HALMA

Halma p.l.c.
Preliminary results 2010/11

Summary of analysts' presentation by:

Andrew Williams, Chief Executive
Kevin Thompson, Finance Director

21 June 2011

Andrew Williams, Halma's Chief Executive, opened the presentation by putting this year's results into the longer term strategic context and also by giving the highlights of our performance.

Halma has had an outstanding year. It is particularly exciting to see how our strategic investment is delivering not only higher growth but also higher returns in our business.

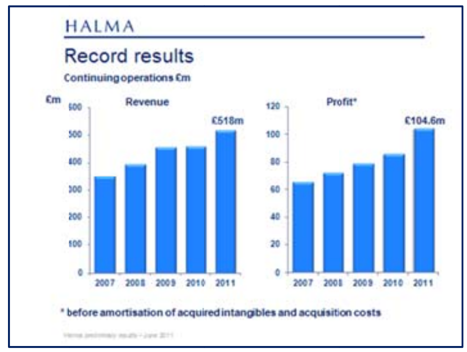
This strategic investment in Management Development, International Expansion, Innovation and M&A will remain a core focus for the Group in the coming year as we seek to accomplish our medium term goal of doubling our profit every 5 years.

During 2010/11 we achieved a very strong financial performance with profit[1] increasing 21% to £104.6 million and revenue up by 13% to £518 million. Return on Sales[2] increased to 20.2% (2009/10: 18.8%) whilst we also made strong progress on our key strategic initiatives.

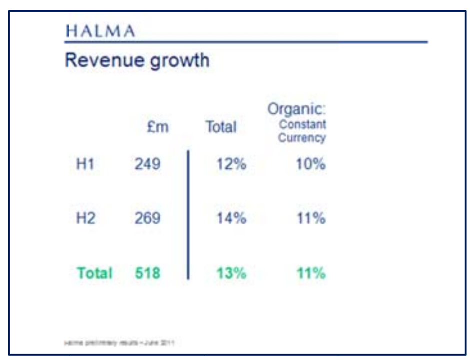
Our investment in R&D increased by 20% to £26 million representing 5% of revenue. Revenue from outside of our traditional markets in UK/ Europe and USA increased by 26% to £124 million. We completed seven acquisitions spending a total of £82 million and good cash generation from our operating companies ensured that we are able to propose an increase to our divided by 7% to give a total of 9.10p per share for the year.

Kevin Thompson, Finance Director, reviewed the financial performance for 2010/11.

This year's results show a very strong performance with many records, achieving or exceeding our targets.



Profit before tax[1] from continuing operations was up 21% to £104.6m (2010: £86.2m) on revenue up 13% to £518.4m (2010: 459.1m).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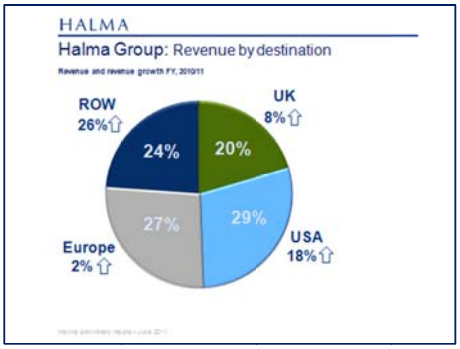
Revenue growth

	£m	Total	Organic: Constant Currency
H1	249	12%	10%
H2	269	14%	11%
Total	518	13%	11%

Acquisitions contributed 2% and currency translation around 0.5% to the revenue growth. There was therefore strong organic[3] revenue growth of 11% for the year.

We grew revenue in all geographic regions.



UK revenue was up 8%, a good result, with all three sectors growing there.

Revenue to the US was 18% higher with Health and Analysis delivering an exceptionally strong performance, and there was good growth from the other two sectors.

European revenue was up 2%. Infrastructure Sensors and Health and Analysis grew 4-5%. Underlying growth was at a similar level in Industrial Safety except for a £3m contract delivered in Europe but destined ultimately for South America in 2009/10, which did not repeat in 2010/11.

In the Rest of the World (ROW) which includes Asia Pacific and Australasia, as well as Africa, Near and Middle East plus South America, revenue increased 26%. All three sectors increased revenue between 20-35% - a very strong performance. It is interesting to note that 6% of the 13% total Group revenue growth came from the Rest of the World.

ROW now makes up 24% (2010: 21%) of Group revenue, on track towards our target of 30% by 2015. China revenue grew by 28% to £24m and we need this pace of growth to achieve our target of 10% of Group revenue coming from China by 2015. Revenue to Japan represents approximately 1.5% of the Group.

