,037m). This included a (£119m) negative foreign exchange translation impact and +£57m from the acquisitions of Heating and Cooling Products (HCP) and Plastronics.

Growth

Accelerating growth is key to value creation for the Group. We have now delivered three years of organic revenue growth, with momentum improving through FY2024. Organic revenue growth of 3.9% in the first half was followed by 6.8% in the second half.

Strong growth continued for our two larger businesses, with more challenging end market dynamics in our other two businesses, although both returned to growth in the second half:

- John Crane's growth was led by energy, especially in aftermarket, as it executed on its strong order book;
- Smiths Detection's growth reflected strength in aviation, particularly for computed tomography for airport checkpoints;
- Flex-Tek's performance reflected ongoing US construction market headwinds, which more than offset strength in aerospace; and
- Smiths Interconnect's performance reflected weakness in connectors and the semiconductor test end market.

£m	FY2023	Foreign exchange	Acquisitions	Organic movement	FY2024
Revenue	3,037	(119)	57	**157**	**3,132**
Headline operating profit	501	(21)	12	**34**	**526**
Headline operating profit margin	16.5%				**16.8%**

Organic revenue growth (by business)	H1 2024	H2 2024	FY2024
John Crane	+12.7%	+7.1%	**+9.8%**
Smiths Detection	+8.9%	+13.2%	**+11.1%**
Flex-Tek	(4.1)%	+2.6%	**(0.8)%**
Smiths Interconnect	(13.7)%	+0.4%	**(6.5)%**
Smiths Group	**+3.9%**	**+6.8%**	**+5.4%**

Organic revenue growth (by end market[1])	% of Smiths revenue	H1 2024	H2 2024	FY2024
General Industrial	39%	(5.5)%	(1.5)%	**(3.5)%**
Safety & Security	27%	+8.9%	+13.2%	**+11.1%**
Energy	23%	+16.6%	+15.3%	**+15.9%**
Aerospace & Defence	11%	+2.9%	+4.8%	**+3.9%**
Smiths Group	**100%**	**+3.9%**	**+6.8%**	**+5.4%**

Footnotes

1 Our end market allocations have been revised such that Smiths Interconnect's revenue related to aerospace and defence has been moved from Safety & Security into Aerospace & Defence. FY2023 has been restated on this new basis. See note 1 to the financial statements for further information.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace & Defence.

- In General Industrial, the decline reflected weaker demand in construction for Flex-Tek's heating, ventilation and air conditioning (HVAC) products and Smiths Interconnect semiconductor test and connectors products, with John Crane's industrial performance flat year-on-year;
- Safety & Security growth reflected Smiths Detection's continued strong delivery against its order book;
- Energy growth reflected robust demand at John Crane and execution against its strong order book; and
- In Aerospace & Defence, new aircraft build programmes drove demand at Flex-Tek which was partly offset by phasing in some aerospace and defence-related programmes in Smiths Interconnect.

Organic growth is supported by new product development and commercialisation. In FY2024, 200bps of growth was delivered from high impact new products including John Crane's next-generation diamond coating product, Smiths Detection's iCMORE and the latest generation of high-speed semiconductor test sockets (DaVinci 112) from Smiths Interconnect. Gross vitality, which measures the proportion of revenues coming from products launched in the last five years, was 28.5% (FY2023: 31%), supported by our successful new product commercialisation.

We also augment our organic growth with disciplined M&A and in September 2024 we announced two acquisitions with a combined value of £95m at an EBITDA multiple of c.8x, enabling expansion in Flex-Tek's HVAC and electrical heating solutions platforms. An additional amount of up to £15m is payable subject to the performance of one of the acquisitions over a three-year period.

