Halma plc LSE:HLMA

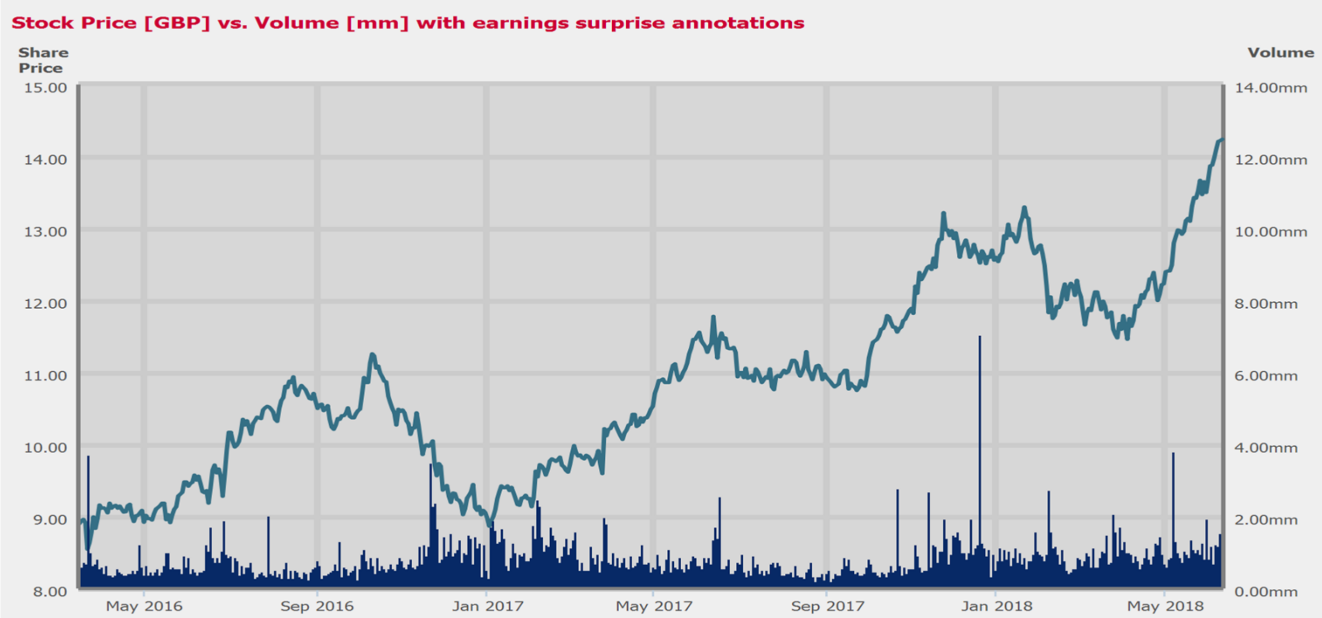
FY 2018 Earnings Call Transcripts

Tuesday, June 12, 2018 12:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2018-	-FY 2019-
	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.48
Revenue (mm)	1054.54	1117.91

Currency: GBP
Consensus as of Jun-11-2018 8:45 AM GMT



- EPS NORMALIZED -

	CONSENSUS
FY 2015	0.31
FY 2016	0.34

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Call Participants

EXECUTIVES

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Group CEO, Member of Executive Board & Executive Director

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director

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Presentation

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Welcome, everyone. Welcome to Halma's final results for 2017/'18. I'm Andrew Williams, the Group Chief Executive. With me here at the front, I've got Kevin Thompson, the Group Finance Director. Also joining us today, we got Marc Ronchetti, who's going to be our CFO from the 1st of July; and also Paul Walker, Halma's Chairman, who's sitting here in the front row. So the opportunity to meet both Paul and Mark as well as Kevin and me after the presentation.

So the agenda today is after my introduction, Kevin will take you through the financial review. I'll then do a little bit of a deeper dive on the sector performances before giving you an update on where we are with our growth strategy and then give you some examples of that in action. But it's been a very successful year for Halma and I've been very happy with the progress we've made. So it's been a few milestones we achieved this past year. It's the 15th consecutive year of record revenue and profit. And as you'll see, we delivered strong organic growth. We've maintained our high returns, and also we've completed 5 acquisitions and have got a good pipeline of opportunities for the year ahead.

We also exceeded GBP 1 billion in revenue for the first time in our history, and again, you'll see widespread growth across our sectors and across our regions. In December, we promoted to the FTSE 100 for the first time. I mean from my point of view, having been in the group for a long time, it was perhaps a matter of when not if knowing the compound growth model that we have. But I've been very pleased that we've got there still with a lot of growth momentum behind us, a strong balance sheet which continues to give us a good platform for growth in the future. And as I mentioned, we've renewed our purpose. And in February this year, many of you joined us, where we started to articulate that new purpose of growing a safer, cleaner, healthy future for everyone every day and also how we're starting to embrace the opportunities, the additional -- that come from digital and connectivity. And so today, I'm going to give you a bit more color about how the growth strategy is bedding in and some of the things we are already doing.

And finally, we successfully completed the group Finance Director succession. And just to put that into context, in 45 years as the current embodiment of Halma, Kevin is our second FD. So it's not something we do very often. So it was something the board approached with a -- I suppose a sense of trepidation in some senses, but I'm delighted that the board found a successor to Kevin in Marc Ronchetti, who's been our group financial controller for a couple of years. Mark, as I say, is going to take over actually as CFO on the 1st of July. But it would be remiss of me not to thank Kevin for the tremendous contribution that he's made to the group over a 30-year period and 20 years of that 30-year period as the group Finance Director. He's given great leadership to the group. He's been extremely helpful to me as CEO as I started out and to many other people in the group giving them wise counsel and really learning from Kevin about making sensible decisions to keep the group on track and keep growing. So thank you, Kevin, for everything that you've given to the group over the last 30 years. Now I'd like to hand over to Kevin, and he'll take you through the financial review in more detail.

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director

Thanks for that. And -- so these are the last set of Halma results that I'm going to present. But they contain some firsts. As Andrew said, the first year of more than GBP 1 billion of revenue, also the first year of more than GBP 200 million of adjusted profit and the first time that sales to Asia-Pacific exceeded those in the U.K.

So we've seen widespread growth, and I'll talk through some of the highlights. So we achieved GBP 1,076,000,000 of revenue, up 12%. That generated GBP 214 million of adjusted profit, up 10%. So this is the progression over the past 5 years, part of the 15 years of record results that Andrew mentioned.

You can see strong growth over that 5-year period. So the details of the sector performances are in the appendices. Andrew will talk through those sector performances shortly.

Over the past 30 years, we've delivered compound revenue growth of 11%. Compound revenue growth, so 11% with growth in all but 2 years. So let's have a look at the revenue and how it [built] up this year. So as you can see, very strong organic constant currency revenue growth, 10%, well ahead of our 5% KPI, in line with expectations. The contribution from this year's and last year's acquisitions added 2% to give 12% revenue growth together with the organic constant currency growth. Although there was a lot of currency volatility through the year, currency translation impact was actually neutral for the year as a whole. We saw 5% benefit from currency translation in the first half and that reversed in the second half. So the full year average rates from the major currencies ended up pretty much similar to the prior year.