There was very strong profit[1] growth this year.

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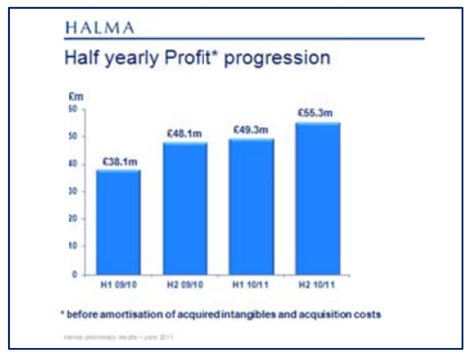
Profit growth

	£m	Total	Organic: Constant Currency
H1	49.3	29%	28%
H2	55.3	15%	11%
Total	104.6	21%	19%

Profit before amortisation of acquired intangibles and acquisition costs

After an excellent first half we finished this year with profit[1] 21% higher. Acquisitions contributed 2% to this growth and currency translation less than 0.5% giving organic[3] profit growth at the high level of 19%.

The half year on half year profit chart below shows the good progress we are making.



The second half of last year provided a tough comparative but we have continued to deliver strong performances. The split of profit between first and second half at 47%/53% was more typical for us than the pattern we saw in 2009/10.

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Acquisitions 2010/11

		Consideration		
2010/11	Acquired	Initial £m	Maximum Earn out £m	EBIT* £m
Alicat	Nov 10	16	-	2.0
Accudynamics	Dec 10	16	4	2.3
Medicel	Mar 11	47	20	6.8
Others		3	1	0.7
		82	25	11.8
2011/12				
Kirk	May 11	9	-	1.4

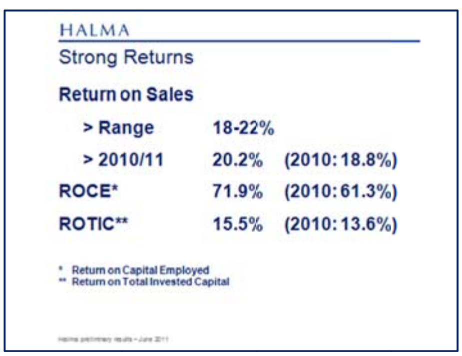
* at acquisition

We acquired seven businesses in the year, mostly in the second half. The three main acquisitions included Alicat Scientific and Accudynamics, both US companies, which added further strength to our Fluid Technology subsector. Medicel, a business based in Switzerland, specialises in single use injector devices used in cataract surgery. We spent £82m with up to a further £25m consideration to pay in the future depending on future earnings growth. We continue to pay sensible multiples for good businesses.

Our most recent acquisition, in May 2011, was of Kirk Key Interlocks based in the US, which adds significantly to our US presence in the Safety Interlock market where we have built a strong position around the world.

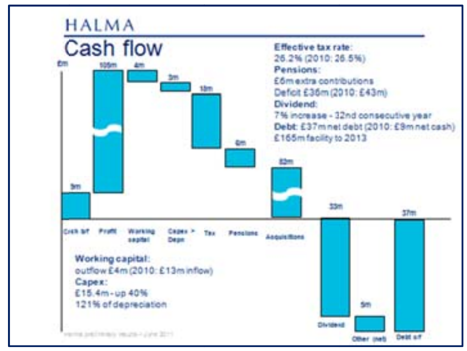
These are all excellent additions to the Group and should enhance group profitability in 2011/12 and beyond.

We continue to make acquisitions but organic growth and high returns are still central to our strategy. We achieved record levels of return in 2010/11.



Return on Sales[2] increased to 20.2% (2010: 18.8%) with 20.5% achieved in the second half of the year. Our target is to operate in the range of 18-22% for Return on Sales[2]. Return on Capital Employed[4] (ROCE) at 71.9% (2010: 61.3%) and Return on Total Invested Capital[5] (ROTIC) at 15.5% (2010: 13.6%) both increased strongly due to our high growth on a well-managed asset base.

Operating cash was 108% of profit[1] - a solid performance. Working Capital increased by £4m (2010: £13m reduction) which was a good performance given the high revenue increase we achieved and following on from an exceptional performance in 2009/10. Capital expenditure was 121% of depreciation, a more typical level for us after a relatively low spend last year.



