

FINANCIAL FRAMEWORK

CAPITAL MARKETS EVENT – 17 NOVEMBER 2021





CHIEF FINANCIAL OFFICER

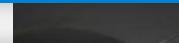
JOHN SHIPSEY

A simple and effective financial framework

→ Business strengths translate to financial strengths



→ Strong profit margin and cash conversion



→ High returns from reinvestment in organic growth



→ Enhanced by complementary, disciplined M&A



→ Surplus capital returned through dividends and buybacks



OUR PURPOSE



PIONEERS OF PROGRESS

Improving our world through smarter engineering

OUR STRENGTHS



World-Class Engineering



Leading Positions in Critical Markets



Global Capabilities



Robust Financial Framework

OUR PRIORITIES



Growth



Execution



People

OUR PURPOSE



PIONEERS OF PROGRESS

Improving our world
through smarter
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OUR STRENGTHS



World-Class
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BUSINESS STRENGTHS TRANSLATE INTO FINANCIAL STRENGTH



Robust Financial
Framework

OUR PRIORITIES



Growth

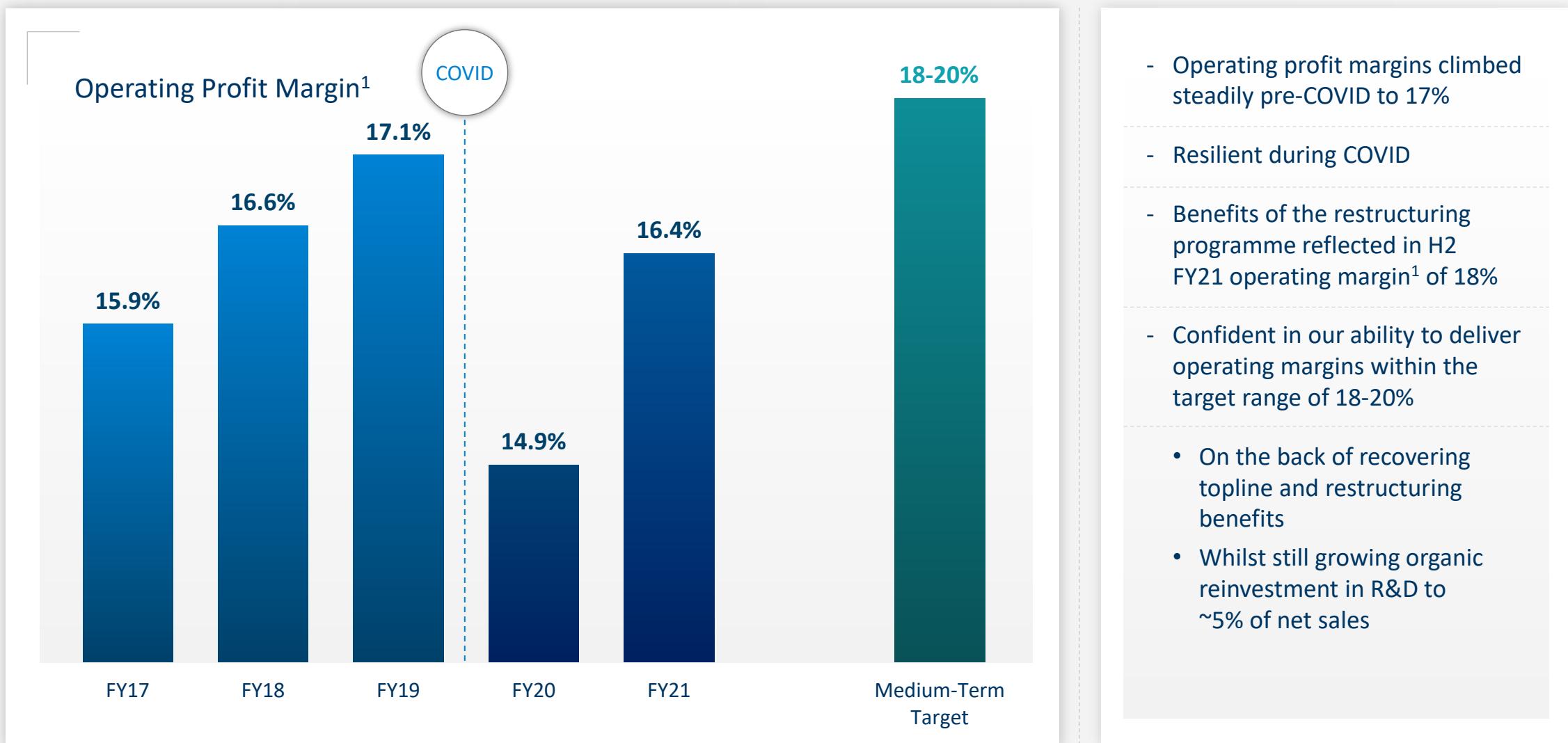


Execution

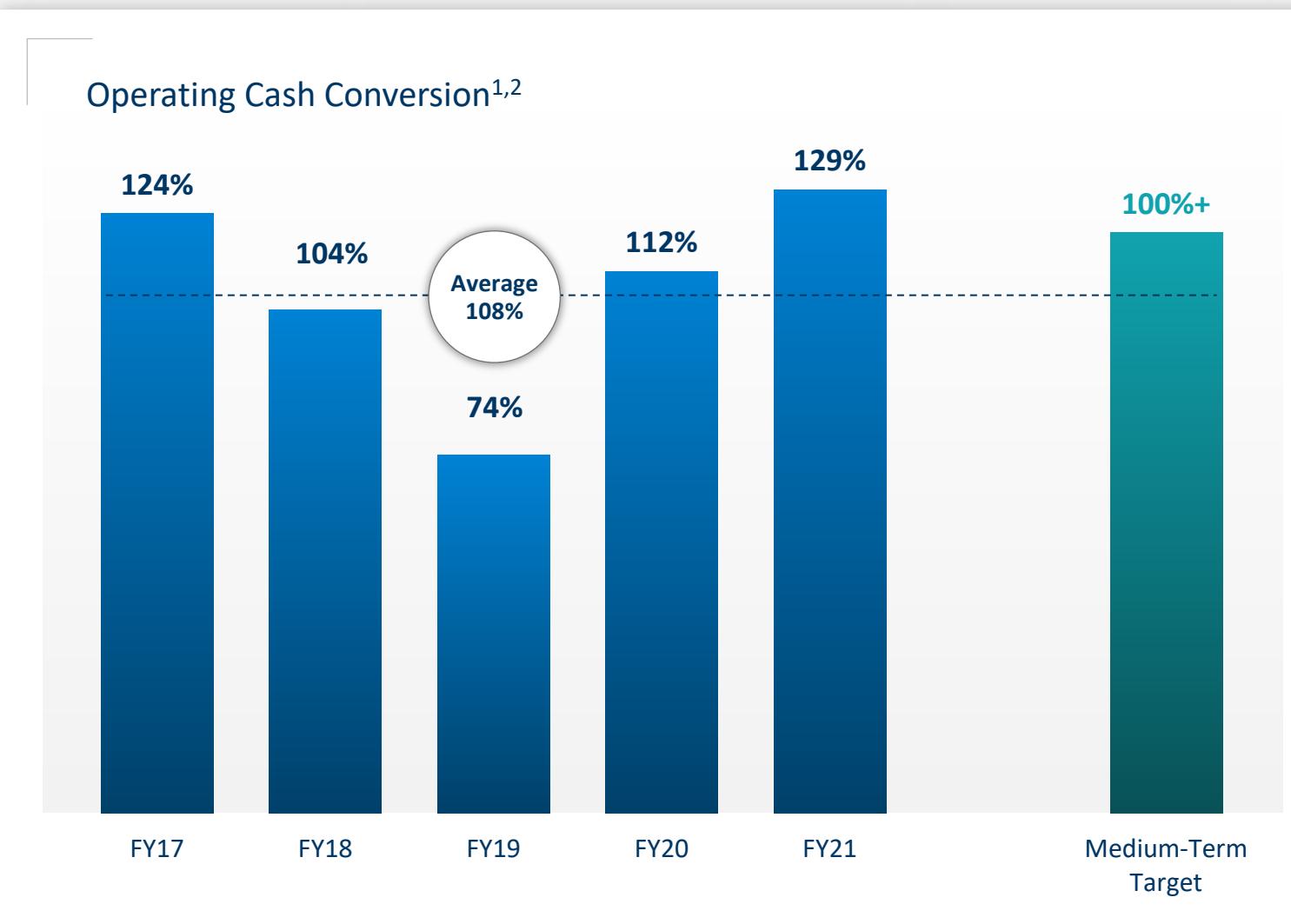


