Smiths HY2025 Financial Results

Tuesday 25th March 2025

Opening Remarks

Roland Carter

Chief Executive Officer, Smiths Group

Good morning everyone and thank you for joining us today. I'll start by providing a few opening remarks before handing over to Julian to walk us through the first half numbers.

I'll then come back to you to provide an update on the strategy. And we'll have plenty of time at the end for questions.

Opening remarks

Strategic actions underway to unlock significant value and enhance returns to shareholders

As I said in January, since becoming CEO this time last year, the Board and I have been evaluating the options to maximise shareholder value. Despite making substantial progress with improved performance, the Group still trades at a discount to our expected valuation.

To address this we will focus on our high-performance technologies for efficient flow and heat management through John Crane and Flex-Tek; and separate Smiths Interconnect via a sale, followed by Smiths Detection via either a UK demerger or sale.

In parallel, we have increased our share buyback programme to £500m, and will return a large portion of disposal proceeds to shareholders.

As we execute this strategy, we will become a more focused business with a higher quality financial profile that has ample potential for growth and very significant value creation.

We have made good progress since January and I'll provide more detail later.

Strong HY2025 financial results; FY2025 outlook reaffirmed

Turning to first half performance – we delivered a strong set of financial results with growth across all key metrics. We enhanced returns to shareholders; invested in attractive bolt-on acquisitions; and maintained our focus on safety.

Given this performance, I'm pleased to reaffirm our FY25 guidance, which we have raised twice since last September.

Before handing over to Julian, I want to say a few words by way of introduction since this is his first set of results - having been appointed CFO in February.

Julian has been at Smiths for more than 12 years. His financial and strategic roles, alongside his experience at Flex-Tek and Smiths Interconnect equip him well to be CFO, to drive forward the strategic actions, whilst maintaining financial control and discipline of the business. I'm incredibly pleased and fortunate to have him working alongside me, to create and deliver value.

With that, I'll hand over to him to talk through the numbers.

HY 2025 Financial Results

Julian Fagge

Chief Financial Officer, Smiths Group

Thank you Roland, and good morning everyone.

HY2025 – Continued strong financial performance

I'm happy to be presenting my first set of results and I'm pleased with the progress we've made in the first six months of FY25 delivering another strong financial performance.

Organic revenue growth was 9.1%.

Including acquisitions, this increased to 10.2%, with reported revenue growth of 6.7%, reflecting the impact of adverse foreign exchange.

We grew operating profit 12.6% on an organic basis, and 9.5% on a reported basis, resulting in margin expansion of 40 basis points to 16.7%, or 50 basis points on an organic basis. This is consistent with our full-year guidance.

This strong operating profit performance translated to 14% EPS growth, enhanced by lower tax and interest charges, and the benefit of the share buyback programme.

Cash conversion was good - at 94% - and ROCE reached a high of 17.1%, as we made efficient use of our capital.

Reflecting all of this, we are again increasing our dividend by 5% to 14.23 pence, which is supplemented by the £500m share buyback programme.

These positive results were delivered despite the cyber security event in January. I'm pleased to report that all critical systems are now up and running, with the only financial impact on results relating to John Crane which I'll cover later.

Extending our track record of organic revenue growth

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

As you can see here, we are delivering consistent top line growth, within or ahead of our current medium-term target of 4-6%.

Continued operating margin expansion

Strong revenue growth translated into even stronger operating profit growth with a 40 basis point reported margin expansion to 16.7%.

On an organic basis, margin expanded 50 basis points driven by:

- higher volume particularly in Smiths Interconnect and Smiths Detection; and
- continued price discipline, more than offsetting inflation

We delivered a net expansion of 30 basis points from efficiency savings, including the benefits delivered through the Smiths Excellence System, whilst continuing to invest in growth.

Offsetting these increases, we had a 60 basis point contraction from mix. This covers both business mix, with a higher growth coming from our lower margin businesses, and product mix mostly within John Crane and Flex-Tek.

Strong EPS growth driven by operating performance

Strong operating growth translated to an even stronger EPS growth of 14%. The impact of organic profit growth, lower tax and interest, accretive acquisitions and the share buyback together delivered 19.3% constant currency EPS growth. We have provided full year guidance on tax, interest and FX in the appendix.

Improvement in cash conversion

On operating cash, we generated £254m, a 94% conversion, up from 89% this time last year. This reflects ongoing disciplined working capital management, whilst continuing to invest in the business.

Full year capex is now expected to be around £100 million, down from the prior guidance of £110 million given timing changes, and higher versus last-year largely due to the investment programme in automation and capacity in John Crane.

Finally, operating cash performance translated to £143 million of free cash flow, up nearly 30% on last year.

Business Update

Turning now to the businesses, I'll talk first through John Crane and Flex-Tek – the businesses we will retain. And then, I will cover Smiths Detection and Smiths Interconnect, the businesses we will separate to unlock value.