This is the first half, second half split of revenue. All 4 sectors delivered revenue growth, both headline and organic constant currency. The headline increase you can see here in the second half of 10% had a bigger contribution from acquisitions, but as I noted, had the negative impact of currency. And then you see on the right-hand side of the chart here, strong organic constant currency growth of 9% in the first half and that increased further to 11% in the second half. So a strong finish to the year. And we had higher second half revenue growth in Environmental & Analysis and in Medical on an organic constant currency basis in the second half.

Now this is the revenue by destination, so the proportions of revenue on the chart, the growth rates around the outside. You can see strong revenue growth in all the regions. The U.S.A. remains our largest sales destination, 35% of total revenue, up 8%. U.K. was up 12% with growth in all 4 sectors and there was also growth in all 4 sectors in mainland Europe and in Asia. Mainland Europe, up 13%; Asia-Pacific, up 15%. And as I mentioned at a GBP 175 million of revenue, Asia-Pacific overtook revenue to the U.K.; and then other regions up 17%. So revenue outside of -- so the developed markets, U.S., mainland Europe and U.K. was up 16% and revenue within those territories up 10%.

Now this is the picture, if you take out acquisitions and currency translation, you get this picture of the underlying trend. So that's what we refer to as organic constant currency growth. And again, you can see really good growth across all the regions. U.S.A. grew by 9%. You may recall that the U.S.A. was up 6% in the first half and that accelerated growth in the second half to 12%. Environmental & Analysis, really strong second half in the U.S. U.K. grew by 9%, pretty even growth across the year. Mainland Europe, up 8%, similar growth to that in the first half. We had France down, but Germany, Holland, Scandinavia all nicely up. And Asia-Pacific grew well throughout the year. It was up 14%. China was up 18% with growth in all 4 sectors. And the other regions were up. We were strong in Near and Middle East, otherwise good in Canada, which we count in the other set territories, mixed across much of South and Central America, but actually a strong performance in Brazil.

So let's switch to the profit performance. GBP 214 million of adjusted profit, up GBP 20 million and profit growth in all sectors. You see here organic constant currency profit growth up 9%. We count the contribution from acquisitions in their first 12 months of ownership as acquired, and after that, they count as organic. So on that basis, there was a 1% acquisition profit contribution from the 2016/'17 acquisition of FluxData and the 5 acquisitions that we've made during 2017/'18.

Now as I said, the revenue contribution from acquisitions was in line with expectations but profitability was a bit lower. In part that was to do with the phasing of contracts. For example, FluxData actually had a really good year, but most of that fell towards the end of the year and that counts within our organic growth rather than part of the acquisition growth. And as we said in the past, in the first year of ownership, you often see lower profitability with the transition through to Halma's ownership and also the increased investment that we put in. We're expecting to see growth from all the acquisitions in 2018-'19 and beyond.

So currency translation impact from profit was neutral. So there was 10% headline profit growth, as you can see. Central costs, they were up [from] last year as expected. We had increased central investment to support our growth strategy. The higher cost of performance-based incentives based on the high rates of organic growth we achieved and also the cost of the biennial HITEx event.

In this, the first half-second half split of profit. Headline adjusted profit was higher in the first half due to that 5% currency contribution, so reversing in the second half. But the first half-second half split was 44%-56%, very close to our typical 45%-55%, first half-second half split.

And again, you can see on the right-hand side of the chart here the organic constant currency profit growth increased from 8% in the first half to 9% in the second half, giving 9% for the year overall. Then breaking down that organic constant currency performance, we saw Environmental & Analysis growing strongly through the year, Process Safety growing in the second half, but not as fast as in the first half; solid performance from Infrastructure Safety and Medical, as we expected, recovering to growth in the second half.

So just pulling together strands on currency, as I said, currency translation and neutral impact for the year overall, after 5% benefit in the first half. The main currencies for us are the U.S. dollar and euro, to a lesser extent, the Swiss franc and the Chinese renminbi, all of that relative to sterling. So if we look forward, in 2018-'19, if the U.S. dollar relative to sterling was around 1.35 and that compares to 1.33 average rate in 2017/'18 and if the euro is around 1.13, then if we base on the last year's, the 2017/'18 mix of profits, we probably expect a 1% adverse currency translation impact for the year, bringing more like 2% in the first half and then reversing somewhat in the second half. Just a reminder that it's Medical and Environmental & Analysis that have the most benefit from a weaker sterling. But obviously sterling has been quite volatile over the -- over the past months. What I've just given you is one potential '18/'19 version of impacts on one set of assumptions. There's more information in the appendices to the slide pack, including the impact of 1% changes in currency on the results. So I think it's worth having a look at your model as to update your own models based on your own assumptions.

So I'm just going to show you a cash flow bridge here going from last year's net debt of GBP 196 million through to the closing net debt on March '18 of GBP 220 million. So here's the profit we achieved in the year: good cash conversion, 85% cash conversion and that's in line with our 85% KPI. There was a GBP 25 million working capital outflow in the year split between the 2 halves and actually higher than the preceding year. A main driver of that was the high rates of revenue growth and the strong momentum in Q4, although debtor days have actually remained in line with the previous year. We've also seen higher inventory in some of our companies supporting new product introductions. But obviously, cash discipline and cash generation is a big focus for us in Halma and the sector teams.

At GBP 22 million, CapEx was GBP 2 million below last year. As I flagged at the half year, there was lower expenditure on property in this year and also the deferral of a couple of larger projects into 2018-'19. So our forecast for 2018-'19 is a substantial increase to GBP 34 million of CapEx. So that includes that deferred spend but also some other facilities and automation projects, in particular, in Infrastructure Safety that will be going on in this New Year.

The effective tax rate was 19.7%. So that's below the 21.5% last year and also below the guidance we gave at the half year of 22.3%. I think a few reasons for that, mix of profits was a bit different to, say, to the previous year. Also greater benefit from the U.K. Patent Box reliefs and similar reliefs in some other countries. But I think probably one of the biggest factors was the reduced corporate tax rates in the U.S. following the recent U.S. tax reforms. There was also a GBP 15 million credit due to the revaluation of U.S. deferred tax assets and liabilities due to those reduced U.S. tax rates, and that's gone through the middle column in the income statement. So we're expecting for 2018-'19 an effective tax rate of around 20%.

Pensions, the 2 U.K. pension plans were closed to future accrual in 2014. The pension deficit reduced this year to GBP 54 million from GBP 75 million last year due mainly to company contributions, but also the revision to mortality assumptions based on the latest guidance and that reduces the accounting liabilities. The next triennial plan valuations are in the process of finalization, and obviously, we'll set the future rates of contribution based on what's agreed there.