People

Financial strengths: operating profit margin

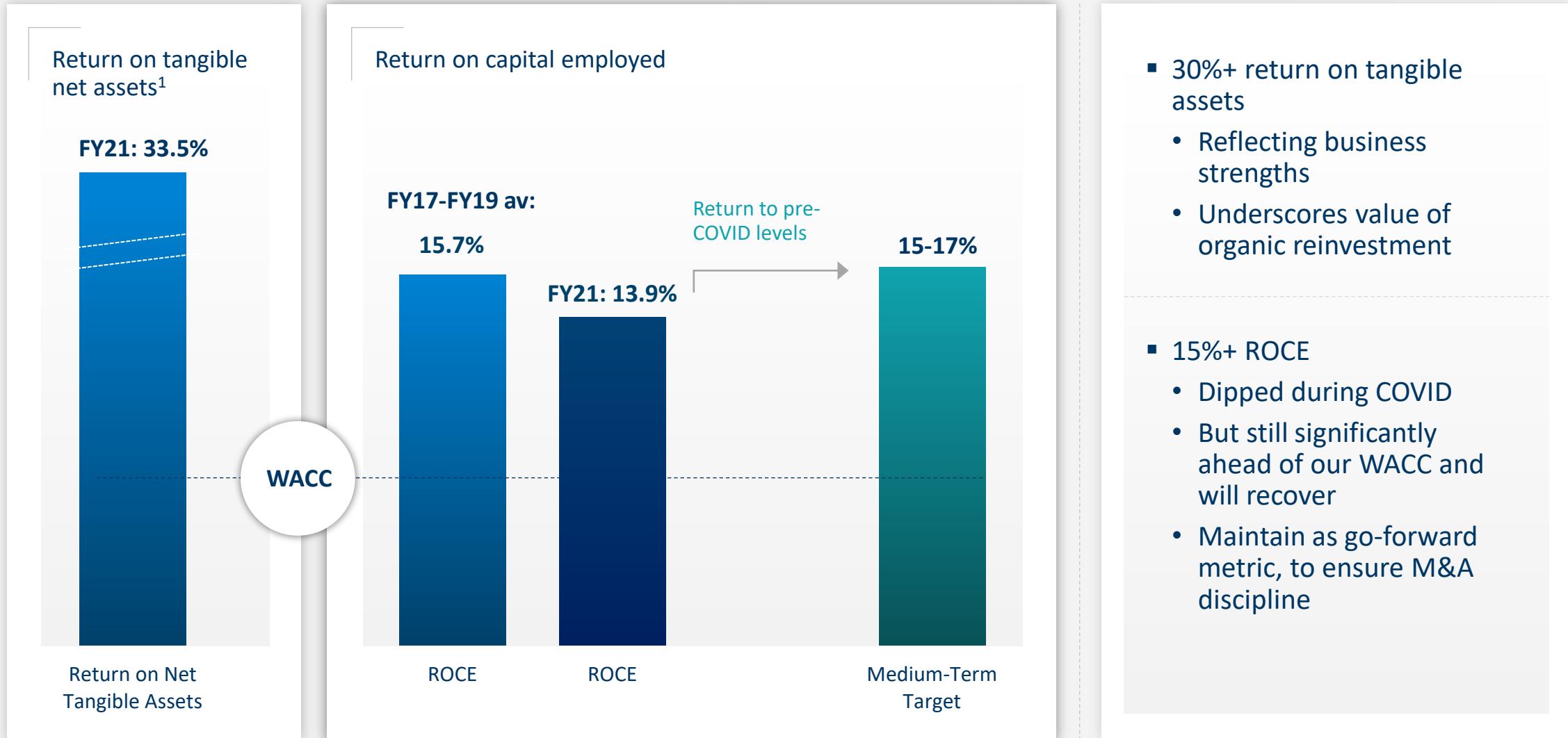


Financial strengths: cash conversion

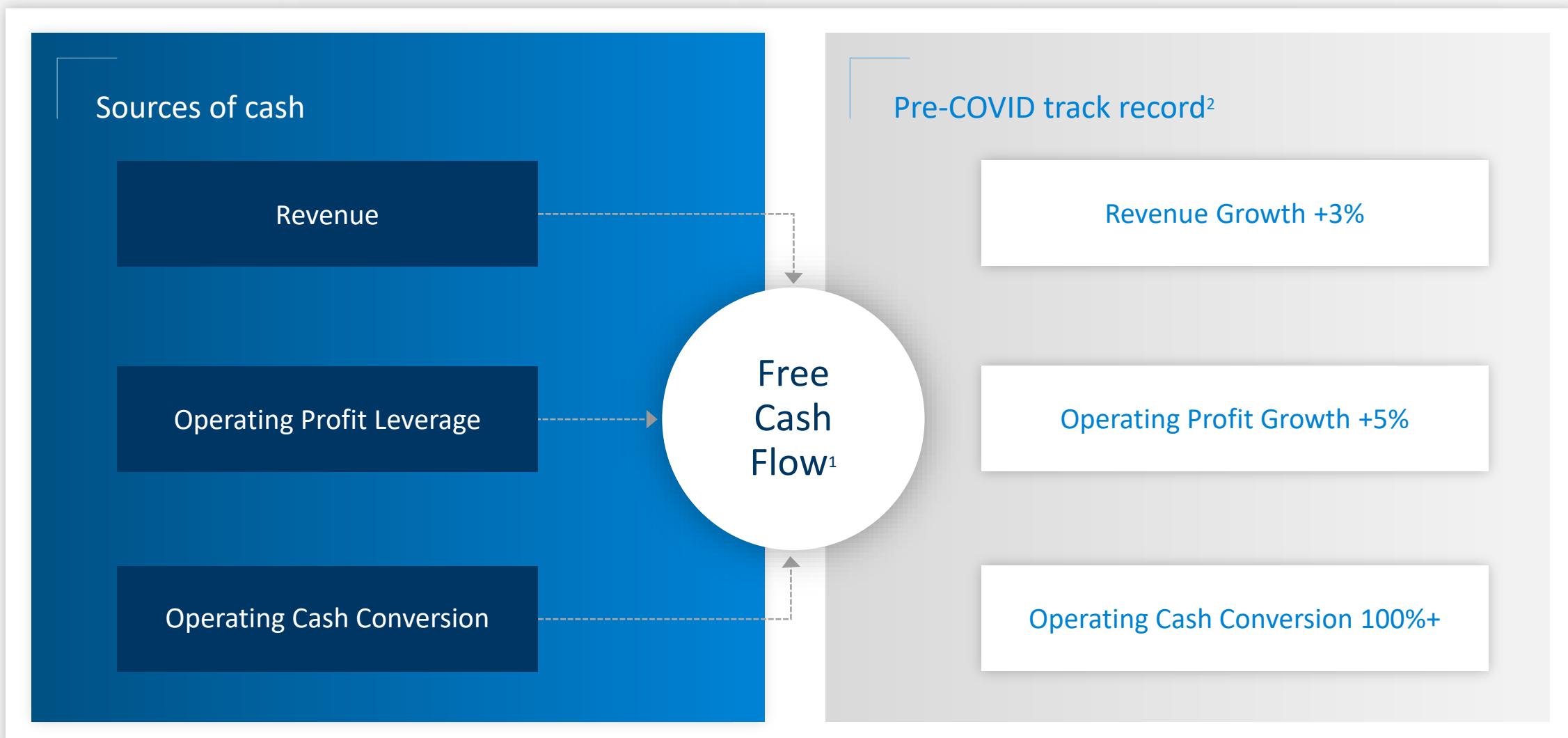


- We are IP-owning assemblers
 - Asset-light
 - Low capital expenditure as % sales
- Group-wide best practices for working capital management
 - With still more improvement to come from consistent execution

