HALMA

Halma p.l.c. Half year results 2011/12

Summary of analysts' presentation by:
Andrew Williams, Chief Executive
Kevin Thompson, Finance Director

22 November 2011

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Andrew Williams, Halma's Chief Executive, began with an overview of a record first half performance.

Halma has made good progress during the first half, reflecting the strength of the Group's products, markets and business model.

We achieved record half year profit[1] of £57.5m, up 17% from last year. Revenue increased by 12% to a new record for the half year of £280m. All three sectors (Health and Analysis, Infrastructure Sensors and Industrial Safety) increased revenue and profit.

We increased our Return on Sales[2] from 19.8% to 20.5% - maintaining the higher Return on Sales achieved in the second half of the last financial year. All three sectors improved Return on Sales.

We increased investment in our 3 strategic initiatives, (International Expansion, Innovation and Management Development). Revenue from outside the UK/USA/Mainland Europe increased by 13% to £65m, including a 29% increase in China. R&D spend was up by 10% to £13.4m, representing 5% of revenue. We committed a further £22m in completing two acquisitions in the US, (Kirk Key Interlock and Avo Photonics). We are increasing our interim dividend by a further 7% this year.

Kevin Thompson, Finance Director, reviewed the Group's financial performance.

This is another strong set of half year results. We improved profitability even further and in addition renewed our bank facilities to support growth and acquisitions.

Once again we delivered record revenue and profit. Revenue of £280m was up 12% and profit[1] of £57.5m was £8.2m (17%) higher than the first half of 2010/11. Halma has increased its first half profit in 34 of the past 36 years.

Organic[3] revenue growth at constant currency (i.e. excluding the impact of businesses acquired and currency translation effects) was 6%. Currency translation had a small (approximately 1%) adverse impact on the reported figures with a weaker US$ and stronger Euro relative to Sterling, compared with the first half of last year. Organic[3] profit growth at constant currency was 4%.

We achieved good revenue growth around the world. UK growth was very strong at 18%. All of our three sectors performed well here, with particularly good performances from Fire Detection, Water and many of our Industrial Safety businesses.

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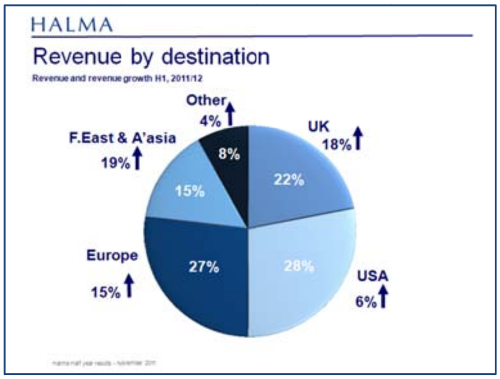
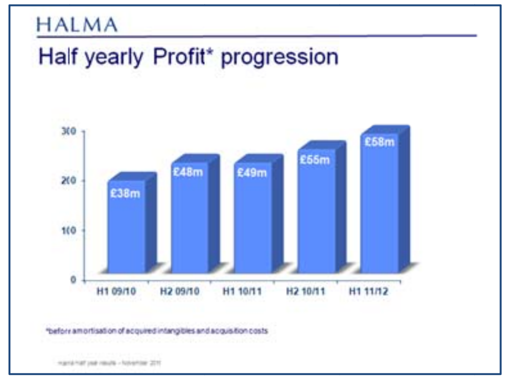


The USA remains our largest sales destination at 28% of the total and was up by 6% in the half year, benefiting somewhat from the acquisitions we have made, in particular in Health and Analysis. Again Industrial Safety showed good progress.

Mainland Europe, 27% of the Group, was up 15% in the half year. All three sectors delivered growth with Health and Analysis increasing strongly including the benefit of Medicel, which we acquired in the second half of last year. Two thirds of our business in Mainland Europe is with Northern European customers.