We spent GBP 116 million on 5 acquisitions made in this year across 3 sectors, which is good to see. And then dividends, GBP 53 million paid out in dividends. We're proposing an increase to final dividend of 7%, giving us 7% for the year and, as Andrew said, the 39th consecutive year of 5% or more dividend increases. We continue with our progressive dividend policy, delivering sustainable and affordable dividend growth.

And then completing the bridge here, you can see at the end of 2018, GBP 220 million of net debt. So I've put some forecast numbers in the appendices, the net finance expense, CapEx, tax rates, central costs and where we continue to make further investment to support our growth strategy.

Our balance sheet is strong. So in November 2016, we increased our revolving credit facility to GBP 550 million for 5 years through to 2021. This year, we extended that further a year to 2022, and that provides variable funding on top of the $250 million U.S. private placement we put in place in 2016, but no change in our approach to funding. We intend not to become highly geared. And our net debt-to-EBITDA at the year-end was 0.87x, and we would be comfortable going up to 2x gearing if we find the right acquisitions.

So just want to finish off with a summary of our KPIs, how we've done against our targets. These are the ones that I've already covered. So won't go through them again. I'll just touch on our other -- the other KPIs that we report. So acquisition profit growth, so that's the annualized profit net of financing costs for the acquisitions we've made in the year expressed as a percentage of last year's profit, so the scale of what we've bought. As you can see, 5 acquisitions in the year, that added 4% and we were very close to our KPI target there. R&D investment, up 12%, in line with revenue up to GBP 56 million, 5.2% of revenue. Return on sales remains high, 19.9% within our 18% to 22% range. We just -- we continue to make investments for growth whilst maintaining these high returns. Adjusted earnings per share, up 13%. So that's the -- ahead of the adjusted profit growth due to the lower tax rate. And then return on total invested capital, in line with last year, remaining high, well ahead of our weighted average cost of capital and our 12% target. So overall, a really good year.

And as I'll be retiring from Halma in July, I just want to finish by thanking you all for your support. For a number of you, it's been over many years. I'll leave you in Marc's very capable hands for the future, but of course, I'll be watching with a lot of interest over the coming years. So, okay, thank you. I'll hand you back to Andrew for our trading review.

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Thanks, Kevin. So as Kevin said, I'll take you briefly now through each of the sectors and then spend some time talking about our growth strategy and how that's panning out. So here's an overview of the sector performances, revenue and profit. These are the reported figures, and you've got the -- obviously, the growth rates around the outside of the chart, and you can see very clearly that all sectors have increased their revenue and profit. In fact, record revenue for all 4 of our sectors and record profit for 3 out of our 4 sectors. Both the safety sectors performed really well even though Process Safety didn't quite beat the record profit it achieved in 2015. Our Medical sector had really good revenue growth throughout the year, and as expected, it improved its profitability in the second half of the year. And in Environmental & Analysis, you can see there an outstanding performance even if you exclude the benefit of the reorganization of Pixelteq in the prior year, very strong underlying growth there.

As Kevin mentioned, there's currency and M&A impacts on all these figures. So if we have a look at the organic constant currency growth figures, you get a better sense of the underlying progress. But it's a similar picture in many sense because you've got good organic constant currency revenue growth in all the sectors, good organic constant currency profit growth in all but the Medical sector, which was marginally down organically for the full year. Just to put that into context, at the end of H1, the Medical sector had a 6% organic constant currency decline in profit. So we saw a 4% organic constant currency improvement in profit in the second half of the year to finish up where we did.

So [overall], I'm very pleased with the organic growth we've achieved across the 4 sectors, particularly against the backdrop of the increased investment that we've been making this past year. I'm going to talk a little bit about the digital investment in a moment, but also our R&D spend was up by 12% at the group level during the year just underpinning the fact that the companies are still investing, growing their core.

Let's briefly look at the revenue then by end market. So here we've got the reported revenue on the left and then the underlying organic constant currency figures on the right. So you can see growth in all of our industries, all of our end markets, very much a similar pattern to what you'll see in the sector. So our highest rate of growth is in science and environmental, which is a key part of our Environmental &

Analysis sector. Energy was up nicely. That's part of our Process Safety sector, a big part of that sector. Buildings is a core of our Infrastructure Safety sector and then the progress that we've made in our medical sector is reflected in the growth there in the health and medical end market. And for me, this demonstrates a couple of things. The obvious point is the benefit of diversity of the group in the markets we serve but also the value of those long-term growth drivers, so increasing health and safety regulation, increasing demand for health care, and life-critical resources you see playing out when you look at the widespread growth across all of these end markets. So certainly, I'm very pleased with both the diversity we've got and the growth that we're seeing across the Group.

Here's the Process Safety sector performance over the last 5 years. As Kevin said, performed well in line with expectations. Very pleased that it maintained the improvement that it showed in the second half of the prior year. So here, our revenue is up by 11% to GBP 185 million. That's all organic growth. There's no acquisitions here and very little FX impact. And the profit was up by 8% to GBP 43 million, again, all organic growth. Return on sales slightly lower than last year 23.5% this year compared to 24.1% last year. But overall, I'm actually happy with the balance we've got here between growth and investment, R&D investment up by 6% over this past year.

At the business unit level, the Pipeline Management, Safety Interlock and Pressure Management businesses all performed strongly. Our Gas Sensor businesses achieved more modest growth over the past year.

So here, we can see the sector revenue now by region. So we've got the reported figures, as you look on the left, organic constant currency on the right. So you can see U.S.A. performed very strongly, strong organic constant currency growth, continue to see improving demand particularly in the onshore energy market in the U.S., which is a big part of this sector. But also excellent performances in Asia-Pacific and other regions which include the Middle East, solid growth in Mainland Europe, more modest growth in the U.K. That's a big market for our Gas Sensor business which I mentioned earlier had a slightly lower rate of growth than elsewhere in the sector. But overall, good performance in Process Safety. The sector is going to continue to invest in new products, in new markets, in building out its organization because we still want to make it more resilient to sustain growth almost whatever happens in the oil and gas market, but we expect this sector to make progress in the year ahead with the momentum that it has.

Now moving on to Infrastructure Safety, performed very well again this year, reclaimed its position as the largest profit sector in the group. Revenue is up by 11% to GBP 349 million, which is 8% organic constant currency growth. And profit was up by 13% to GBP 73 million. That's a really strong 10% organic constant currency rate of growth. And on both revenue and profit, we had a 2% contribution from acquisitions and a 1% impact from currency.

Return on sales is higher at 21% compared to 20.7% last year, and I was really pleased with the investment in R&D in this sector. R&D investment up by 13% above the rate of revenue growth. Strong performances in fire and also in people and vehicle movement businesses. Solid progress in security and the elevator safety businesses. So again, growth across each of the business sectors.

