

A man in a blue shirt is operating a security scanner control station. He is seated at a desk with two computer monitors. The monitor on the right displays a software interface with the text "HiTraX" and three small images of objects. The monitor on the left shows a data visualization with various colored bars and charts. In the background, another person is visible working at a similar station. The setting appears to be a large industrial or airport security facility.

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bringing technology to life

Smiths Group focuses on global technology in security with \$710m acquisition of Morpho Detection 21.04.2016

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Acquisition of Morpho Detection – overview

- Enterprise value of \$710m (£493m)**
- >£4.5bn market by 2021, with mid-single digit growth
- High quality, well-managed business
- Enhances Smiths Detection's technology and services leadership
 - Complementary capabilities
 - Sector-leading R&D strength
 - Excellent channels to market and geographic spread
 - Well positioned for future growth
- To be merged with Smiths Detection on closing

Revenue*

\$320m

Operating margin*

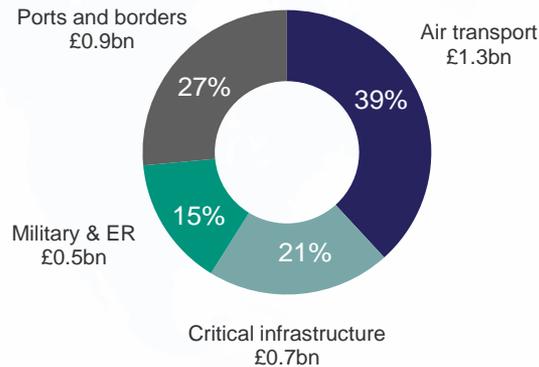
18%

Aftermarket revenues*

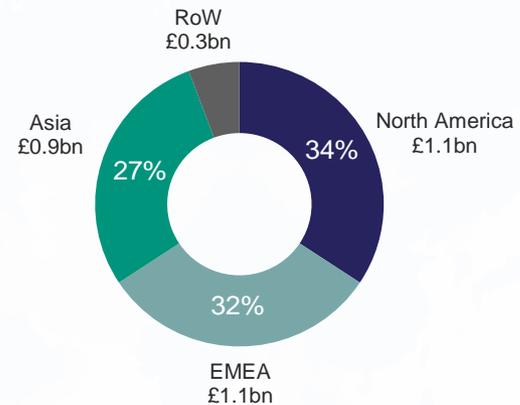
>50%

Detection industry – growing from c.£3.3bn today to c.£4.7bn in 2021

Industry by end user



Industry by geography



Global addressable market of c.£3.3bn, growing at mid-single digits per annum

Long term growth underpinned by evolving security threats, increasing passenger travel and trade flows, and new technologies

Purchasing decisions made on basis of regulatory compliance, reliability, technological capability, service delivery, total cost of ownership

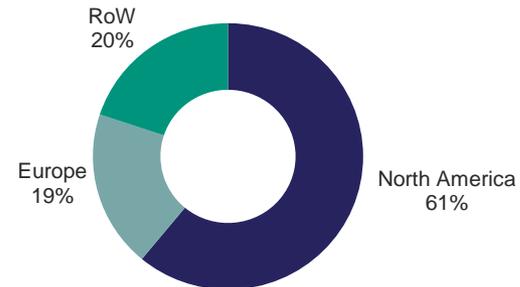
Future revenue driven by product replacement cycles, technology, regulations, recurring aftermarket services and digital solutions

Morpho Detection – overview

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- Provides Detection solutions, principally for air transportation and critical infrastructure worldwide
- Core technology:
 - Computed Tomography Explosive Detection Systems (“EDS”)
 - Explosive Trace Detection equipment (“Trace”)
- Substantial aftermarket position
 - >50% of revenue derived from stable, recurring aftermarket / service activities
- Strong technology and IP portfolio
 - 20+ years of experience in Computed Tomography (“CT”) technology
 - Advanced software and networking capabilities
- Strong management team

2015* revenue by geography



Financial profile 2015*

Revenue	\$320m
EBITDA	\$70m
<i>EBITDA margin</i>	22%
EBITA	\$56m
<i>EBITA margin</i>	18%