Revenue outside of UK/USA/Mainland Europe represents 23% of the total revenue and we continue to make progress towards our target of this being 30% of Group revenue by 2015. Far East and Australasia continues to grow strongly, up 19% in the half year, with China growing 29% and now around 5% of Group revenue. Our other territories were up 4% reflecting tough economic conditions in Africa, Near and Middle East but good growth in Latin America.

The performance in the past five half years shows strong progress.



We continue to search hard for acquisitions. In 2010/11 we spent £82m on new businesses and this delivered EBIT (Earnings before interest and tax) of £11.8m on an annual basis.

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Acquisitions 2010/11 and 2011/12

		Consideration		
	Acquired	Initial £m	Maximum Earn out £m	EBIT* £m
2010/11	Nov 10-Mar11	82	25	11.8
2011/12				
Kirk Key	May 11	9	-	1.4
Avo Photonics	Jul 11	6	7	0.6
		15	7	2.0

*at acquisition

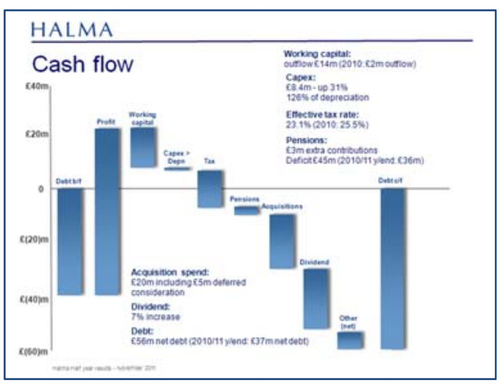
We have made two acquisitions so far in 2011/12. Kirk Key Interlock Company and Avo Photonics, both based in the US. Initial payments total £15m with up to a further £7m to pay in the future depending on growth. Their annual profit contribution at the time of completion is £2m.

Our ROTIC [4] (Return on Total Invested Capital) increased to 16.9% (2010/11: 15.5%) showing that we continue to create shareholder value through our investments within the Group for organic growth and on acquisitions.

We set ourselves a target range for Return on Sales[2] of 18-22%. Our objective is to achieve growth and to maintain these high returns over the long term.

Return on Sales[2] increased to 20.5% (2010/11: 19.8%) boosted by the high rate of profitability of the companies we acquired, adding to our existing high return businesses.

Cash flow was solid in the half year. Our net debt at the start of the year of £37m increased to £56m after paying for the acquisitions noted above, a substantial dividend and continued investment in our existing businesses.

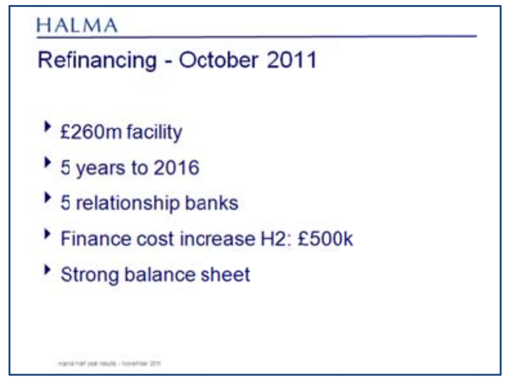


Working capital increased, supporting our growth and enabling better service to our customers. Our ROCE[5] (Return on Capital Employed) remained at the high level of 69% (2010/11:72%) showing that we continue to use our operating assets very effectively.

Capital expenditure was 31% higher than last year with investment across a number of businesses. The effective tax rate was 23.1% (2010/11: 25.5%) – our forecast for the full year rate. The decrease was driven by lower UK Corporation tax rates and the benefit of increased operations in Switzerland, a lower tax environment.

We continue to pay extra cash into our pension scheme (£6m per annum) to reduce the scheme deficit in line with the actuaries' recommendations. The £45m deficit is not significant relative to the size of the Group (2010/11 y/e: £36m).