Taking a look at the regional picture. You can see growth in all the regions except the U.S.A. Just to remind you, at the end of the first half of the year, the U.S.A. was actually down 5% organic constant currency. So we did see actually good improvement as we went through the second half of the year. And to remind you, it's mainly in our 5 businesses in the U.S. where we've seen most of the challenges. On the other hand, strong double-digit growth in Asia-Pacific and other regions. The strengthening of safety regulations for public, commercial infrastructure continue to be a good long-term growth driver for these businesses and then also double-digit growth in Mainland Europe. And with the acquisitions of Setco for our Elevator Safety business from Spain; and Argus, the Italian fire business, we expect that position in Mainland Europe to be further strengthened by those acquisitions. And good progress in the U.S.A. -- in U.K. finally with 8% organic constant currency growth. So overall good growth opportunities across the regions and across the markets. Plus the recent acquisitions, I'd expect again Infrastructure Safety to make continued progress as we go through this year.

And then on Medical sector, consistently good revenue growth, as I said, with improving profitability as the year progressed. Revenue up by 9% to GBP 284 million. That's 7% organic constant currency revenue growth. There's a 2% benefit from acquisitions on revenue. And then we've got profit just ahead of last year at GBP 67 million, slightly lower than last year in organic constant currency terms with a 1% benefit from acquisitions and there's a very small currency impact overall for the year in this sector.

Return on sales actually in this sector were down by 2 percentage points from 25.6% to 23.6%. Two major factors here. First one is the revenue mix. So we just saw higher growth in our lower gross margin businesses compared to our higher gross margin businesses. And then we did see increased investments, particularly in talent. This is a sector where there's been a big upgrade in senior management talent over the last 12 or 18 months and we saw the cost of that as well as, again, the sector increasing its R&D spend, this time by 4%.

All the business sectors grew revenue. So that's patient assessment, sensors, the diagnostic businesses, the ophthalmic businesses. All of those increased their revenue and the first to also increase their profit with small profit declines in the latter 2.

And then we saw growth in all the major regions, including good organic constant currency growth in the U.S.A., which is our dominant market. In fact, it's the dominant market for medical devices. So good to see that coming through with 9% organic growth but also solid progress in the other developing markets in the U.K. -- sorry, in developed markets in the U.K., in Mainland Europe. Asia-Pacific also grew. Strong growth in other regions, and other regions, bear in mind, now includes the contribution from Cardios, which is the blood pressure monitoring business we acquired from Brazil. In fact, it's our first ever acquisition in South America. We completed that during the first half of the year. So expect the sector to maintain revenue growth and improved profitability. So it's well positioned to make further progress this coming year.

And finally, the outstanding performer of the year, Environmental & Analysis. And again, as I said at the beginning, even excluding the benefit of the reorganization of Pixelteq last year, both the cost and the disruption caused by that, you can see very strong underlying growth here. Revenue up 18% to GBP 259 million. That's 15% organic constant currency revenue growth, a 3% contribution from acquisition and then we've got profit up 32% to GBP 55 million. That's 28% organic constant currency growth with a 6% acquisition contribution. There was some currency impacts here, very little on revenue, but a 2% adverse impact on the profit figures from currency movements. Return on sales continues to rise. So over the last few years, we've seen that play through. It's now moved up from 19% to 21.2% this year, and that's against the backdrop again of increasing investment. So really pleased to see the improved profitability in returns but also the R&D investment, the R&D spend, up by 18% to remain around 6.9% of revenue, this being our highest technology sector.

The Photonics businesses, the Water businesses, the Environmental Monitoring businesses all contributing strongly to this growth as well as the Mini-Cam acquisition. This is the wastewater pipeline inspection business that we acquired at the start of the second half of the year. Again, that's doing well.

And then finally, looking at the revenue by destination. As of the half year, we saw good and strong organic growth in all the regions except the relatively small other region, which is around 6% of the sector. U.S.A. saw strong organic growth. Good contributions here from our Photonics businesses, and our Water businesses helped the U.K. deliver very strong performance, up 22% organically. Solid progress in Mainland Europe, which is actually a significant improvement because it had some organic revenue decline in the first half of the year. And then finally, Asia-Pacific continues to thrive. We really see good sustainability for growth here as we see stronger environmental regulatory drives and, in fact, social pressures pushing through in developing markets for better environmental control. Whether it's air pollution monitoring, clean water, food safety, all of those things are benefiting this sector.

So an outstanding year, widespread growth, a good size acquisition. And although, obviously, now we've got a tougher comparator, as we go into this year, certainly, this sector is well placed to continue to make progress.

So it's been a very successful year for the group, but as always, there's no room for complacency and we've got to keep pushing ahead and keep thinking about how we're going to maintain and accelerate that growth in the future. And in February, many of you came along to our Investor Day, where -- Investor evening where we outlined our renewed purpose and how we're looking to grow Halma in the future. I also talked about the executive board changes that I've made in December, reducing the number of sector chief executives from 4 down to 2 and also the appointment of our first ever Chief Innovation and Digital Officer to help drive through some of the new things we want to do. And I'm pleased to say all of those changes have really been working well so far since we made them.

I also launched the Halma 4.0 growth strategy which really concentrates on how the group is going to grasp the opportunities to improve data-driven and connectivity technological changes [that are] helping our businesses. So I thought I'd spend a few moments just articulating what that growth strategy is, how it works and give you a few examples of what's happening in the Group since we launched it.

So where does it all start? Well, as I said back in February, it really starts with our purpose and we call it our MTP, our massive transformative purpose, and it's really the North Star. And for us it's growing a safer, cleaner, healthier future every day. So this drives our efforts. But also importantly, what we're finding is it's enabling us to attract the right partners, the right talent, the right acquisitions, the right customers and, in fact, investors who are interested in investing in these kind of themes.

Our growth strategy. Alongside our core growth strategy, which is very much our priority for investment in itself becoming more digital but, nonetheless, where primarily our focus is. We've added 2 new growth strategies which really are going to enable us to capitalize on that data and connectivity.

Convergence growth and Edge growth. Convergence growth is combining the assets or capabilities of 2 or more businesses to create a new business model or create a new value proposition for the market. And this new business could sit inside an existing Halma company or it could be within the group as a separate stand-alone business depending on how we see the best way to explore it. And I think if you look at the diversity of our group, if you look at the diversity of our technologies and our markets, clearly, there are lots of opportunities for combining those together to explore new ways of growing.

And then we have Edge growth. And Edge growth is purely focused on digital disruption and just making sure that we are plugged into those innovation hotspots around the world to understand what's going on, to accelerate our own growth, but also understand how we're going to continue to be competitive as we look forward, as we grow. So for example, rather than seeking to become experts ourselves in artificial intelligence or robotics, making sure we partner up with the right external people and bringing their capabilities into our business.

We then have what we call the growth enablers. And again, you will be familiar with many of these. These are the things that we invest in to help our companies grow faster and grow for longer. So things like innovation, talent, acquisitions, finance, international expansion, you'll all be very familiar with me talking about these. But we've added 2 new ones because of this growth strategy: strategic communications and digital growth engines. And I'll just spend a few minutes shortly explaining what they mean and how they work.