High quality business, complementary to Smiths Detection

Morpho Detection Explosive Detection Systems

- Morpho Detection is a leader in the development and manufacturing of Computed Tomography (“CT”) EDS equipment:
 - Products certified for use in the US, the EU and other major jurisdictions
 - Advanced service model; integrating remote monitoring, predictive maintenance and diagnostics

- EDS are utilised to detect larger quantities of threat material in air transported hold baggage
 - Typically based on either traditional 2-dimensional X-ray or CT technology
 - Highly regulated market; products typically certified by government agencies prior to being marketed
 - US, Canada and Japan regulations require CT EDS in airports within their territory
 - EU regulations require that all installed EDS machines will be CT by 2022

Morpho Detection Explosive Trace Detectors

- Explosive Trace Detectors are used to analyse samples of invisible particles for the presence of explosives and narcotics
- Typically based on Ion Mobility Spectrometry (“IMS”) technology
 - Next generation technologies under development include more advanced IMS techniques and a combination of IMS and Mass Spectrometry

- Desktop and handheld Trace units sold to Air Transportation, Critical Infrastructure and Military customers
- Similar regulatory framework to EDS; certification required by regulators for use in civil aviation
- Morpho Detection has a strong portfolio of desktop and handheld Trace products
 - Global business with sales across US, EMEA and Asian markets

Transaction summary: strategic highlights

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Positioning

- Strengthens ability to develop and compete in attractive and growing global threat detection segments
- Combination of complementary businesses will create a broad offering of mission-critical products and services
- Extensive international presence with strong routes to market in key segments and geographies

Technology

- Improved capabilities for developing advanced technologies to counter ever-changing security threats
- Creates best-in-class technology and solutions provider in the sector, with leading R&D capabilities

Customer

- Better placed to meet increasing customer requirements for high-technology, cost-efficient, through-life solutions and services

Aftermarket

- Strong aftermarket presence will position combined business to develop long-term recurring services revenues

Digital solutions

- Software engineering capabilities will enhance opportunity for future networked solutions and integration of remote monitoring systems and diagnostics – highest growth area

Next steps

- Closing of the Acquisition is subject to customary conditions, including regulatory approvals
- Expected to close in early 2017

Transaction summary: financial highlights

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Transaction terms

- Enterprise value of \$710m (£493m)** on a cash free debt free basis
- Gross consideration payable of \$723.7 million will include \$13.7 million of acquired net cash (representing an EV of \$710 million), and will be subject to customary adjustments for a locked box transaction

Value creation

- Strongly cash generative business
- Run-rate estimated pre-tax annual cost synergies of c.\$30m
 - Expected to be delivered by the third full year following closing
 - Pre-tax costs to achieve of c.\$30m
- Tax step-up benefit for Smiths Group
- Benefits expected from the realisation of additional growth opportunities

Valuation multiples

- 2015 operating profit of \$56 million (18% operating margin) and EBITDA of \$70 million
- Pro forma EV acquisition multiples of 2015 EBITDA:
 - Reported: 10.1x
 - Including cost synergies: 7.1x

Financing

- Acquisition to be financed from Group's existing cash resources and available committed bank facilities

Financial impact

- Mid single-digit EPS accretion expected in the first full year of ownership
- ROIC expected to exceed Smiths Group cost of capital by the third full year of ownership
- Pro forma Group net debt/EBITDA (31 July 2015) of 2.0x (excluding synergies)
- Expect to retain a strong investment grade rating, with continued disciplined balance sheet management

Smiths Detection and Morpho Detection – a compelling combination

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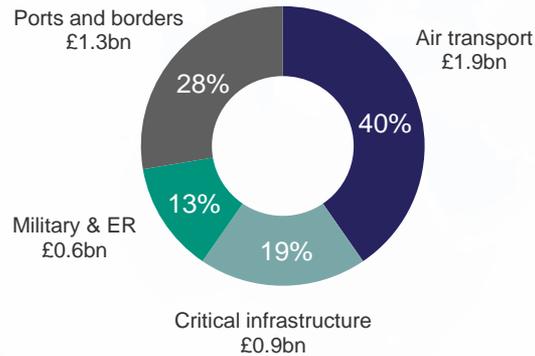
Global leadership