John Crane – strong Q1, Q2 growth constrained by cyber incident; order book supports H2 outlook

John Crane delivered 3.8% organic revenue growth, against a strong prior year comparator when we grew 12.7%. Performance was constrained by the cyber incident where recovery took longer due to the number of systems involved.

Growth was led by strong original equipment sales, particularly in Energy, which although having a lower margin in the short-term, secures a long term, higher margin aftermarket revenue stream.

Operating profit grew 3.9%, with a 10 basis point organic margin expansion to 22.9%. This margin reflects disciplined pricing and efficiency benefits, whilst continuing to invest for future growth, offset by the negative impact of the lower margin OE sales.

We had significant wins in the first half in energy, including a third asset management contract in Saudi Arabia and a partnership to supply seals to a ground-breaking supercritical CO_2 project. We expect strong demand across the full energy spectrum to continue over the medium term as customers focus on driving efficiency and emissions reduction.

Looking ahead, we expect the second half growth to improve on the first half, supported by a robust order book and market demand. However, the cyber incident disrupted orders in January which continued into Q3, moderating our growth expectations for the full year.

Flex-Tek – solid growth and execution despite challenging market conditions in US construction

Now turning to Flex-Tek.

Revenue increased 2.5% organically, with acquisitions adding a further 4.4% to growth.

Flex-Tek's industrial segment grew 2.0%, with growth of HVAC products continuing despite a subdued construction market.

Aerospace grew 4.8%, as we executed on the strong orderbook driven by new aircraft builds.

Operating margin was 19.8%, down versus a strong comparator in FY24.

The margin performance reflects positive pricing, and the benefit of efficiency savings offset by product mix, with the prior year benefiting from high margin industrial heating contracts.

Looking forward, the timing and shape of the US housing market recovery will be a key driver for Flex-Tek into the second half. On a rolling 3-month basis, US new housing permits declined 3.1%, new housing starts were down 2.7% and builders' confidence remains negative. However, the market outlook continues to be supported by a shortage of housing stock, and we are well positioned to take advantage of the recovery.

For aerospace, we expect sales to remain strong, underpinned by a healthy orderbook.

Building on our successful track record with acquisition of Duc-Pac Corporation

Our strategy to create value in Flex-Tek with accretive acquisitions has continued during the half. In September, we announced the acquisitions of Modular Metal Fabricators and Wattco. Today, we announced the acquisition of Duc-Pac Corporation, a metal duct manufacturer based in Massachusetts, for £32m at an attractive multiple of 7.2 times EBITDA.

This acquisition is another step in building a nationwide integrated offer of metal duct products in the HVAC segment expanding coverage into the north-east through an established brand and a well-run business.

Since the acquisition of Royal Metals, we have deployed a total of £270m of acquisition capital into Flex-Tek at a combined valuation multiple of 7 times, which together with a strong organic performance has compounded growth to 13.2% over this period and added 320 basis points of margin over the last 4 years.

Smiths Detection – significant volume growth in aviation; continued margin expansion

Now turning to Smiths Detection.

Revenue increased 15.3% organically, reflecting significant growth in aviation, partly offset by a decline in Other Security Systems.

Aviation growth of 28.7% was driven by the ongoing global rollout of checkpoint CT scanners. We have now sold more than 1,600 of our CTiX products, and continue to secure a good win rate of more than 50% of the units contracted to date. The programme is about halfway through, with another 2-3 years to run.

Other Security Systems revenue declined 11.3% against a high prior year comparator and reflected the phasing of certain contracts.

Detection's operating profit increased 23.2% and operating margin by 70 basis points, on an organic basis, reflecting the strong volume growth, along with improved pricing and efficiency savings.

Our strong order book supports a continued positive outlook into the second half, and beyond.

In September, we showcased our new X-ray diffraction product which will support future hold baggage upgrade programmes. It is currently undergoing certification in Europe.

Smiths Detection is also advancing its iCMORE software offer and was the first to receive approval from the Netherlands for its AI-driven detection system, an important addition to support growth in our higher margin aftermarket.

Smiths Interconnect – innovation and execution driving strong growth

Finally, Smiths Interconnect

Organic revenue growth was very strong at 26.8%, with growth across all business units. Aerospace & defence revenue grew 15.9% driven by the strength of innovation in our fibre optic, radio frequency and connectors products.

Growth in industrial markets was driven by an outstanding performance in our semi-conductor test business. This reflected a high programme win-rate, particularly in high-speed GPUs and AI-related programmes. Our technology leadership was externally recognised with a number of industry awards for our DaVinci 112 semi-test product.

The notably higher volumes as well as pricing, mix and significant benefits from efficiency programmes, drove an 80% organic increase in operating profit. This translated into a 510 basis point expansion in operating margin.

Looking ahead to the second half, we expect growth to continue, albeit at a more moderate rate.