Financial strengths: return on capital



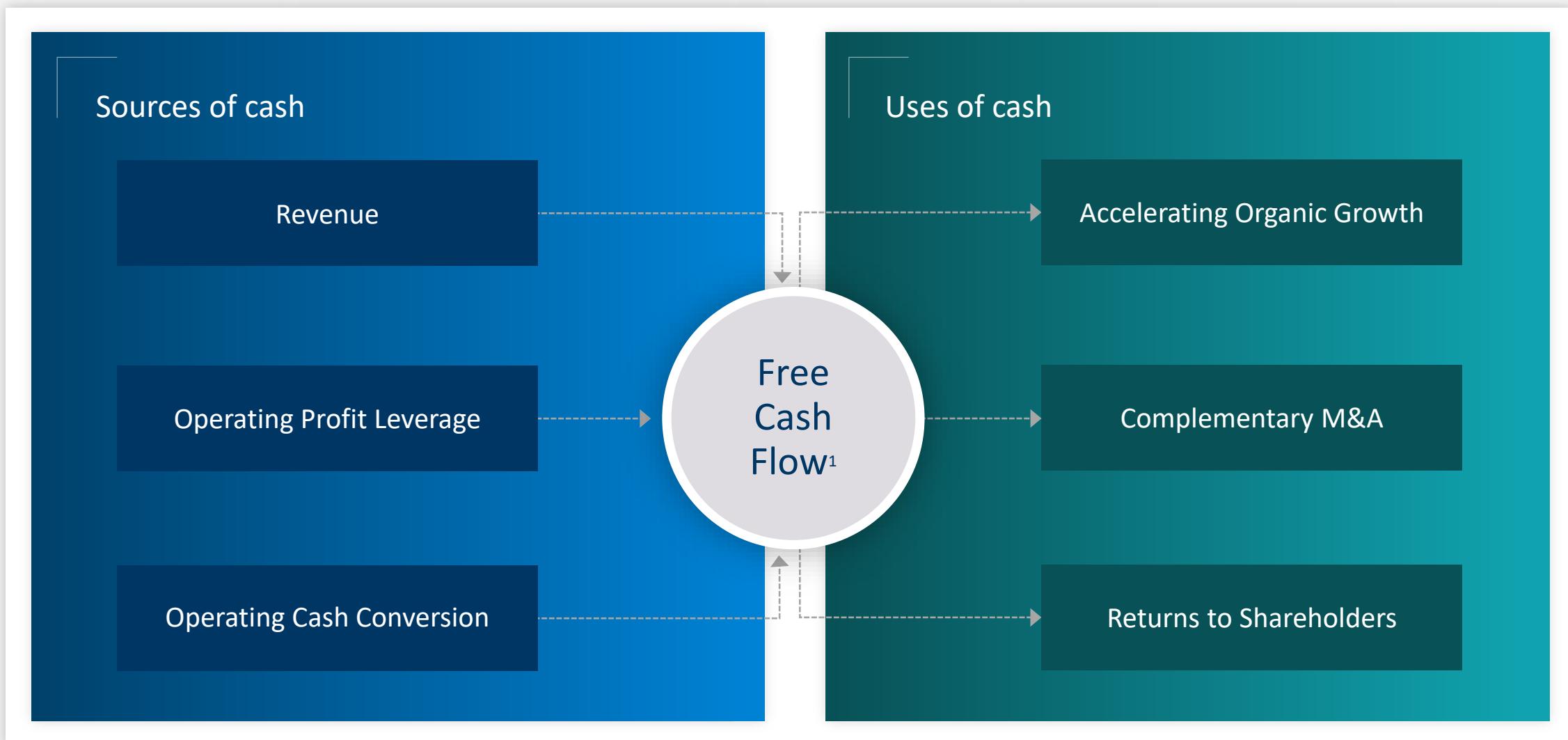
The Smiths Financial Framework



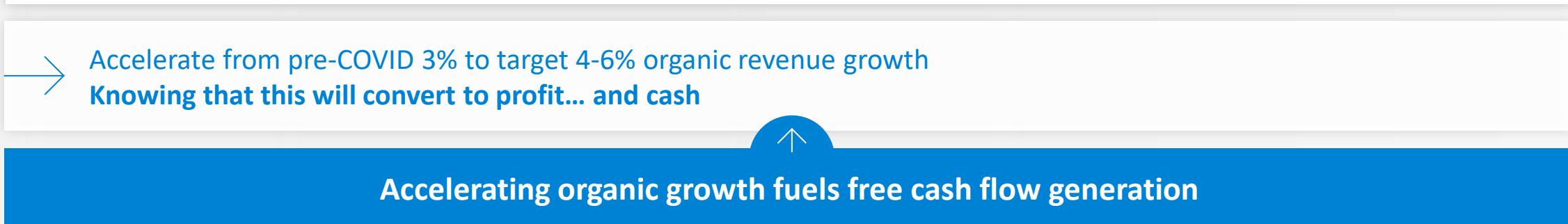
Accelerating Organic Growth



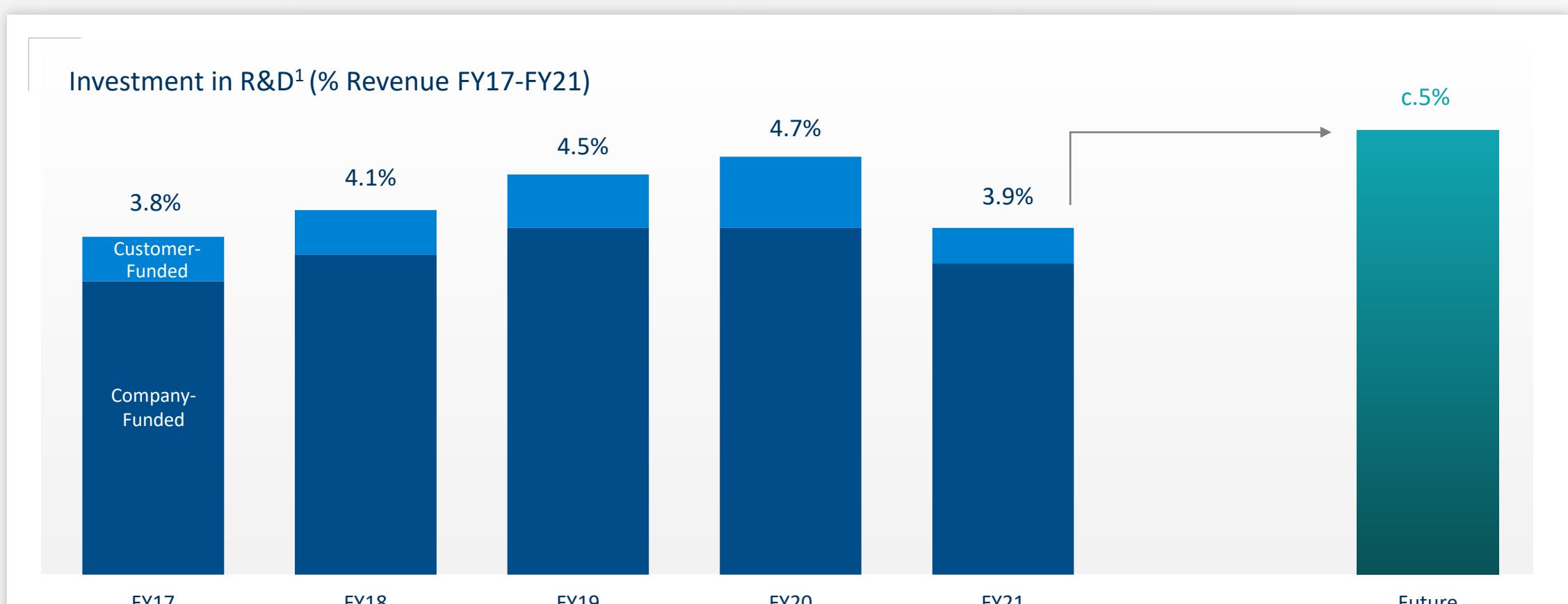
The Smiths Financial Framework



Uses of Cash: reinvesting to accelerate organic growth



Accelerating organic growth: R&D investment



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

Uses of Cash: complementary, disciplined M&A

COMPLEMENTARY

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

DISCIPLINED

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



Complementary, disciplined M&A in action

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

Uses of Cash: a progressive dividend

Historical track record

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

Forward policy unchanged

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



Sources of Cash: sale of Smiths Medical

Timetable

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

Initial cash proceeds

Initial cash proceeds	\$1.85bn
Returned to shareholders via buyback	\$1.02bn
Retained to strengthen balance sheet	\$0.83bn

Equity stake in ICU Medical

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

VALUATION

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

Contingent earnout	0.10
Further uplift in equity stake	<u>0.15</u>
Upside valuation¹	3.00

