

# Halma p.l.c. Interim Results 2003 / 2004

## Summary of Analysts' Presentation, 9 December 2003

Stephen O'Shea, Group Chief Executive  
Kevin Thompson, Group Finance Director

*On 09 December 2003 Stephen O'Shea, Group Chief Executive and Kevin Thompson, Group Finance Director presented Halma's interim results to analysts.*

### Growth in static markets

Introducing the results Stephen O'Shea remarked that for some time he had been saying that the Group was not relying on its end markets to improve but was determined to create its own success even in static markets. This is demonstrated in the first half of the financial year by the way the operating management has succeeded in growing sales, profits and cash.

### Management effectiveness

rebuilt cash  
sales growth  
increased profits

Halma growth restored

This has been done by building up strengths not just by cutting costs. We have therefore continued to invest in our people, in updated equipment and in new products. We have again increased investment in R&D to new record levels. We have positioned ourselves to succeed even if our end markets do not improve and believe that the future is in our hands.

### Innovation boost from acquisitions

We have confidence because over the period sales and profits have grown both organically and also as a result of acquisitions. In the year that we have owned BEA, the automatic door sensor company, it has not only lived up fully to our expectations but also contributed to other Group companies. Innovation is a key characteristic of Halma. We found BEA used a valuable technique to help engineering creativity that was new to us. Now more than half the companies in the Group have been trained in this method.

### Organic and acquisition growth

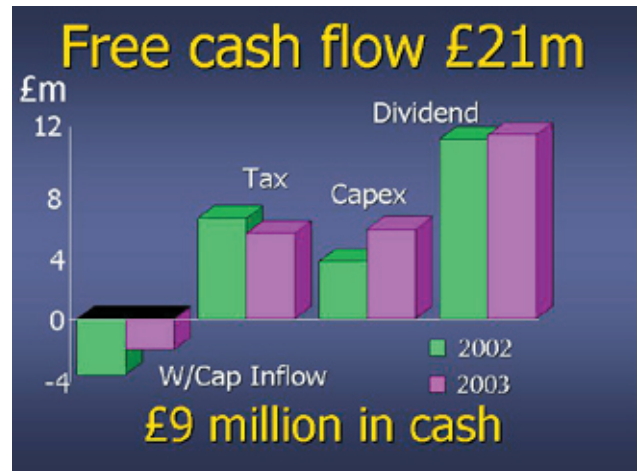
Sales have been grown by £23 million to £147 million, a record for sales in the first half of any year. Of this £17 million came from companies acquired in the second half of last year and £6 million is organic growth from our existing companies. The growth has come from 3 main factors; increased market share, selling products of higher value to our customers and expansion into new markets.



**Record profits earned**

Kevin Thompson observed that as a result of this work half year profits before goodwill amortisation grew to a new record of £24.4 million. The figures show real underlying organic growth.

Profit grew by over half a million in each of the UK and USA and by £1 million in each of Europe and the Far East. This was achieved despite the pensions, payroll tax and insurance increases of £900,000 which we noted in our last year end statement and which will recur in the second half.



Sales grew in each territory across the world. The underlying market in the USA remained flat for us but growth there came through the market leading position of BEA. The strongest growth came in mainland Europe where sales were 10% up excluding acquisitions. Currency had a small adverse effect in the half year.

**Powerful cash generation funds dividend increase**

We generated free cash flow of £21 million in the first half, and paid a dividend of £13 million. Net cash was built back up to £9 million from nil at year end.

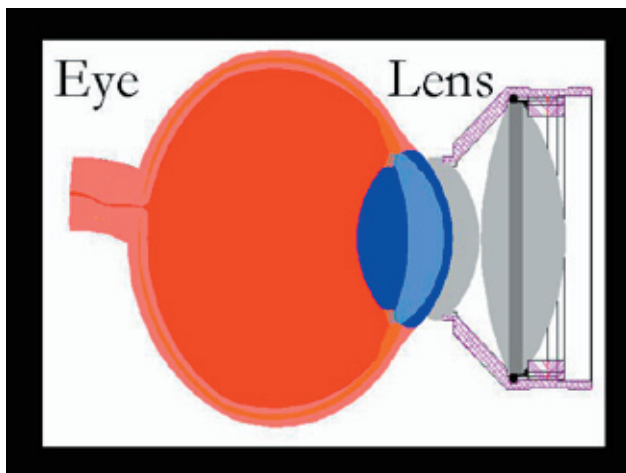
Working capital was well managed and we continued to invest for the future with a record £6 million (4% of sales) spent on R&D and an increased investment in assets for use in our businesses. We are not cutting back here. The half year finished with a return on capital employed of 50%, coming both from the high returns and intensive management of the low asset base. This meant that we were able to continue our progressive dividend policy with a further 7% growth in dividends per share.