Disciplined capital allocation with enhanced returns

Turning now to our capital allocation framework.

As we have previously communicated, we deploy capital to fuel organic growth, fund strategic and disciplined bolt-on acquisitions and return excess capital to shareholders – all of which we have demonstrated in the first half:

- Organically, we increased capex and invested in R&D and engineering to ensure sustainable future growth across all our businesses.
- We invested £97m in acquisitions in Flex-Tek at attractive multiples and accretive margins.
- AND we have enhanced our returns to shareholders, having increased the share buyback programme and raised the dividend

As of today, we have completed the initial £150m of the £500m share buyback programme, and are on track to complete the remaining £350m by the end of this calendar year.

In addition, we are committed to returning a large portion of disposal proceeds.

In summary, our balance sheet remains strong, giving us flexibility for FY25 and beyond to fund organic investment, undertake bolt-on M&A, and return capital to shareholders via dividend and buyback, all while maintaining our investment grade rating.

FY2025 outlook

And finally, a few words about our outlook for the rest of FY25.

We are reaffirming our twice-increased guidance of 6-8% organic revenue growth supported by good order book visibility and continued strong demand in our end markets, albeit with some uncertainty over the US construction market.

We are also reaffirming our expectation of a 40-60 basis point expansion in operating margin, driven by operational leverage and continued benefits from the Smiths Excellence System and other efficiency programmes.

This guidance reflects the current position of announced US tariffs and we continue to carefully monitor how the landscape evolves. Our largely local-for-local approach limits the impact as we typically source where we manufacture and manufacture where we sell.

We expect cash conversion for the full year to be in the low 90s percent.

In conclusion, we have delivered a strong first half financial performance. We have positive momentum towards meeting the full-year guidance, and we are focused on executing our strategy. With that, let me hand back to Roland.

Strategy Update

Roland Carter

Chief Executive Officer, Smiths Group

Strategic actions to unlock significant value and enhance returns to shareholders

Thank you Julian.

Let's turn to the strategic update. We have used the terminology 'FutureSmiths' to describe Smiths as it will be in its future state.

So, firstly I'll cover FutureSmiths, then move on to the new medium-term targets which are supported by the Acceleration plan and new business opportunities and I'll finish with an update on the separation processes.

FutureSmiths – focusing on our world-class John Crane and Flex-Tek businesses

FutureSmiths will focus on our John Crane and Flex-Tek businesses. 54% of the business is exposed to the General Industrial market, of which around half is construction, 38% to energy and the remaining 8% to aerospace. Combined, these businesses generated £1.9bn in revenue in FY24, with a pro-forma operating profit margin of 19.5%.

FutureSmiths – engineering a better future

The purpose of Smiths – engineering a better future – continues. FutureSmiths is a specialist engineering business focused on high performance technologies for efficient flow and heat management.

Our exposure to the three key markets of general industrial, energy and aerospace all present attractive growth opportunities over the near and longer term, underpinned by important mega trends.

FutureSmiths has long-standing, valued customer relationships - with the reliability and quality of our products proved through many years of serving our customers. We work in partnership with them to design products and solutions that address some of their most critical problems.

We operate in a coherent business model, with an embedded approach to operational excellence - the Smiths Excellence System. With the benefit of a simplified structure in the future, we will maximise the opportunity to streamline the cost base and upweight the role of our shared business support services further.

FutureSmiths will deliver sustainable growth through a combination of strong market positions, long-standing customer relationships and engineering domain expertise. This growth will drive high returns and good cash generation with low capital intensity.

Attractive and complementary business models, industry characteristics and financial performance

The two businesses have complementary business models, industry characteristics and value creation opportunities.

Their end markets benefit from very supportive growth trends, with the increased demand for energy efficiency and emission reduction a common theme for both.

John Crane derives a substantial proportion of its revenue from aftermarket, which is captive for the life of the seal. Flex-Tek also has a significant recurring revenue stream with more than 90% repeat business, supported by its well-established OEM and distributor relationships, as well as its reputation for innovation and product performance.

Both businesses have expansion opportunities – geographically as well as into attractive product and service adjacencies.

All of these attributes support the significant potential for further growth and value creation.

Enhanced financial performance of FutureSmiths

As is evident here, FutureSmiths has a higher quality financial profile, with a strong track record of organic growth, high margins and returns in excess of our current medium term targets and good cash conversion.

Enhanced medium-term targets – reflecting further growth and higher return potential

Off the back of this strong financial profile coupled with further opportunities for growth and improved profitability, we have issued new enhanced medium-term targets for FutureSmiths.

We have upgraded our organic revenue growth expectations to 5-7%, increased EPS growth to greater than 10%, and raised operating profit margin to 21-23%.

All this will be achieved whilst maintaining disciplined capital management, with our return on capital employed target increasing to greater than 20%, and maintaining operating cash generation of around 100%.

We believe these ambitious, yet achievable targets support a premium rating for FutureSmiths.