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



Uses of Cash: share buybacks



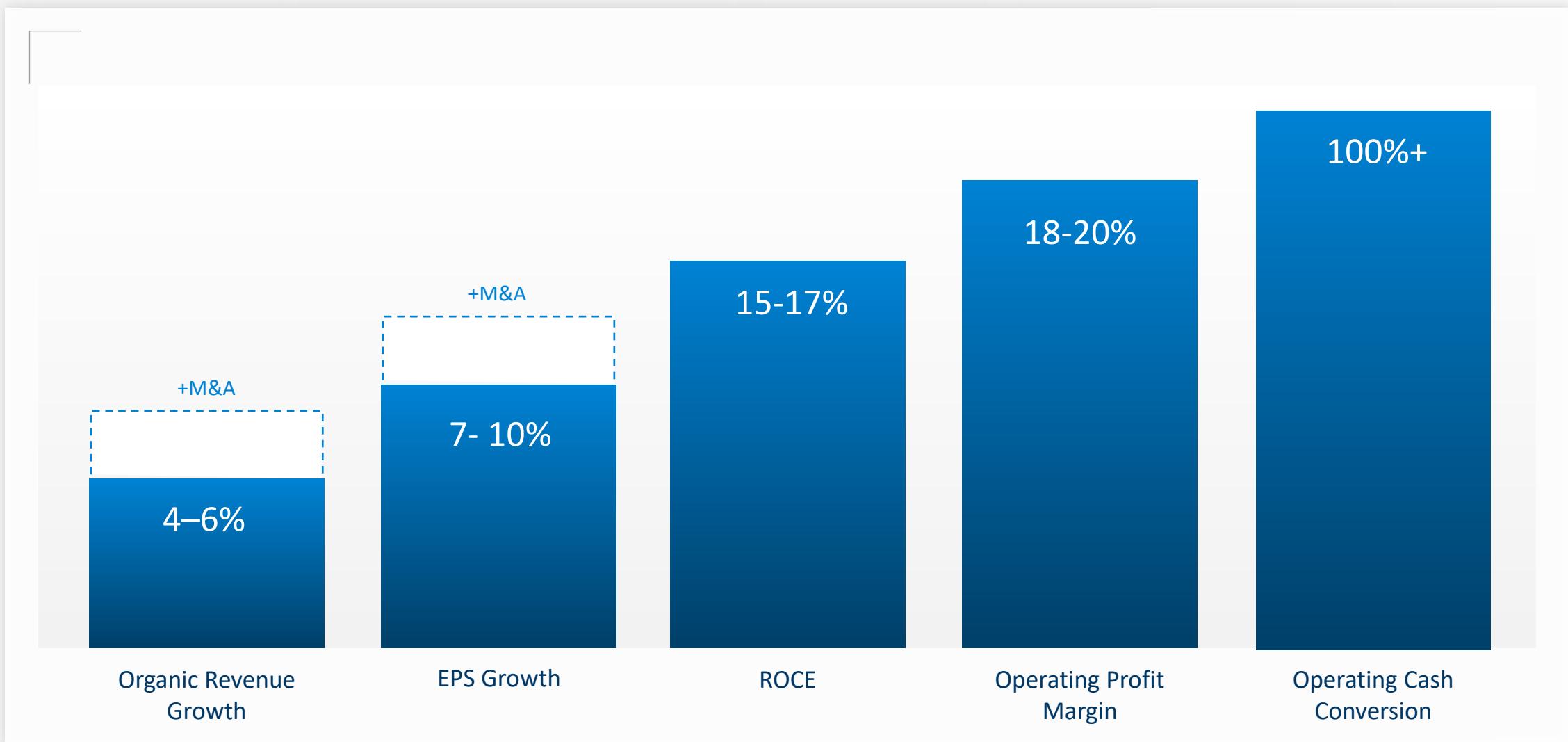
Sale of Smiths Medical

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

Going forward: disciplined capital allocation

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

Medium-Term Financial Targets



Closing Remarks

→ Simple and very effective financial framework



→ Accelerating top-line growth



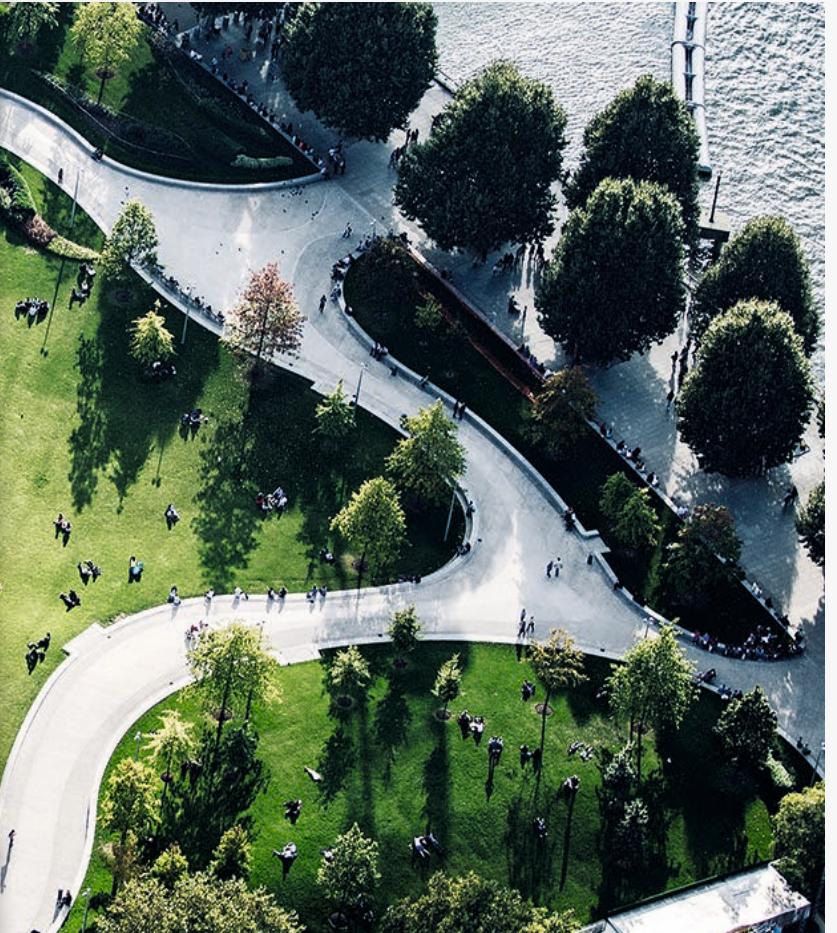
→ ... as we execute on our growth agenda