**Widespread sectoral growth**

Stephen O'Shea then explained that of our six sectors all except Resistors grew. Heavy industry in the USA remains our largest customer in this sector; however increased emphasis on exporting our high power resistors has resulted in sales outside the USA increasing from 36% to 48% of sales compared with last year.



In our Optics and Specialist sector a number of new products have been launched for the diagnosis and treatment of eye disorders. Some surgery requires that a specialised lens is used in contact with the surface of the eye. This naturally requires lens sterilisation each time it is used. Hospitals would like to use their normal autoclave high temperature sterilisation methods but until now no satisfactory lens would survive this treatment. Significant design and engineering challenges had to be overcome to produce our new range of lenses for this environment.



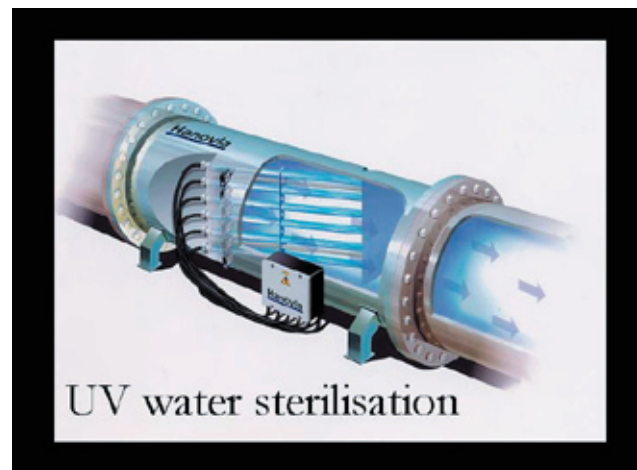
We have provided extra management resource to our specialist companies whose small market shares often mean they are less resilient to difficult markets than are our other operations.

**New safety products**

Process Safety increased sales. A number of new products have been brought to market including a new type of bursting disc. Bursting Discs are emergency pressure relief devices used widely in transport, storage and manufacture of gases and in the chemical processing industry. Some of our end markets are improving such as the petro-chemical industry; some are doing less well such as the French electrical switchgear market. Both these sectors are substantial users of our products.

**Growing overseas markets**

Our water leak detection technology has been widely accepted in the UK and Europe and it is encouraging to see some bigger contracts from other territories. We completed a US\$2 million contract in Las Vegas where preservation of their water supplies is important to their tourist industry. We also developed new designs of water sterilisation equipment used to make drinking water safe without the use of chlorine and to clean up waste water to make it suitable for irrigation or discharge.



The launch of Orbis, the new range of fire detectors, involved obtaining multiple third party approvals in many parts of the world. There are already 21 international approvals for the Orbis products and sales are now growing well.

Attacking new markets and developing and launching new products does have some impact on the return on sales, particularly in the early stages. However this is investment in future revenue growth and we are continuing to build our market positions.

Our Elevator and Door Safety area grew organically as well as from the success of BEA. We are building up sales in China and other parts of the Far East where markets are expanding both through our own efforts and improving safety standards. We have manufacturing operations in Beijing and Shanghai where local knowledge and local manufacture is invaluable.

### **Opportunities despite static markets**

We have yet to see clear evidence of market conditions improving for our products. However we always find some opportunities, and create more by new products or new ways of doing business. Operating companies did well to achieve organic growth.

### **Foundations of success**

I am proud of the work done in our operating companies and pleased that we have passed this on to the shareholder via our progressive dividend policy. In the past six months to September 2003 the sales growth, profit growth and cash generation provide evidence of our ability to grow in static markets and are the foundations upon which we will create our own success.

**CAUTIONARY NOTE.** *The information contained in this summary is correct at 9 December 2003. This document may include forward-looking statements that are not factual. Such statements involve both known and unknown risks. The actual results of Halma p.l.c. may differ from results that are anticipated or implied by any forward-looking statements. The content of presentations, including any forward-looking statements, is not revised after publication.*