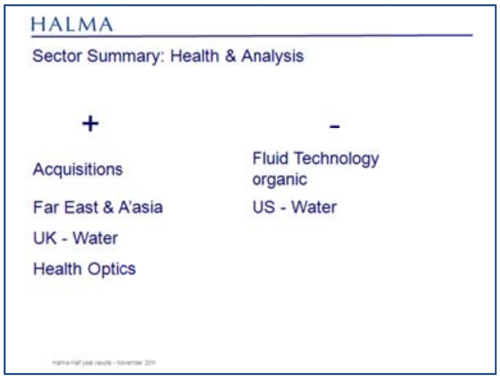
We are increasing the Interim dividend by 7% once again, indicating our confidence in the future.



In October 2011 we put in place a new £260m five year revolving credit facility, replacing the previous £165m facility. This gives greater certainty over funding in the medium term and supports our strong balance sheet which will allow us to make further value adding acquisitions.

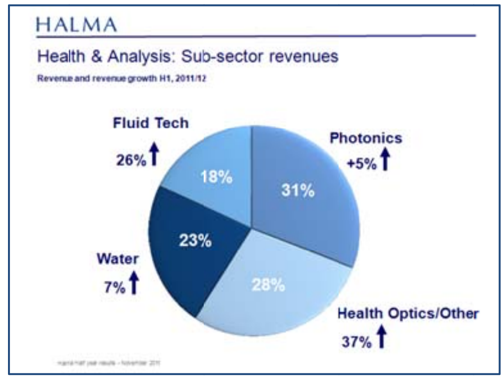
Andrew Williams then gave an overview of the trading performance of all three major sectors.

Health and Analysis increased revenue by 17% to £121m and profit by 26% to £28m. Return on Sales improved from 21.3% to 23.1%, primarily as a result of acquisitions made during the past year.

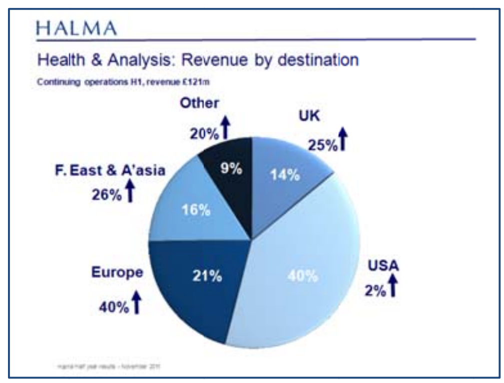


All four sub-sectors increased revenue in the Far East and Australasia whilst our Water management business gained significant market share in the UK. Our Health Optics businesses achieved good organic growth to add to the excellent contribution from Medicel, the ophthalmic surgical device business we acquired in March 2011.

Adverse factors affecting our first half results in Health and Analysis included organic revenue and profit decline in Fluid Technology. This resulted from consolidation and significant market share movements amongst the major OEM players in medical diagnostic systems. I expect Fluid Technology to have a more stable second half and to resume growth in 2012 as existing customer demand picks up and new customer opportunities are converted into sales. As expected, our Water UV businesses saw reduced revenue in the US due to two major contracts with medical and energy customers not repeating this year.

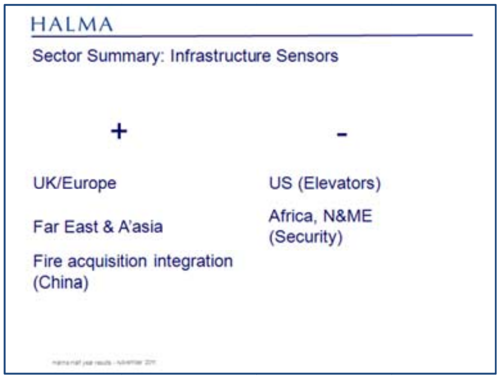


All four sub-sectors increased revenue and profit. Although Fluid Technology reported a 26% increase in revenue, as detailed above, this included organic revenue decline at constant currency of (10)%. All the other three sub-sectors (Health Optics, Water and Photonics) achieved organic growth.