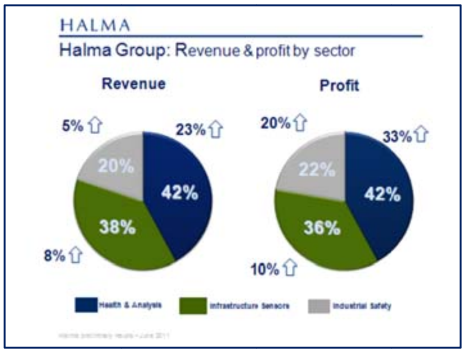
The effective tax rate was 26.2% (2010: 26.5%) and we expect to see the rate lower in 2011/12 following the reduction in UK Corporation tax rates and the addition to the Group of Medicel with its profits taxed at the low rates for companies based in Switzerland.

Subject to shareholder approval it is proposed that we increase our dividend by 7% this year – the 32nd year of an increase of 5% or more. We have paid out over £350m in dividends over that period. Dividend cover is 2.25x, meeting our target of a dividend covered around 2 times by earnings.

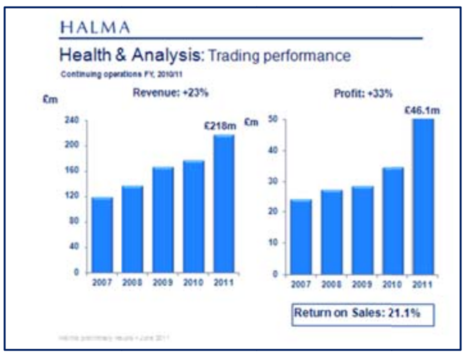
We finished the year with £37m net debt (2010: £9m net cash) and have a £165m syndicated loan facility which runs to 2013. Our financial position remains strong.

Andrew Williams, continued with a review of trading within Halma's three sectors.

All three sectors increased revenue and achieved record profit.

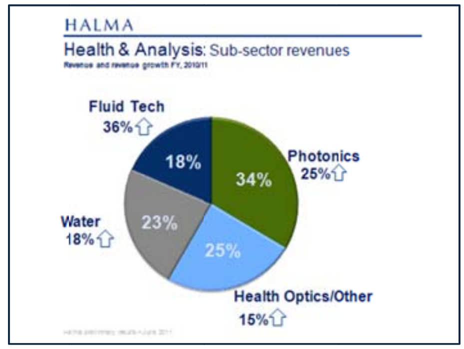


Health and Analysis grew most strongly and is now our largest sector contributing 42% of both revenue and profit. Both Infrastructure Sensors and Industrial Safety also made good progress.

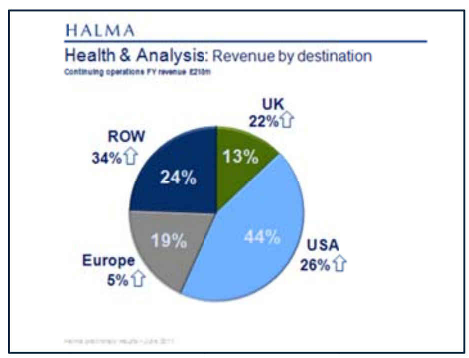


In **Health and Analysis**, revenue increased by 23% to £218 million and profit by 33% to £46.1 million. Organic revenue growth was 17% whilst organic profit growth was 27%. Return on Sales improved to 21.1% (2009/10: 19.5%). In the four year period since 2007, revenue has had a compound annual growth rate (CAGR) of around 16%. This compares with the Group revenue CAGR of 10% during the same period.

All four Health and Analysis sub-sectors achieved strong revenue and profit growth.



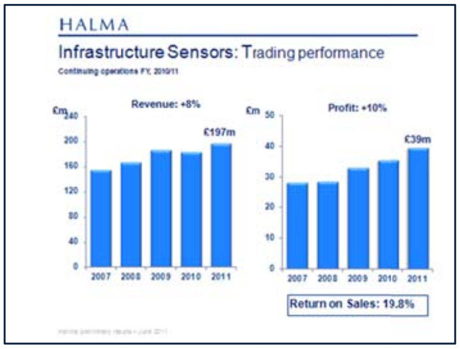
Photonics has the second highest sub-sector revenue in Halma (behind Fire Detection) and benefitted from strong growth in Asia and the fast growing market for LED and low energy lighting measurement. New products in Health Optics enabled us to grow significant share in the US, whilst our Water UV companies found new applications in the Oil & Gas and Medical markets. In Fluid Technology we achieved good growth from medical OEM customers whilst acquisitions also played an important part. Underlying organic revenue growth in Fluid Technology was 16%.