Clear plan with focused execution agenda underpin growth and value creation ambition

Here we demonstrate the clear roadmap to delivering enhanced organic growth and further improving profitability supporting these new medium-term targets.

The value creation opportunities for John Crane and Flex-Tek are shown as well as highlighting the opportunities for cross-business collaboration in products, market and customers to augment future growth. We also see significant organisational and process opportunities, for example through shared support services, to deliver a streamlined cost structure within and across the businesses.

Medium-term margin expansion supported by Acceleration Plan

Turning to our Acceleration Plan where we have made good progress.

As you will recall from September, the plan is about value creation, not just transformation, and each business has a specific set of actions. These initiatives will deliver end-to-end process improvements for resilience and scalability over the longer-term, as well as specific cost reduction and footprint rationalisation actions. The plan also includes the right-sizing of Group central costs in line with the portfolio changes.

We continue to refine the focus and timing of the programme and are now expecting to deliver £40m-£45m in annualised benefit for the £60-£65m cost previously communicated. Costs will now be £20-£25m this fiscal year with the remainder in FY26.

Around two-thirds of both the costs and benefits relate to FutureSmiths. This includes the reduction in central costs, which, following completion of the separation processes, will be 1.5-1.7% of revenue, continuing to be at a more efficient rate than the median of our UK industrial peers.

The Acceleration Plan is just one lever to drive margin towards our 21-23% target – supported also by operating leverage and ongoing efficiency savings through SES, whilst continuing to invest in growth.

Separation of Smiths Interconnect and Smiths Detection initiated

Since the announcement in January, we have commenced the separation processes. Advisers have been appointed and we remain committed to the timetable of an announcement for Smiths Interconnect before the end of this calendar year, with Smiths Detection to follow.

Both Board and Executive Committees have been established to oversee the separations, ensuring governance and delivery at pace, with accountability.

We are conscious that the proposed changes are unsettling for our people and are committed to treating all our stakeholders respectfully as we go through this transition period.

And we are committed to separating responsibly with a focus on maximum value creation.

Smiths Interconnect and Smiths Detection – strong, well-performing businesses in attractive markets

As Julian set out earlier, we have seen strong performance this half from both Smiths Interconnect and Smith Detection, positioning them well for the second half and beyond.

Having run these businesses prior to our current roles, both Julian and I know them well. They share many of their key strengths with John Crane and Flex-Tek; leading technologies, strong positions in attractive markets and customer intimacy.

For example, Smiths Interconnect partners with customers to meet some of the most demanding specification, with strong capabilities in specialist applications such as optical transceivers for use in aerospace and defence, or semi-test sockets for AI chips. Smiths Detection is clearly a leader in threat detection with a global service reach.

However, their financial profile in regard to margin and returns is different from that of John Crane and Flex-Tek. They both have inherent opportunities to create additional value - through product development and expansion as well as efficiency improvements – we believe that these will be best delivered under different ownership and now is the right time for separation from a position of strength.

Summary – compelling opportunity to deliver significant shareholder value

So in summary,

All businesses contributed to the strong 9.1% organic revenue growth in the half, and we are reaffirming our 6-8% guidance for the full year.

John Crane and Flex-Tek have a strong track record of delivering through-cycle growth, and are well positioned in attractive markets to achieve enhanced organic revenue growth.

We increased the operating profit margin to 16.7% and are reaffirming full year guidance of 40-60bps expansion. We will continue to execute our Acceleration Plan to support further margin expansion beyond this year, and are committed to being ambitious as we embark on right-sizing our central costs.

We continued to invest in R&D and, through M&A, further expanded our reach in Flex-Tek. We increased the interim dividend by 5% and have completed the first £150m our share buyback programme, with the remaining £350m to be completed by the end of this calendar year. And we are committed to returning future disposal proceeds.

Our strategic actions are underway. We believe now is the right time to optimise the portfolio and focus on John Crane and Flex-Tek.

We have initiated the process to separate Smiths Interconnect and Smiths Detection.

We firmly believe these strategic actions will unlock significant value and enhance returns to shareholders.

I would like to acknowledge our employees and thank them for contributing to the strong financial performance in the half, and for their continued hard work despite the backdrop of a cyber incident and the recent newsflow. Your commitment is very much appreciated and not taken for granted.

So now let’s go to questions.

Lush Mahendrarajah (JPM): Good morning and thank you. I've got two or three questions if that is okay. Firstly, on John Crane, is it possible to quantify the impact of the cyber incident in the first half. It looked like it impacted aftermarket more than OE, and the rationale there. And how we think about that catch up in the coming quarters. The second question is on Detection. Any further thoughts or pros and cons that you're thinking in terms of demerger or sale, and then thirdly on margins, 60 basis points headwind of mix in the first half, how should we think about mix and the second part of the headwind.