And also, then we need to measure our achievement in new ways. So it's not just about the vital financial KPIs, which we're going to continue to report, but also we need to include a broader set and range of nonfinancial KPIs for digital growth so that we can see how are we growing, what kind of returns we're getting from our investment. They sit alongside the existing nonfinancials such as customer satisfaction, employee engagement, all those things that we already do to measure the health and growth of our business. But ultimately, our success is measured by do we achieve our purpose, do we have the impact that we're looking for in the world through that safer, cleaner, healthier future.

So as I mentioned, the fulcrum of this is very much the growth enablers. That's really where the strategy starts to work and where it actually happens and how it's executed. We've got some very familiar ones, as I mentioned, that you -- I've talked about before, but even these need to evolve as technology evolves and as our growth strategy evolves. So for example, with M&A, we've asked our M&A teams not just to find acquisitions but also as they're doing their search, to identify those businesses that maybe not an acquisition but could be a new partnership for us. We're making sure that the market intelligence that they're getting from their search efforts are fed back into the company better so that we can learn and see opportunities and threats as they emerge.

In talent and culture, we're bringing new digital capabilities into the business. I mentioned our Chief Innovation and Digital Officer. We're looking to develop new capabilities through our training programs down into the companies. So for example, they learn how convergence growth can work, how they can collaborate and cooperate better. And we've got, obviously, the senior leadership structural change, the organizational change that I made, just recognizing that for the strategy to work we need the companies to have much greater visibility of what's going on in the group and the ability to influence that more readily than having to navigate their way through a 4-sector management structure. It's much easier to do that when you've just got those 2 sector [CEOs] overseeing half of the group each.

For innovation, we now call innovation network. It's just recognizing that with the diversity that we've got, diversity helps innovation. If we can give people visibility of what's going on across the group, that in itself will result in more innovation across our business, and I'll talk about a tool called the Halma hub that we're using to really accelerate that process in a minute.

And then international expansion, getting our local teams in their local markets, whether it's in China, India or elsewhere in the world to have -- develop more market intelligence and think about the viability of the different technologies that are really going to play best in their markets because it's not going to be the same solution for each market. Each market is going to want something different.

And then finally on finance and risk, which again we think of as a growth enabler. We have a lot of data, a lot of information across our 41 companies across the world, and Mark and his team are developing a cloud-based data analysis capability so that we can really start drilling into the data sets we got across our business and be -- if you like, inform our decision-making, speed up our decision-making, improve our decision-making based on that visibility we've got more broadly across our business.

And then we've got our 2 new ones: strategic communications and digital growth engine. So what do they mean? How are they playing out? Well, strategic communications is something actually we've had in the group since day one. We've had an in-house PR team, a team that's been supporting us for many, many years, but we recognize that we really needed to improve our communications capability across our group both to improve the internal communications up, down, sideways across the business, but also externally. So we have rebuilt and upscaled our communications team. The internal communications effort is now much more focused on giving greater visibility, helping people solve problems, helping people collaborate, and we've got external communication initiatives now which are much more around telling our story better, what are the ways in which we're achieving our purpose so that we can attract those new partners, customers, talent and investors. And a great example of this is what we call the Halma hub. So this is our in-house portal, which initially we were thinking we were just going to use to improve innovation. It's already got over 2,500 users across the group. And so the big thing for me is we're moving that innovation network from the top layer of the organization or just to sit at say the top 250, 300 people much deeper into our business so that people lower down the business can now communicate directly with each other across companies.

I'll just give you some simple examples of how it works. So here we have a U.S. company. One of our medical businesses that wants to improve its project management. So it puts out a question, anyone know how to -- any great tools for improving project management, and then we have a series of conversations going on very quickly and ultimately ends up with one of our U.K. businesses in the Environmental & Analysis sector saying, well, we're using a new tool called LiquidPlanner that we're having a lot of success with improving our project management. [So just] a very simple example as someone in the U.S. in a totally different sector needs some help with a particular part of their business and it can very quickly get answered by someone else over in the U.K.

Another capability is that you can search it. So as we build up the knowledge on this Halma hub, in this case, someone's put in, "Can we find out about collaboration agreements?" And in fact, it was -- we had a U.S. safety business that had sensors and also had a lot of application knowledge, and they wanted to work with an external partner, but they wanted to have a very simple agreement to protect their IP during this partnership.

Put the question out there, one of our divisional chief executives actually from the Environmental & Analysis sector came back with, "Well, I know one of my company's got a lot of experience in this, Ocean

Optics. Why don't we speak to Ocean Optics?" The guys from Ocean Optics saw that and then we're able to immediately post the template that they've been using it -- elsewhere could to be used by the safety business elsewhere in the U.S. So just some very simple examples, where lower down the organization, you're just accelerating the pace of change and the collaboration between the companies. So this is becoming a focal point. It's becoming a focal point for learning, for sharing best practice, but also for networking across the group at a much deeper level than just the senior management ranks.

And what about these digital growth engines I've been talking about? Well, we've currently got 5 of them. So they're shown there on the left-hand side: digital growth sprints, exponential scaling, convergence accelerator, digital edge hubs and also the innovation hotspot. So these are things that we've put in motion now in the group and started experimenting with how they'll work.

Let's just go back to sort of the first principles here and I talked about this in February. Many of our businesses have different challenges when it comes to embracing the digital data connectivity opportunity. So for some of them, it's about solving the technical barriers to make their products more connected, more data-driven. For others, it may be finding the right business model, the value proposition and selecting the right one. And then once they've got it, learning how to scale that and how to grow their business. So that's what we're trying to help our companies overcome some of those barriers.

So we've built a small central team who are leading various programs and initiatives, working with the companies across all of those growth engines and across the core growth, the convergence growth and the edge growth. I'll just give you a few examples of exactly how that's working. So let's take digital growth sprint. So this is an existing business, has an existing digital product or business idea. It's solving a real customer problem. So it's not speculative and they've got a cross-functional team that need help with moving forward.

And one of those companies was SunTech. SunTech is one of our blood pressure monitoring companies in the U.S. And through the program, we help them learn how to be much more agile and also how to validate their ideas with their customers more directly because they have a new digital blood pressure monitoring concept. And they came -- reported back to us that it wasn't just helping them progress the idea was the value from the program, but also it gave them a much greater understanding of all of the new digital players in their market. So when they look forward now, it's not just that they've got a new concept that they're developing, but they now understand exactly where they need to play in their market and how they're going to win in that market.

So the key principles of this kind of process will be things like rapid iteration of the concepts, validating it with the customer, looking at the different new business model ideas and choosing the one that's going to work best. And the benefits are not just developing the individual idea, but building long-term sustainable capabilities in the organization, in these individual companies that they can then take away and apply repeatedly on the new ideas that they'll have in the future.