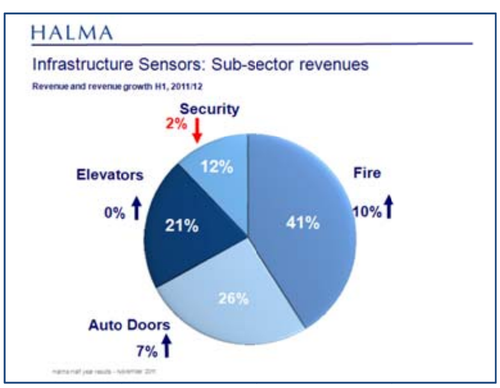
There was growth in all major regions with the strongest organic growth in the Far East and Australasia.

Infrastructure Sensors revenue was up by 5% to £101m and profit up by 8% to £19.4m, maintaining its track record of solid performances during tough market conditions. Return on Sales improved from 18.7% to 19.2%.

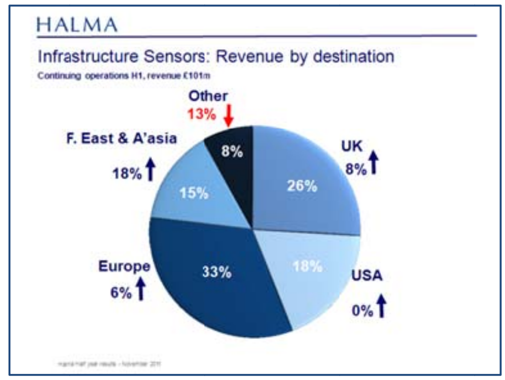


The UK and Europe performed well with demand continuing to be underpinned by Health and Safety regulations. All four sub-sectors increased revenue in the Far East and Australasia. Last year, we acquired a Fire Detection business based in Beijing, China and the integration is progressing well.

There were two main headwind factors. Our Elevator businesses in the US performed poorly. Since the period end, we have made management and structural changes and I expect to see the benefit of these actions as we move through 2012. Our Security Sensor business saw reduced demand in South Africa due to customer consolidation.

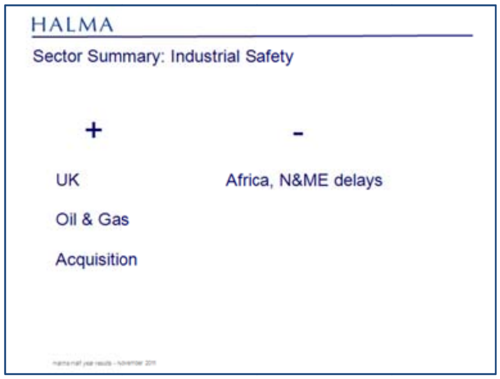


Our Fire business increased revenue by 10% with a strong contribution from new products and China. Automatic Doors increased revenue by 7% despite reduced growth in China due to delays in the government's high speed train investment programme. Our Security Sensor business was the only Halma sub-sector with lower revenue during the first half – mainly due to the reduced demand from South Africa mentioned above.



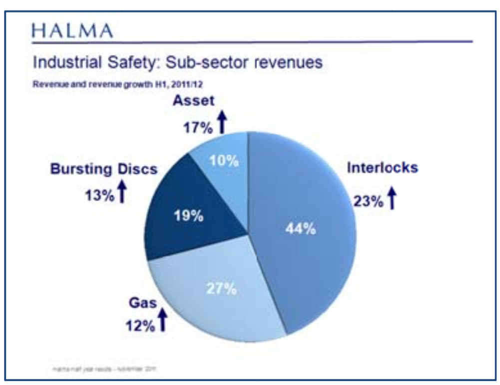
All the major developed regions saw increased revenue with the Far East and Australasia up by 18%, including growth from all sub-sectors. However, it is important to note that even in this tough economic situation, the UK and Europe still achieved healthy mid-single digit growth rates demonstrating the resilience of our Infrastructure Sensor businesses.

Industrial Safety achieved a very strong performance with revenue up 17% to £58m and profit up 20% to £13.6m. Return on Sales increased from 22.9% to 23.4%, the highest of all three Halma sectors.