- Modular Metal Fabricators, Inc. (Modular Metal) is a US-based metal and flexible ducting manufacturer which expands Flex-Tek's geographical presence in the western US and broadens its product range to include Modular Metal's sealed flexible duct solution. This acquisition builds on our August 2023 acquisition of HCP, which expanded our geographical coverage in North America and added HCP's patented axial and radial seal duct products.
- Through the acquisition of Wattco, Inc. (Wattco), Flex-Tek expands into medium temperature immersion and circulation heating – an attractive market adjacency and highly complementary to our existing open coil electrical heating businesses. This acquisition follows our successful acquisition of SureHeat in 2017. Wattco also brings additional capability in terms of supplying vertically integrated heating solutions and will be integrated into the Flex-Tek heat solutions business.
- The acquisition of Wattco has already completed, while Modular Metal is expected to complete in Q1 FY2025.

Execution

Stronger execution remains a key priority, with an improving financial performance again in FY2024. Headline operating profit rose +7.1% (+£34m) on an organic basis, and +5.0% (+£25m) on a reported basis, to £526m (FY2023: £501m).

Headline operating profit margin was 16.8%, up +34bps on an organic and +30bps on a reported basis, and in line with guidance of continued margin expansion, reflecting operational leverage and efficiency improvements, alongside reinvestment to support future growth.

Headline operating profit margin (by business)	FY2023	FY2024
John Crane	22.6%	**23.2%**
Smiths Detection	11.2%	**11.9%**
Flex-Tek	19.4%	**20.5%**
Smiths Interconnect	16.0%	**13.9%**
Smiths Group	**16.5%**	**16.8%**

£m	FY2023	Foreign exchange	Acquisitions	Organic movement	FY2024
Headline operating profit	501	(21)	12	**34**	**526**
Headline operating profit margin	16.5%	(10)bps	10bps	**30bp**	**16.8%**

Three of our businesses delivered margin expansion:

- John Crane had good operating leverage on the higher sales volume, partially offset by mix impacts from higher systems sales and while continuing to reinvest in capacity expansion, sales and service to support current and future growth;
- Smith's Detection delivered a 70bps increase in margin, reflecting higher volumes and improving operational efficiency in the second half;
- Flex-Tek delivered a higher margin, despite the lower organic revenue, reflecting a positive mix impact and good cost control; and
- Smiths Interconnect posted a margin decline reflecting the lower year-on-year volumes, despite cost control initiatives.

And at a Group level, we invested in several growth initiatives which were funded by the benefits from the Smiths Excellence System and other savings projects, and which offset each other.

ROCE increased +70bps to 16.4% (FY2023: 15.7%) reflecting the higher profitability of the Group, which also translated to growth in headline EPS of +8.3% to 105.5p. This reflected a headline tax charge of £122m (FY2023: £121m) which represents an effective rate of 25.0% (FY2023: 26.0%) and also benefited from the share buyback programme, partially offset by foreign exchange impacts.

The focus on execution also enhanced headline operating cash conversion, which improved to 97% (FY2023: 86%), supported by a year-on-year improvement in working capital. Headline operating cashflow was £509m (FY2023: £433m) and free cashflow generation increased +67% to £298m (FY2023: £178m) or 57% of headline operating profit (FY2023: 35%).

SES is one of our key initiatives to enhance execution and support the delivery of our medium-term financial targets. SES projects delivered a £23m benefit to headline operating profit in FY2024 (FY2023: £14m), in line with expectations. SES is the way we work at Smiths and is supported by our cohort of Black Belts (BBs) and Master Black Belts (MBBs). As our first cohort return to leadership roles across the Group, SES learnings are better embedded within the businesses, and to continue this process, new MBBs and BBs have been appointed. In addition, our major sites have Lean leaders in place to continually assess processes and ingrain Lean practices at the local level.

We are also executing well against our ESG framework, with progress against our sustainability metrics, which are now fully incorporated into both our annual and long-term incentives. We continue proactively to manage reductions in the environmental impact of our operations and manufacturing processes.

We have been tracking our environmental performance since 2007 and set new three-year targets in FY2022. Over the three-year period FY2022-FY2024, our Scope 1 and 2 emissions have reduced by 42% – in line with our net zero Greenhouse Gas (GHG) emission targets which were validated by the Science Based Targets initiative during the year. Also over this period, we improved energy efficiency, around 73% of our electricity now comes from renewable sources and we continue to target additional locations for onsite renewable energy installation.