Roland Carter: Thank you very much for the questions, Lush. I'll take the first two and then I'll hand over on the margin question, about the mix, to Julian. So, yes, we had the cyber security event. All our critical systems are now back up and running. Was there an impact? Yes. There was an impact on John Crane to a great extent, yes. How would we quantify that overall, for the whole Group, that's sort of 1 to 2 percentage points of growth that we saw there. We are seeing that John Crane is recovering that.

We see that H2 will therefore be stronger than the H1, going forward. So, we're pleased about that. But it is a very vertically integrated organization, so it will take time to recover. Aftermarket is the quick term part of that business. And so the aftermarket business, the average batch size in this businesses is less than two, so we have a finite amount of machining. We are in a good position post the cyber, but we need to improve that. We have a firm grip on the operational aspects of that and H2 will come in stronger than H1. But it will take time for that recovery.

Going on to the demerger and sale of Detection, as we announced, the end of January, you have the Smith interconnect sale and we are aiming to announce that for the end of the calendar year. Detection we announced that we are in the process. It will happen post that, that will be either a demerger or sale. We're open to both. We are all about value creation. That's the good news here for everybody. We will take the best route through it to create value on that, and both those processes are going as we planned at the moment. So, that that's positive news for that. We've got advisors, we've set up the governance and we're executing against that plan. On the margins Julian will speak about the positive impact around that.

Julian Fagge: Absolutely. So we saw good margin improvement in the first half. As you say, we saw the 50 basis point improvement, which was in line with our guidance. We did see that negative mix effect coming through, which is largely divisional mix with detection growing strongly relative to the total growth. We do expect that mix effect will slightly dissipate in the second half. And we reaffirm our guidance for the full year of 40 to 60 basis points of improvement.

Christian Hinderaker (Goldman Sachs): Thanks for the opportunity, I want to start with the new growth assumptions, if I may, I think backing out your market growth numbers on slide 25 I'm getting to a 4% midpoint growth number when weighting those. How do we think then about the building blocks for the 5-7% per cent range? Is there a bit of a skew there at all to either segment? And then also in terms of the 21-23% margin, how do we think about the progression given John Crane is obviously at the upper level there? Is there scope for margin improvement across both businesses, or is this a Flex-Tek story?

Roland Carter: Okay, thank you for that. Let me take the margin question first, I think that that's the exciting part of this story, that 21-23% margin target. And we see that, there's enormous value creation in both those businesses. So, this isn't skewed towards one particular business. We see expansion across both those businesses, whether that's with pricing, whether that's with efficiency, whether that's with mix as we move into new markets. And specifically with innovation, as we drive both those businesses forward from innovation, the great thing about FutureSmiths is the fact we can focus on those businesses and move those forward from a technical point of view, from a commercial point of view and obviously driving forward with the Smiths Excellent System on the effectiveness point of view.

I think that also gives us a lot of confidence that even though these are ambitious targets, they really are targets, that we can meet on the margins. There is plenty of value to be driven through that. On the growth assumptions, we feel that we have a track record of growing at those levels. And we've obviously spent a lot of time looking into the past, but that's the past. The future, we are confident if you break it down into those parts about where we've got those businesses facing, whether that's the broad energy megatrend, the need for energy, whether that's legacy or on traditional energy or whether that's future energy.

These businesses are very well set up to deliver that whether you have through oil and gas, through electrification. So that's some major megatrends there. We've also seen the aerospace business in Flex-Tek growing very well. We've also seen that we are market leaders in that. And therefore, we feel confident that through the right commercial approaches, we can continue to gain market share within that.

You can see the exceptional work that we've had in Flex-Tek, for example. We grew in the first half in US housing, in spite of the market. Once that market becomes a tailwind, and it's going to take over a decade for the US to catch up on the housing shortage, we are very well positioned. We're not only doing that organically, but we're also doing that inorganically with the acquisition of Duc-Pac, which we're very pleased to welcome to the family and those employees.

Christian Hinderaker: Thank you. And that brings me to question two on Flex-Tek. And I think you said 2% growth in industrials for the half ahead of the housing market. How do we think about your comments on the outlook here? Are they suggesting a flat negative market and an outperformance at the division level? I appreciate there's some uncertainty, but just want to sort of scale the thinking around the Flex-Tek guidance to year end and beyond.

Roland Carter: Thank you. I mean, we've we spent a lot of time making sure that this plan is the correct plan. We've seen growth in US construction, but the real story behind Flex-Tek is the industrial part of the business. We are very confident against the comparator, but also every confident in the business around industrial heat for the second half that is, and Julian was talking about the fact that the margin headwind wouldn't be there to the extent that we saw for the Group. And part of that story is the Flex-Tek industrial heat part of the business. And we have that robust order book in Flex-Tek Aerospace.

The important thing here to remember is we are confident in our numbers around Flex-Tek. We'll see more growth in H2, we believe, than what we saw in H1, driven by those factors. If US housing comes back, that that's just an additional benefit. But we have a modest outlook for that within how we've lined our numbers up on that.