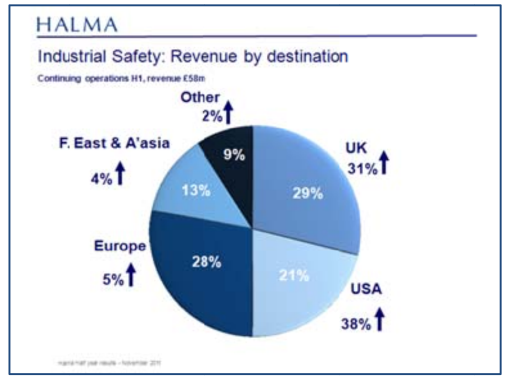


We saw a strong contribution from the Kirk Key Interlock business acquired in May, whilst there was increased revenue from customers in the oil and gas industries – especially in the UK. All four sub-sectors grew revenue in the UK which reflected the benefits of having strong Health and Safety regulations driving demand for our products.

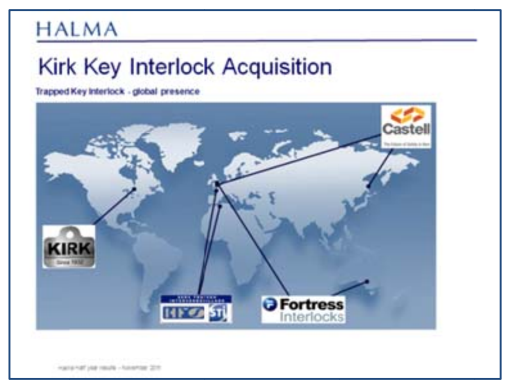
One negative factor during the half, was the political and economic situation in North Africa and the Middle East delaying some projects.



All four sub-sectors achieved double-digit revenue growth and there was growth in all major geographic regions, with particularly strong performances in the UK and US.



Halma committed a further £22m on **acquisitions**, completing the purchase of two US based businesses. Last financial year we spent £82m acquiring seven businesses. We continue to search for new business to add to the Group and we have a good pipeline of opportunities. Valuations are still quite high for good quality businesses. I want to maintain a good balance in the Group between our Safety businesses and Health and Analysis.



We acquired Kirk Key Interlock, based in Ohio for $14.5m in May 2011. They make trapped key interlock products and were our major US competitor. Kirk has enabled us to adopt a co-ordinated global strategy for this sub-sector which leverages our worldwide manufacturing base.

We acquired Avo Photonics Inc., based near Philadelphia for $9m with a potential $11m earn-out based on profit growth. Avo has significant design and manufacturing know-how in the field of miniaturised photonics. They offer OEM customers, including potential new OEM customers within Halma, the opportunity to gain competitive advantage by embedding miniaturised electro-optics within their product.

In summary, Halma has delivered a strong performance during the first half and is in an excellent financial position. We are seeking acquisitions, supported by new increased financing facilities which are in place until 2016. We will continue to increase investment in our three pillars of strategic growth (International Expansion, Innovation and Management Development). We remain on track to make further progress in the second half.

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[1] Before amortisation of acquired intangible assets and acquisition costs of £6.2 million (2010/11: £2.0 million).

[2] Return on Sales is defined as profit[1] before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

[3] Organic growth measures the change in the revenue and profit from continuing operations. The effect of acquisitions and disposals during the current or prior financial year has been equalised by adjusting for their contribution based on their revenue and profit at the date of acquisition or disposal.

*[4] Return on Total Invested Capital (ROTIC) is defined as profit for the year from continuing operations before amortisation of acquired intangible assets and acquisition costs, but after taxation; expressed as a percentage of total shareholders' funds, adding back net retirement benefit obligations, cumulative amortisation of acquired intangible assets and historic goodwill.**

*[5] Return on Capital Employed (ROCE) is defined as operating profit from continuing operations before amortisation of acquired intangible assets and acquisition costs as a percentage of capital employed.**

** see the Half year report published on 22 November 2011 for more details.*

***CAUTIONARY NOTE.** The information contained in this summary is believed to be correct at 22 November 2011. 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.*