And then we've got exponential scaling. So CenTrak is one of our medical businesses. It is a business that specializes in real-time location monitoring in hospitals. So already has a digital platform. The exponential scaling program is helping these businesses look for new applications of their digital platforms. So CenTrak has just started a 3-year program with an external partner, where they're going to look at where else in the health care sector could they apply the same digital platform and get some growth that way? How could they grow more rapidly by expanding in that way? How could they grow exponentially? So take mature businesses with mature digital platforms and finding new applications for them. And I think this one, it will be very interesting to see how this program develops. We have other businesses in the group where you could apply the same technique if we start to get something that works well with CenTrak.

And finally, the convergence accelerator. So this is a 4-month-long program where we get 2 or more Halma companies to combine assets and resources for a totally new business opportunity. So we launched this program first in December 2017. Within 2 weeks, we had 24 applications from companies in the group of ideas that they wanted to put through this process, and we selected 6 of them. And in April, the 6 selected businesses, having been through the program, pitched their ideas to the Halma leadership conference in Boston. I think what was valuable there was it wasn't just the value of the ideas and seeing how they progressed them, but also it was great to see the Halma leaders thinking and learning how do we assess these new ideas and decide which are the ones to back and invest in and which are the ones that maybe need some further refinement. And one of the ideas that was successful is a team called [indiscernible]. So this is a team made up from U.S. and European businesses in our medical sector who, together with an external artificial intelligence expert, looked at ways in which they could transform the screening of diabetic retinopathy, which is a key cause of blindness in the world. In fact, 94 million people in the world have blindness caused by diabetic retinopathy. And this combination of our technology with an external partner's artificial intelligence capability could give us a new way to screen that very, very easily. So they've now received further funding to further develop that idea and do further market research in their target markets.

Then we have the digital edge hub, which is the Halma-driven initiative. It's the newest of our growth engines and this is really to enable our companies to explore disruptive digital growth models within a lean startup environment. So it's an opportunity for them to experiment in a safe environment where they can start to see what may work and what may not work within their chosen market. And our first program here is going to be launched in London in July. And again, as we go through the year, it'll be good to see what kind of new opportunities come from that particular program.

And then finally, we've got the innovation hot spot, which is covering all 3 elements of our growth strategy, and we started our new -- first new partnership here with a business called OurCrowd. You may have seen the announcement the last couple of weeks. So OurCrowd is a business based in Tel Aviv, and it's a leading equity crowdfunding platform with over 150 startups which are very well aligned with our purpose of cleaner, healthier, safer world. And so the purpose here is really to plug into the major innovation hotspots across the world, whether it's in Tel Aviv, Singapore or Silicon Valley in order to help our companies identify trends, maybe bridge skill gaps, find new talent or just build partnerships with people who are doing different things in our chosen markets and making sure we're getting the benefit of that innovation.

So you put that all together and you can see there's a lot of work going on with our companies at the moment in different ways with different companies according to what their particular needs are.

And I suppose there's 3 clear messages that I just wanted to leave with when you put this all together. The first thing is the digital growth enablers are complementary to our existing growth enablers. They're not replacing them, they sit alongside the innovation, the international expansion, the talent development. The second thing is we are taking a very practical approach to this. It's not just some theoretical thing, but we're taking a practical approach because what we're really aiming to do is also build capability for the longer term rather than just finding some short-term opportunities that we want to accelerate and progress.

And then finally, [that as] we go through the year, we will start to review what's working, what's not working and also we'll develop the KPIs which will allow us all to see how we're making progress on these things, but they sit alongside our existing KPIs because our focus continues to be on growing our core business and making sure that, that is successful.

So let's finish off with a summary of what you've heard this morning together with the brief outlook statement. It's been a really good year for the group. Record results, widespread growth across all our sectors and across our regions, with strong returns, strong cash generation and a further dividend increase. We've also increased our strategic investment, not just in digital initiatives but also in R&D spend, up by 12%, and we've completed 5 acquisitions. We've launched the Halma 4.0 growth strategy. We've added 2 new elements of growth alongside our core growth. And we've added 2 new growth enablers: digital growth engines and strategic communications alongside our existing. And then we've realigned our organization at the top level to make sure that really we're fit for purpose according to what the growth strategy demands. And finally, we've made a positive start to the new financial year. Our order intake is ahead of revenue and also ahead of the order intake last year. Our M&A pipeline is looking solid across all the sectors, and we expect to continue to make progress in the coming year.
So that completes the presentation. I'd now like to open up the meeting to questions. There is a roving microphone. So if you get the mic, please can you obviously state your name and your company? That would be much appreciated. Thank you.

Question and Answer

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Jonathan?

Jonathan Hurn
Deutsche Bank AG, Research Division

It's Jonathan Hurn from Deutsche Bank. Just a few questions for me, please. Firstly, can I just ask about fire in the U.S.? Obviously, it was an issue for you in the first half, the fire market in the U.S., issue for you in the first half. Obviously, that's continued -- or looks to have continued into the second half. Can you just sort of tell us what's going on there in that market, please?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

So just to be clear, what I said was the -- actually yes, it improved in the second half of the year, the situation. So we have sort of an improving performance in the second half of the year. And if you remember back in the first half, it's the broader Fire business. And I suppose 1 or 2 areas where we're seeing some weakness in previous years, we've had some growth, which is unusual for us, some growth in the residential market in the U.S. for our fire products. Almost everything we sell in fire is really focused on the public and commercial buildings. We had some business areas there, niches there that we're growing in the U.S.A. in the residential market. And we've seen some downturn in those areas this past year or so. But as I say, very much stronger second half of the year compared to the first half of the year. So I would imagine that's going to continue [to improve] and continue through the current year.

Jonathan Hurn
Deutsche Bank AG, Research Division

Second one was just coming on to U.K. water, obviously, a good performance this year. What's your outlook for that market going into next year just in terms of spend?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

So there's 2 competing factors there. So a little bit of uncertainty, I would say. Obviously, on the one hand, it's getting towards the end of the AMP cycle which traditionally you've seen less investment than early on. On the other hand, most of our -- a big part of our revenue U.K. water is in leakage detection. And I think we're all -- have read in the press that the water companies are under a lot of pressure to improve their leakage performance. So it'll be interesting to see to what extent that counteracts the natural cycle that we're seeing on the AMP cycle. Obviously, if you look forward then a year or 2 over the next 5 years, we'd expect a strong performance because the water companies, as I say, are going to be under increasing pressure to increase investments in that.

Jonathan Hurn
Deutsche Bank AG, Research Division

And then just the last one is just on medical. I think again coming back to the first half, there was some pricing issues -- some contract pricing issues within that business. Are those kind of sort of washed away? Are those...

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Sorry, in which business?

Jonathan Hurn

Deutsche Bank AG, Research Division

Within medical. I think it was in terms of negotiating contracts...

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Yes. I think by the time we got to the end of the year, the picture is a bit clearer. It seems more really to do with, I'd say, the mix in where the growth is coming from. So in other words, the lower gross margin businesses growing faster than the higher gross margin businesses, ultimately, has resulted in some pressure there. That see -- that mix seems to be a bigger issue than any widespread sort of pricing issue that we're seeing across the group there -- across the sector there. Any other questions? One more there on the front here as well.