Christian Hinderaker: Thank you. And then a final one, are you able to clarify the SES contribution to profitability in the bridge for the half?

Roland Carter: So, we don't we're not going to report out separately. And I say this because we see it as a much broader aspect about VAVE, about procurement savings, about pricing. However, we do continue in the same way, we look at leading and lagging metrics, which we don't disclose publicly. SES continues to be a very significant contributor and a more significant contributor this year than it was last year. So, we still have that visibility. It's just we felt it was clearer to bring it all to all together, within the margin bridge. So, still a positive story there around SES, especially now we've got it aligned with the efficiency that sits around sustainability, for example. So, pleased that is still a key driver, but only one of many levers we have to increase growth and profitability.

Martin Wilkie (Citi): Good morning. A couple of questions on Interconnect. Its good news it's able to get an answer there by the end of this year. In terms of how you're thinking about exit when we look about to multiples, in defence they have gone up a lot in the last few months. Can you remind us how much of that division is exposed to defence? You had to reclassify some revenue, into Interconnect between the different subdivisions and the larger chunk in aerospace and defence. And just to get an update on how much of Interconnect is in defence? Thank you.

Roland Carter: Yes, the guide for defence around Interconnect is about just over half. Half the business is very much defence focused. That's where it sits. And then obviously we are seeing tailwinds within that part of the business, significant tailwinds within that part of the business. As we said right at the beginning, what we wanted to do and part of our mantra around when we wanted to take these strategic actions, was we wanted to do this from a position of strength. And it does appear that we've chosen a good time to do that through our own internal actions, but also from the external environment as well. You're correct.

Martin Wilkie: Yes, absolutely. Thank you. And then on semiconductors within that, it sounds like semiconductors was a big part of the revenue acceleration in the period just reported. How much visibility do you have on that? Is that something that we can expect to continue? I mean, you have an order backlog that suggests that we have good visibility over the next 6 months or so, how do you think about that semiconductor side of Interconnect?

Roland Carter: Let me hand that one to Julian, because this really is his baby.

Julian Fagge: The semi business is a really short cycle, so we don't get significant amount of future visibility. That said, as evidenced in the results, we have performed very strongly across the first half, particularly in the high-performance GPU part of the market, the AI part of the market, and certainly the underlying conditions that are driving that, remain very positive as we look forward.

Mark Davies-Jones (Stifel): Morning, Roland. Morning Julian. Two from me, please. Firstly, on Detection, still very strong OE growth, obviously as we go through that transfer, how long before we hit the inflection with enough of the installed base that the aftermarket growth starts to grow at least in line with the OE and the margin can start to inflect. That would be the first question.

Roland Carter: Okay. So yes. We're just over 50% through that cycle. We've got 2 to 3 years of that going forward still. And we are winning over 50 per cent of what's out there. I'm very pleased with that product and the execution of actually delivering that product. You recall we had a few issues in getting that into airports a while ago, but those are now truly overcome, as you can see in the margin progression in that, so as they go in, the aftermarket comes through on that, so we're seeing the aftermarket come through on that. And you're right, the aftermarket has a higher margin, a significantly higher margin on that. So that will all be to the positive. From the point of view of inflections, I think we'll see continued growth because we've got other OE products that are coming through. It is a significant amount of revenue from Detection, don't get me wrong, but it is the substantial amount of revenue, it doesn't account for all the growth in Detection. I think we'll see a continuation of the CTiX rollout for 2 to 3 years. We're definitely seeing some, and we've already demonstrated better aftermarket margins as efficiencies come through. But there will be another OE coming through after that and most likely in the hold baggage area as well.

Mark Davies-Jones: Okay. Thank you. And then just back on Interconnect if I may, given that very strong semiconductor performance, I guess maybe one for Julian if this was his baby. But, do you think you can get full value for that business selling it as a whole? Given the slightly different peer group across the different segments of Interconnect, do you miss losing out some of the full value of that semiconductor piece?

Julian Fagge: Thanks, Mark. I mean, we're open to all options. Our primary focus really is to sell the business as a whole. But I think you'll understand it's probably best we don't kind of give the running commentary on how we proceed. But, look, I think Interconnect is really nicely set up and we're on track to execute.

Stephan Klepp (HSBC): Hi. Good morning Roland. Good morning Julian. Thanks for taking my question. Can we talk about John Crane a little bit more again. So, you mentioned, first of all that growth was 1 to 2 percentage points lower. Is that regarding Smiths as a Group or John Crane itself? Then you have been saying as well that all the intake was impacted. Can we clarify a little bit and can we clarify what that means in terms of catch-up potential. I heard you saying H2 is going to be stronger growth again, but did you lose out here? And then at the same time you're saying that your view on John Crane for the full year has come down a little bit obviously due to the cyber incident, can we clarify that again?