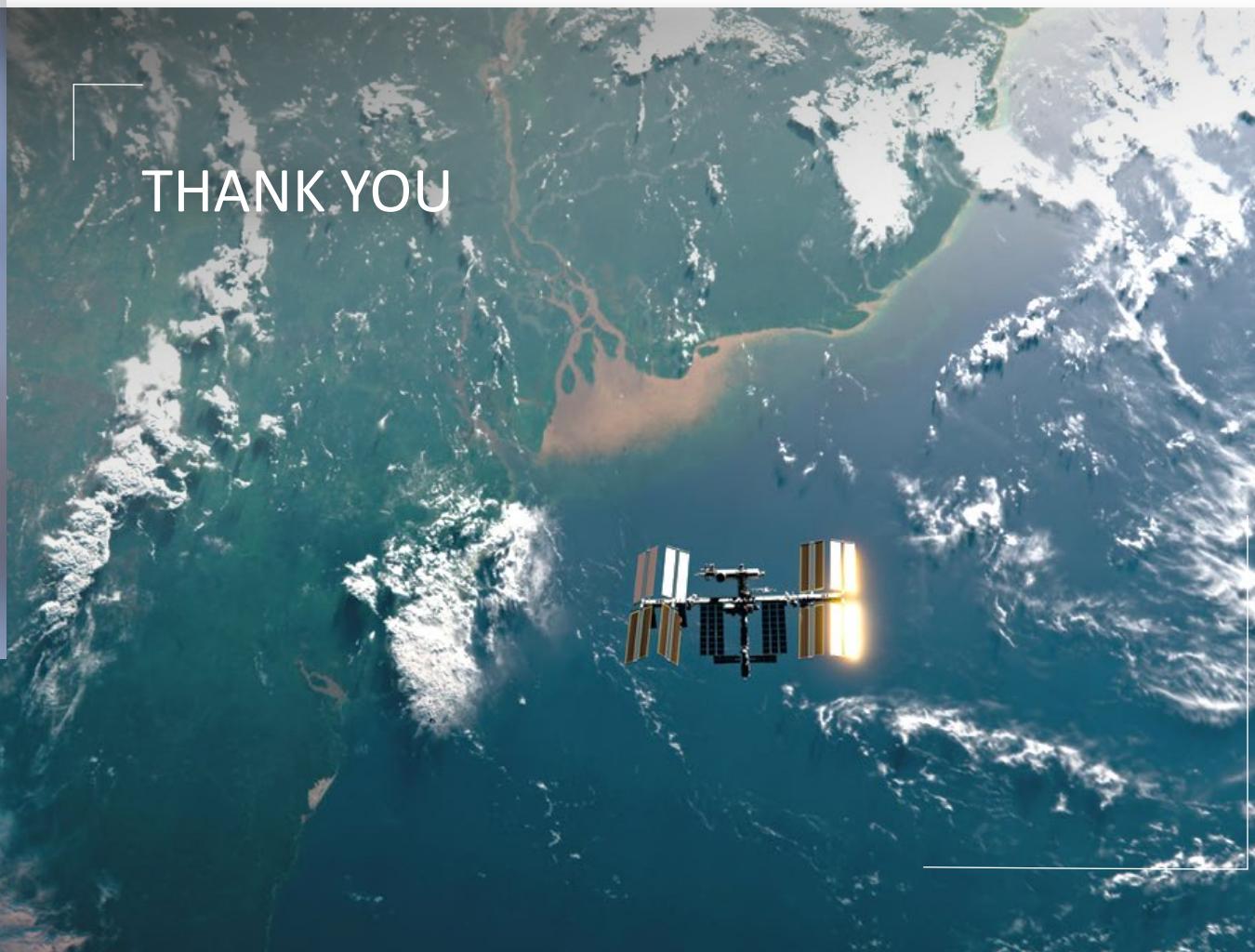


→ Feeding into inherently strong profit and cash conversion



→ Enabling powerful and attractive returns





THANK YOU