David Alexander Larkam
Numis Securities Limited, Research Division

David Larkam from Numis. Just sort of group level, should we start to think of Halma as a slightly different sort of investment going forward? I mean we had 10% organic growth but no real drop through to margin operational gearing. So it feels like there's more, obviously, investment going in. Going forward, is that more of the strategy, sort of hold the margins at around the 20%, invest more so we should see higher top line growth. I think we've got another GBP 5 million in central costs going in this year. So I guess we shouldn't expect the margin to a huge amount in 2019. So should we change how we see Halma slightly as a higher growth but less of a sort of margin drop-through business?

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director

I would have said that's how it's always been because I think one of the things that's interesting about Halma is that investment mindset. So actually what is it that you do now, where are you going to place your bets, what is that you're going to invest in that's going to give you that longer-term growth. I mean, it's why we talk about our return on sales in a range because actually -- keep investing, keep generating that future growth but maintain a high return. So I think if you look over the past years, it's kind of what we've been doing, and I think we're going through -- there's a phase now where there's opportunities to increase in the digital areas that Andrew was talking about, and that's led to some of that increased central investment. But I don't see it as a change. I think it's just part of that evolution where we'll combine solid investment with high returns and, as you say, driving the revenue growth coming from that.

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Yes. I think that's absolutely -- so we certainly don't see a change in terms of that mix between growth and returns. As Kevin says, operate within a range. I think the thing that has evolved, I think, is we have a much -- and it's shown by that -- those growth enablers. I think we're building and having much clearer understanding of the value of a company being part of the group or the value we bring to a company when it joins the group through those growth enablers. So really understanding what are we going to invest in centrally and how are we going to make sure that, that actually gets down into the companies to accelerate their organic growth. I think we're getting a much clearer vision of them and a clear purpose behind certainly compared to where we were 10 years ago. So I suppose there is a more purposeful investment going in at the center than we certainly would have seen 10 years ago. But it's against that backdrop of really we're still trying to match, keep the returns in a range and make sure we get growth within that range.

Andrew J. Wilson
JP Morgan Chase & Co, Research Division

It's Andy Wilson from JPMorgan. A couple of questions, please. Just on Environmental & Analysis, just it's maybe, I guess, kind of asking for a bit of help in terms of how to think about sort of FY '19 because see '18 was fantastic in terms of both the market and, obviously, what you were doing kind of this time last year. It obviously made a huge difference in terms of profitability. Kind of if we're thinking going forward, would we -- is this kind of a sustainable level of profitability we can make on assumptions on the top line? But -- or is there any more benefit to come from clearly what we've been doing internally, because I mean the number is obviously fantastic in the year.

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Yes. I think I agree with you, Andy. It's quite difficult to build the picture of the components that are driving that growth because you're right. As you pointed out, a chunk of that comes from the benefit of not having Pixelteq in the group and the reorganization we did last year. A chunk of that comes from -- we've already mentioned U.K. water, where we're saying, "Okay, what happens this year?" Clearly, I described it as an outstanding performance. So I think it's unusually -- usually good performance with all those factors going in our favor this year. Having said all that, this is our sector where we've got the highest R&D investment. So it is the sector that's operating some of the highest growth niches that we're in. However, execution is the uncertainty. So within this group of businesses, they got high growth opportunities, but it's how well they execute their plans, particularly when it comes to product development, that determines whether they're growing at 8% a year or 15% a year. That is really going to come down to how well they actually implement their plans this year. But there is a sense of, I suppose, increasing momentum across those businesses coming into this year compared to certainly where we were a couple of years ago. So we're -- to some extent, we're going to see what happens in the first half of the year. And I think by the end of the first half, we'll all have a better sense of, okay, what is the true underlying growth that we're seeing coming from these businesses.

Andrew J. Wilson
JP Morgan Chase & Co, Research Division

So is it in -- I guess, and maybe this is similar to David's question, but I guess the way we should think about is potentially very good growth opportunity, but we shouldn't expect some pickup in the margin again because kind of those one-off exceptional effects they're kind of come through this year. Is that -- will be an easier framework to think?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Well, yes. As Kevin mentioned, he talked about the phrase innovation mindset. Yes, these businesses are investing to sustain growth. They're not being run to boost short in profitability, that's for certain. Yes.

Andrew J. Wilson
JP Morgan Chase & Co, Research Division

And then just on the Process Safety side. Just interested and I appreciate this is a -- it'd be quite a difficult question, but in terms of where do you think the kind of the oil and gas, because I'm assuming oil and gas in the second half was similarly very good or kind of energy more broadly. Kind of where do you think that is versus sort of, I guess, pre oil and gas downturn levels, just trying to think about how much is kind of recovery, how much is just now the growth trajectory for these businesses that we saw kind of before that downturn?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Yes. Well, certainly, I think I mentioned in the presentation, the prior record, you got a reference point, which is 2015, which is kind of our peak for that sector. And that time, oil and gas was about 50% of that sector revenue. Now today, it's around about 40% of the sector revenue because we deliberately diversified and got more growth from other markets. So looking forward, it will be -- it's obviously a factor but not as a bigger factor it was before. We are -- with the exception of the U.S. onshore business, that's having obviously a positive impact in the last 18 months, the majority of what we sell into oil and gas is late cycle and it's midstream and downstream. So we're taking quite a cautious view for the next 12 months in terms of -- if improvement continues, actually we tend to be quite late in the cycle before we see the benefit on our businesses. So I don't anticipate it being a big feature, for example, of the current financial year. If we do see anything, I think it's more like to be for us 2019.

Sandeep Gandhi
Exane BNP Paribas, Research Division

This is Sandeep Gandhi from Exane BNP Paribas. Just a couple of questions from me. So firstly, just want to delve a little bit into the change in organizational structure from 4-sector heads to 2. Can you just give us a better color around what changes you've seen as you've shifted towards this structure? And then just secondly, can you just give us an update on the M&A pipeline? And perhaps what are you seeing in terms of valuations?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