Roland Carter: Well, again, yes. Let me have Julian answer the 1 to 2%, is that Smith or is that Group, I'll talk about order intake and outlook.

Julian Fagge: The 1 to 2% impact was on John Crane in the first half.

Roland Carter: The order intake, as you know, we don't talk about specific size of the order book, but the order intake in John Crane is robust. As I mentioned earlier this morning, over 90% of aftermarket is captive. So, you're not going to lose out for a couple of weeks.

The market is very positive. Our position in the market is very strong. Will it take some time to catch up on that. And you know, is aftermarket something that takes time to catch up on. Yes, it does. We've been cautious on the outlook because this is incredibly vertically integrated business. And what we see is the fact that it will take us time to catch up. Overarchingly, have we lost out? Definitely. You can see OEM isn't something that happens in a couple of weeks. So, the OEM is where this business starts. You know, if that's the beginning of the cycle, you win the OEM part of the business and then it goes through.

John Crane's outlook is very robust. We're confident in the market, we're confident in our position in the market, and we're confident in our ability to execute. We just need to deal with a few operational issues from the fact that we have that cyber incident and we are so vertically integrated. But I would say, take away from that a positive outlook and a better H2 than an H1.

46:20 Stephan Klepp: Okay. Thank you. And then on Detection, I always understood the difference that you need the slots to deliver your equipment into the airports. Shouldn't that give you very high visibility on the second half as well as on the next year to come? Because you need both installation slots, wouldn't it be as well possible to be a little bit more positive and more constructive on the growth rate that we should see in the next half year, and probably beyond that?

Roland Carter: You're correct. I mean, the visibility on Detection, it's the most visibility that we have in any of our businesses. We have a very robust order book, which is spread. It's a multi-year order book, in fact, not only this year, the range of this year into next year, but also into the year after. We’re obviously not going to guide for FY2026 at the moment, but as we pointed out I mean the order book is robust. I think it's the best thing to take away from that.

Stephan Klepp: Okay. Last one, you mentioned the new CapEx cycle with regard to the baggage scanners. When would that commence? My best guess from today, you’re going through the certification process at the moment.

Roland Carter: Yes. We're going through the certification process in Europe at the moment. I haven't got a huge amount of visibility, that relies on when the certification happens, that relies on budget, that also relies on, you know, airports have a finite project management capacity, you don't see many airports do the front of house with the CTiX and the back of house with our hold baggage and potentially diffraction machines at the same time. That would be possible but challenging. So I haven't got a clear date. But when you think that the CTiX cycle is relatively late during Covid, one would imagine the hold baggage cycle would appear to be earlier, because it's probably at the same time that it was but the CTiX is later, if that makes sense.

Stephan Klepp: Yeah. Thank you so much.

Andrew Simm (Berenberg): Good morning gentlemen. Thank you for taking questions. Just on the Interconnect margins, could you comment a little bit on the sustainability of those given the jump in the first half, maybe given the tailwinds in the mix, can we go any materially higher? That's the first question.

Julian Fagge: So really nice performance on Interconnect margin in the first half, over 17%. Really nice leverage of the growth really, as well as some nice efficiency savings coming through. We'd expect as the volume stays strong, the margin will be in the same performance. Good second half outlook.

Andrew Simms: Great. Thank you. And then just on the guidance, you mentioned that the guidance includes potential impact of US tariffs that are currently in place. Wondered if you could comment on where you're seeing that or what measures you're taking around those.

Roland Carter: Yes. I'll take that and then maybe you can add to that Julian. The current guidance supports our current understanding of tariffs at the moment. It's important to remember that Smiths is local for local. We've always said, we source where we manufacture and we manufacture where we sell.

We're not immune to tariffs. And in fact, if you look into our AP plan, part of our AP plan was moving semiconductor production from China into America. There was already tariffs on that product so we decided to move that through. We've got a good understanding of our flows, being local for local and not being massively globalized. We never feel overly confident, but we feel we can be agile, we can pass on some of that cost if necessary, on what gets hit. But at the moment we're monitoring it actively and this is our best view as tariffs currently stand.

Julian Fagge: It's obviously a fluid situation and we have to carefully monitor it. As Roland said, our guidance reflects our latest understanding and we're relatively well positioned. I'd perhaps just add that we are making and planning the mitigation that we would take should things go differently and we have various actions that we can take to mitigate the effects, certainly in the short term.

Andrew Simms: Great idea. Maybe just one final one, you're talking about starting separation of the Interconnect and Detection businesses. I think we've heard the past few years behind the scenes that there's quite a lot of commonality in terms of platforms and things like that. In terms of the separation, is there going to be a lot of post transaction service levels required or any investment to prepare the businesses to standalone or maybe synergies, I suppose.