We have set out new targets for FY2025-FY2027. These include new metrics on supplier engagement in support of our ESG commitments and reporting. In FY2024, we engaged a new third-party supplier management platform – EcoVadis – and launched a supply chain due diligence policy which, together, will help us manage supplier relationships to explicitly support our ESG commitments and reporting.

People

Safety, alongside health and well-being, is an essential foundation of our success. Our FY2024 recordable incident rate was 0.44 (FY2023: 0.41), with the increase primarily reflecting the acquisition of HCP, where its safety culture is being aligned with that of Smiths following its integration. Our key focus is on sustainable preventative action including active promotion of a safety culture and engagement, safety leadership, skills and designing out risk and this is reinforced on a daily basis through safety leading indicator activities, comprising peer-to-peer observations and leadership tours. A key event in the year was our three-day global Health, Safety & Environment (HSE) conference which covered topics including safety culture, the connection between SES and HSE, and hazard perception and risk assessment. To supplement the focus on our physical security, we are developing a mental health and well-being strategy which will be deployed in FY2025.

To support talent development, the rollout of Accelerate, our bespoke training programme for senior leaders continued. It is now present in 15 countries, with 555 participants in FY2024; 50% of our leaders have now been trained under the programme. Our commitment to fostering diversity, equity and inclusion with our initiatives on this are further bolstered by active employee resource groups (ERGs) such as the Black Employee Network, Veterans Network, Pride Coalition, Women@Work and Neurodiversity ERGs.

Our people are enthused about engaging with and caring for our communities and in June this year, our annual Smiths Day celebrated our culture and our communities, with many employees volunteering their support for local causes. At the Group level, The Smiths Group Foundation has now made its first grants, totalling c.£1m, to more than 10 charities around the world supporting STEM, safety and connectedness and environmental sustainability.

In combination, these initiatives help to underpin an engaged workforce and a healthy culture which we track and measure through the annual My Say survey. This survey is used to surface issues and more precisely understand what we are doing well and where we need to do better, both at a high level and at the grass roots in individual teams. In FY2024, 85% of employees completed the survey and it was pleasing to see our overall engagement score of 75 was up two points on the prior year.

Environmental metrics	FY2023	FY2024	FY2022–2024	Target FY2022–2024
Energy efficiency[1]	7.9% improvement	**5.9% improvement**	**n/a**	**n/a**
Normalised Scope 1 & 2 GHG[2] emissions reductions[3]	21% reduction	**20% reduction**	**42% reduction 16.4% CAGR**	**5% CAGR**
Absolute Scope 1 & 2 GHG[2] emissions reductions	11.8% reduction	**10.7% reduction**	**22% reduction**	**n/a**
Proportion of electricity from renewable sources	70%	**73%**	**12% increase**	**5% increase 3Y**
Normalised non-recyclable waste[4]	9.8% reduction	**0.1% increase**	**19% reduction**	**5% reduction 3Y**
Normalised water use in stressed areas[4,5]	13.3% reduction	**0.6% increase**	**17% reduction**	**5% reduction 3Y**

Environmental metrics	Target FY2025–2027
Energy reduction[6]	2% in FY2025
Renewable energy	80% by FY2027
Absolute Scope 1 & 2 GHG[2]	17.5% reduction by FY2027
Supplier engagement	40% of supplier spend evaluated on EcoVadis by FY2027
Supplier engagement Scope 3[2]	25% of supplier spend committed to SBTi targets by FY2027

Footnotes

1 The energy efficiency ratio is expressed as the MWh energy consumed (excluding renewable electricity produced and consumed onsite), divided by revenue (excluding price growth within the measurement year), and excludes HCP.
2 Scope 1, 2 and 3 GHG emissions calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol.
3 Normalised for revenue excluding price increases and excluding HCP acquisition.
4 Normalised to reported revenue
5 Across 10 identified water stressed areas.
6 Year-on-year reduction in absolute MWh consumed (target depending on revenue).