So organizationally, the -- I showed you that Halma hub example where we had communication going on from people -- if you're lower down the organization communicating directly with each other. So if you think of it from the point of view of if I'm running a company, under the old strategy, if I wanted to get some kind of collaboration going formally with another group company in a different sector, I'd have to speak to my Chairman, who would then speak to the sector CEO, who then speaks to the other sector CEO, who then speaks to the other Chairman. So I'd be going through 4 people before I could actually get that decision made and that decision made about whether we move forward or not. Under the new structure, the likelihood is actually both the Chairman of the 2 operating companies report to the same sector CEO. So there's a -- one point of contact where I can get that decision made and things move forward. Even if it's over to the other sector CEO who is part of the group, I still got just 2 people who have a much more broader sort of group mindset to get that decision made happen. So when you look at it through from the company's point of view, it makes life a lot easier for people running our businesses to get decision made. The other thing is that we reinstituted what we call the divisional Chief Executive role. So the people running our companies -- sorry, the Chairman of our operating companies we call divisional CEOs, and in addition to making that change and reducing the 4 sector CEOs to 2, what I've also done is give a much more -- a closer relationship between the Chairman of the operating companies, the divisional CEOs and our executive board. So now under the new structure, 3 or 4 times a year there's a meeting of all of those people in the same room. And from a reporting point of view, they're also having much greater direct interaction with me. So it brings me closer to the companies. It brings the executive board closer to the companies, but it also makes the collaboration decisions easier for those people who are running our businesses. On the M&A -- the M&A pipeline was the second part of your question. Quite similar to the half year, really. I mean, we've made -- continue to make some acquisitions, which is pleasing. The pipeline, as I said at the outlook statement, is actually pretty good across the 4 sectors. So we do see opportunities across the 4 sectors. We're not prioritizing any one over the others. And valuations really haven't changed much from the half year. If you're buying a good quality company in a good end market like we are looking for, then there's, obviously, pressure on valuations if they go to an auction process. So it still pushes everything back to making sure that we put a lot of our effort in finding privately owned businesses that aren't going through an auction process and having that relationship, using that relationship to acquire a business before it gets that far. And in no circumstances, generally we're finding good quality companies for sensible prices.

Andre Kukhnin
Crédit Suisse AG, Research Division

It's Andre from Crédit Suisse. Can I just follow up on the acquisitions first? Would you say that at the moment, you're kind of seeing more companies are making more offers than you were a year ago or 6 months ago?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Overall, yes, but partly that is because we've got our M&A organization sorted out as well. Having made the change, obviously, we had sector M&A teams. We [bought] those teams together now into sort of 2 groups and those teams are now very much mobilized, and we're seeing -- certainly, there's a lot more discussion going on between me and the sector teams. Having said all of that, as we all know, it doesn't necessarily mean that leads to more deals. We still got to maintain our discipline, make sure we're buying good companies at sensible prices.

Andre Kukhnin
Crédit Suisse AG, Research Division

Great. And just mathematically, from what you've acquired during 2018 fiscal year, how much would that bring into 2019, just if these businesses continue to perform as they are in terms of contribution?

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director

Yes. There's a slide in the appendices that sort of set out what we -- yes, what the contribution last year through to and what was achieved and then what we would expect in the next year. I'll look for you.

Andre Kukhnin
Crédit Suisse AG, Research Division

I'll find it.

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Okay.

Andre Kukhnin
Crédit Suisse AG, Research Division

Can I just -- can I ask one specific on the Elevator Safety. There's a lot of talk from the OEMs about going digital and selling digital services to the customers by installing the box and monitoring and getting better at running it. Your business seems to be coming in more directly to the user of elevators and providing with that capability which can make you a competitor to the OEMs, which are your kind of main customers. Am I seeing this completely wrongly? And if not, then how do you address that?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Well, there's actually no change from what we've been doing in the last 30 years. So I'll just remind you, an infrastructure sense is almost every business there, about 1/3 of what it's selling is going to the OEM manufacturers and then 2/3 of what we're selling is going to local elevator, fire, door safety businesses. So we've always had that model where we're selling both to the new market -- the new installation market through the OEMs generally as well as the aftermarket through the local support companies. So we don't see that changing hugely at the moment. We see both as potential partners for us and certainly the conversations we're having with them. They see us as the kind of people that can help them get to where they need to get to faster as well. So it actually looks to be a continuation of what we've always done, which is actually do both.

Andre Kukhnin
Crédit Suisse AG, Research Division

Got it. And then just last one on the [pension triennial] review. I know it's ongoing and you can't give details, but generally would you expect the contributions to go up or to go down on the back of this?

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director

I think it'll just go up marginally, yes. Again, I think this is in the forecast or in the pensions analysis in the back. There's -- yes, we're looking at -- it was a GBP 11 million contribution this year. We're forecasting

GBP 12 million next year. So I think all else being equal, unless there's some other change, I think it's just -- it's a gradual change getting towards the -- meeting the deficit.

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Anymore? One more? One more from Andy.

Andrew Douglas
Jefferies LLC, Research Division

Just 2 quick questions. It's Andrew Douglas from Jefferies. On the new digital strategy, how do you manage the kind of risk that everyone kind of puts all their eggs in one basket and kind of focusing on digital because it's all really exciting and new and 4.0 and kind of lose the kind of core Halma kind of core KPIs? I mean, how do you kind of balance that risk?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

Well, the first step is to do exactly what I just did then, which is to show it alongside -- the core business is to invest in R&D, growing international markets, find new niches. So very much that sets where the emphasis, if you like, is very much in terms of the way people get rewarded, the way their performance is measured. And we're very keen to ensure that with the new KPIs that we develop, again, you don't get that out of balance. Having said all of that, even if what you wanted to do was just keep growing your core business, it is becoming increasingly digital. So whichever way you look at it, you got no option but to bring these elements into the business. And the reality is that we've got a lot of [upscaling] to do. We've got a lot of -- having to bring new people into the group. We've got those capabilities because in many parts of it, we don't have them today. So I think it's -- we're still at that phase where encouraging people to do more and convincing people to do more. It's that way around, I would say, at the moment rather than me worrying too much that we're going to spend all our time on that and not looking after the core.

Andrew Douglas
Jefferies LLC, Research Division

And [just to like] follow-up, just are there any businesses within the organization which don't fit into your digital strategy?

Andrew J. Williams
Group CEO, Member of Executive Board & Executive Director

It's been interesting because it has a really good, great point because the other thing I need to be really careful about was -- what if I'm running a business that's doing something that has -- today has no digital element to it, does that mean I don't fit anymore? And again, if you think about what we got there, not every business is meant to be completely plugged into all of those growth enablers. The phrase I've used at the leadership conference, [those] -- this is a menu. Those growth enablers are a menu. And you've got a little handout on your -- with your packs there that sort of break out the growth enablers and the different activities that they've all got. And this is a menu. You run your business. You know what you really -- you need for your business. You need to pull those from us rather than rely on us to try and impose them on you. So it's very much trying to create that pull system rather than the push system, but that's a great point. And when you think of it that way, actually, every company therefore is going to be able to -- in the short term, maybe not the digital stuff, but as they evolve, I'm sure they'd all be plugged into eventually. Okay. I think we're finished. Thanks very much.

Andrew Douglas
Jefferies LLC, Research Division

Can I just say on behalf of all the analysts in the room and Andrew said thank you to Kevin, but kind of on our behalf, can I just say thank you to Kevin for your good service over 25 years. It's a hell of an [endings like Fergie and Wenger], but you don't see many of them nowadays. But yes, it's been a pleasure to work with you. And I just want to say on behalf of all the analysts and the investors, thank you, Kevin.

Kevin J. Thompson
Former Finance Director, Member of Executive Board & Executive Director
Thank you.