Julian Fagge: We're working through the separation work streams and as is typical with these types of separations, there is certain costs that will travel with the businesses and there is certain costs that could potentially get left behind. But we'll navigate that. We know how to do that and we're confident we'll get it sorted out. And certainly, treating fiscal year 26 as a transition as we migrate over. We don't envisage any significant one-time costs as we plan for the separation.

Dylan Jones (Kepler Chevreux): Morning, Roland. Morning, Julian. Thanks for taking my question. Just a few quick follow up questions on some that have been asked, I'll ask one by one. On Interconnect perhaps just asking a slightly different way in terms of the semi end markets. Do you have a sense of where the sort of semi volumes are compared to historic levels?

Julian Fagge: A little bit more colour on the semiconductor. The semiconductor market segments into many different end uses and we're still seeing relatively soft end market performance through automotive, industrial. Where we're seeing that the growth and the strength is in that high end, high performance GPU end of the market. A lot of that performance is value driven and therefore, the volumes don't reflect and mirror the value growth that's sitting particularly in those AI chips. But as I said before, we're really well positioned. The technology we have with the DaVinci product is very strong and we're getting a win designed into many of the advanced programs that are out there, so we're pleased with how we're doing.

Dylan Jones: Got it. Thanks for that. And you obviously announced, at this results, the acquisition of Duc-Pac. Just wondering if there is any update commentary you can give on the M&A pipeline and also just kind of interested, in sort of commentary around, I suppose, the capacity for more M&A. And by that, I obviously don't mean balance sheet.

I'm sort of talking about, you know, there's a whole number of sort of initiatives going on at the Group. The three acquisitions announced recently, the acceleration program and obviously the demergers as well. So just interested in your thoughts around that as well.

Roland Carter: We're very excited to welcome Duc-Pac into the Smiths family. It's a continuation of accelerating our organic and inorganic drive with flexible ducting and metal ducting as well. This is a very successful process that we have, for bringing these mainly family owned businesses, which we managed to acquire for very reasonable multiples and bringing into the business and garnering the synergies that are available to us.

It's a very well laid out playbook. It's a specific team in construction that does that, which is very helpful because they really know how to do this. It's a well-oiled machine. We have made the other acquisitions in other parts of Flex-Tek, again, that gives us the bandwidth around that as well. It gives us the bandwidth, the heat acquisition in Wattco, using the same playbook but different team.

We're keen to continue with these bolt-on acquisitions. We love these bolt-on acquisitions. I think you've seen the track record and the compounding effect that that has for us, so we will continue with that. We have a very active and focused pipeline. We always said, if you recall, we have a very active pipeline with different types of acquisition. We are very focused on the bolt-ons. We always said we were more focused on Flex-Tek and John Crane, which could have given you an idea of where our thinking was always going. So that continues with pace and purpose. The other aspects, you talk about bandwidth, obviously the demerger is a focus on a different part of the business and we have a dedicated team at centre to support that, so we’re comfortable with that. And then the AP plan, if you recall what was said, two thirds of the remainder is focused on John Crane. A substantial part is focused on John Crane is probably the simplest way of doing that. Flex-Tek less so, so they've got plenty of bandwidth there as well. And we acted on John Crane as you can see very quickly. A significant proportion of their acceleration plan is now bedding in, as it were, so we'll see that continuing. Yes, are we busy. Absolutely. But we do have focus and different teams on those things, so we feel confident we can continue with those lines mainly on bolt-on, though I would suggest that's where our sweet spot is at the moment.

Julian Fagge: I'd just add disciplined capital allocation. You know, we've said it. We invest our capital organically and the AP is a good example of what we're doing there. Bolt-ons is working nicely for us. And then of course the use of capital to return to shareholders and most notably through the share buyback.

Dylan Jones: Got it, thank you for that. And if I can squeeze one more in just following up on the divestment, I mean, you obviously provided a bit of an update, sort of saying that the process is commenced, it's on track, I think at the time of announcing this strategic shift, you sort of alluded to you expected strong interest. I'm just wondering if there's any sort of updated commentary now that the process has commenced around this sort of level of interest that you're seeing, in particular, the Interconnect business, but also the Detection business at this point.

Julian Fagge: I mean, again, I think you'll understand at best that we don't give the running commentary, but let's just say, you know, process running as we expect, on time, on pace and we're confident we'll transact as we committed.

Closing Remarks

Roland Carter: Thank you for all the questions today and hopefully we answered that. So essentially, we're very pleased with the financial performance and the outlook which we're reconfirming, as Julian said, disciplined capital allocation of which that half billion buyback and the bolt-on acquisitions are two of those levers.

We're very comfortable in using all the levers of disciplined capital allocation. The medium-term targets, we're very excited about FutureSmiths and I think the medium term targets are ambitious, but with focus and resilience, we are confident that we can hit those and really give ourselves that premium rating that Smiths deserves.

And as we've said, other strategic actions are in flight and they are executing against the plan exactly as we expected. Thank you very much for your time.

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