Best in class technology provider



Industry size by 2021: c.£4.7bn

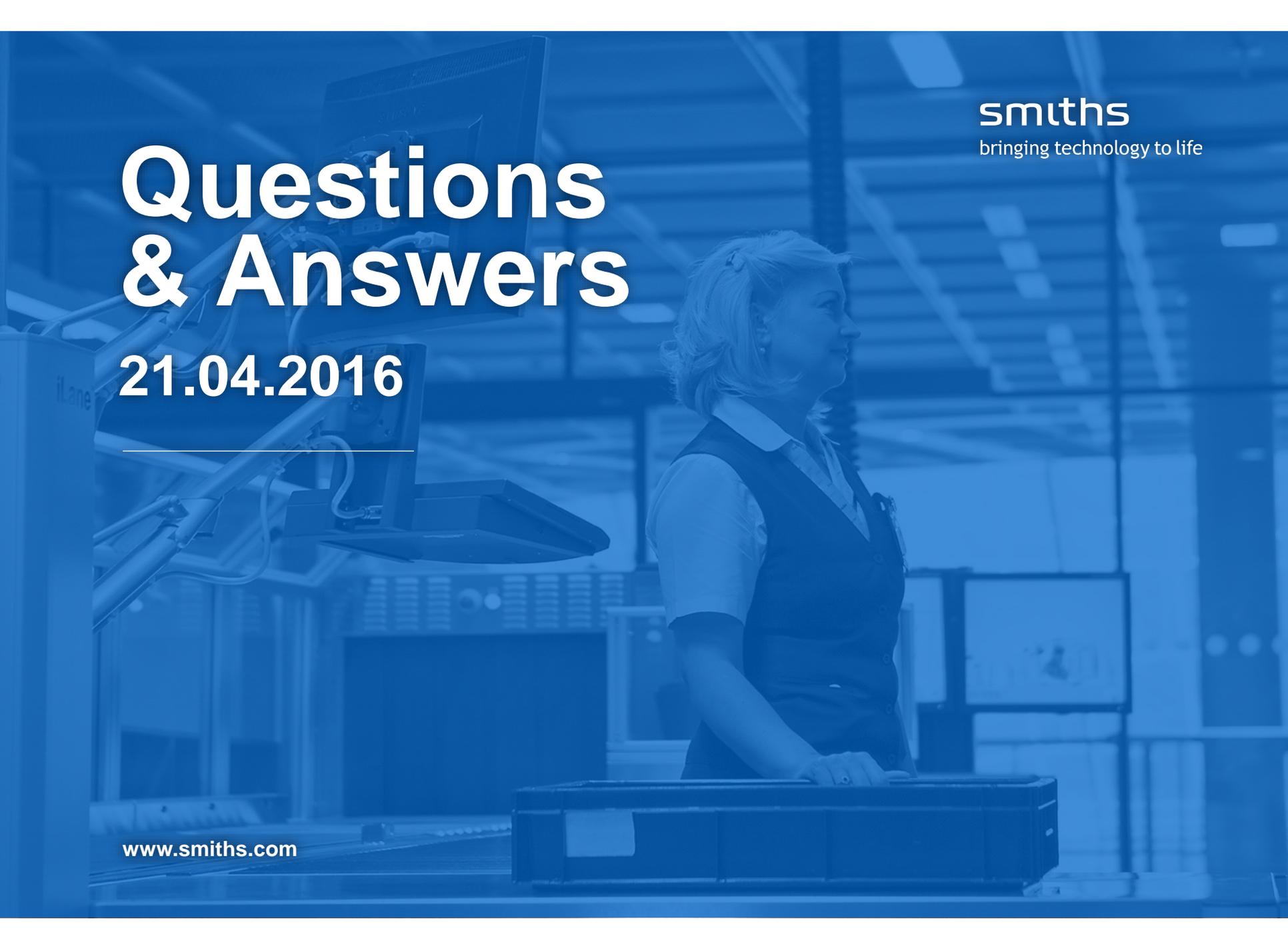


Substantial installed base / recurring revenues



Positioned for future growth



A woman in a factory setting, wearing a dark vest over a light-colored shirt, is standing at a workstation. She is looking towards the right. The workstation includes a computer monitor on a stand and a keyboard. The background shows industrial equipment and a large window. The entire image has a blue tint.

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Questions & Answers

21.04.2016

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