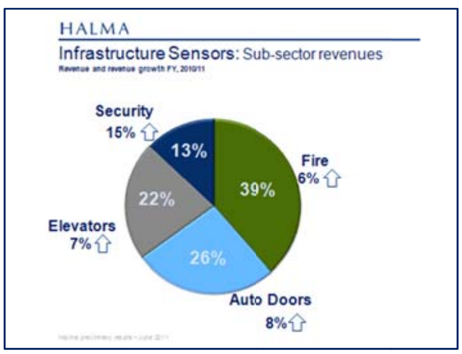
The US is the largest market for our Health and Analysis products, mainly because it is where the major global medical and scientific instrument OEMs are based. We saw strong growth in all four sub-sectors in this region.

UK revenue was up by 22% with increased spend from the UK Water companies. We saw lower, but steady, growth in Europe. ROW revenue was up by 34% with strong performances from all four sub-sectors in Asia. We expect these relative geographic trends to continue in the coming year.

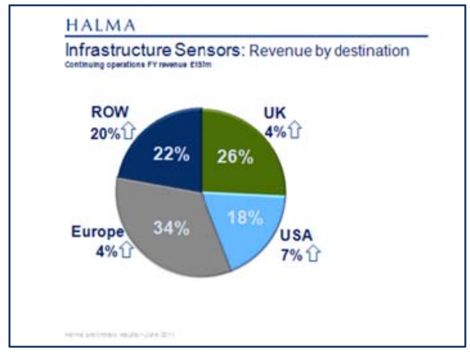
Our **Infrastructure Sensors** sector made solid progress, growing revenue by 8% to £197 million and profit by 10% to £39 million. All growth was organic. Since 2007, this sector's revenue CAGR is 6%.



The Return on Sales continues to improve and was 19.8% (2009/10 19.4%).

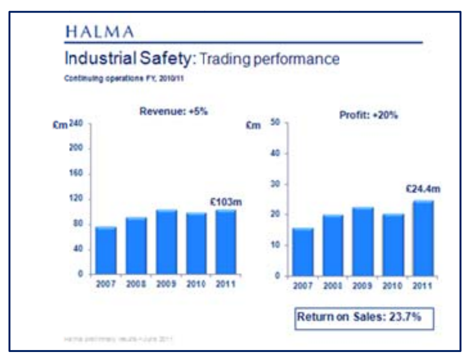


All four sub-sectors grew revenue and profit. Fire Detection gained market share in the UK and saw improvement in the US market. Our Automatic Door Sensor business performed strongly in Asia and continued successfully to diversify from pedestrian door safety. Elevator Safety performed well in Asia, compensating for weaker market conditions in Europe and the US. Security Sensors gained market share in the UK where it experienced a positive response to its new wireless product – Ricochet.



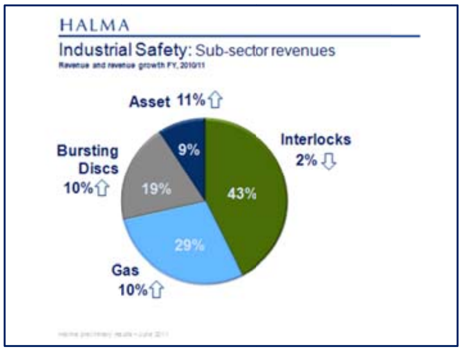
The regional split of revenue for Infrastructure Sensors shows that we have a relatively small share of the US market and are strong in UK/Europe. There was steady and lower growth in these developed markets. Growth in the Rest of the World, especially in Asia, was encouraging. We expect to see this continuing and plan to add more resources in this region. During the year our Fire business completed the acquisition of a small Chinese competitor to give a stronger route to market whilst our Door Sensor business expanded into a new facility in Beijing, increasing their manufacturing and technical capability.

The recovery in **Industrial Safety** was very pleasing, with revenue up by 5% to £103 million and profit up by 20% to £24.4 million. All growth was organic. Since 2007, the revenue CAGR is 7%.



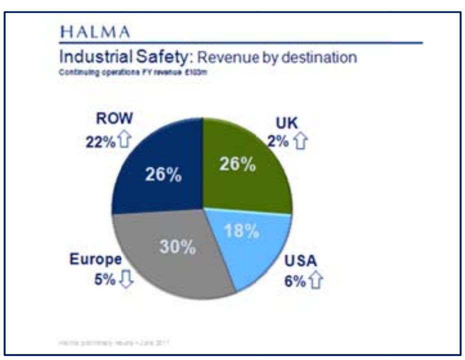
During the year, Return on Sales was 23.7% compared with 20.7% last year. All four sub-sectors increased profit.

Interlocks is the largest sub-sector in Industrial Safety and was the only Halma sub-sector which saw revenue decline this year. Last year, our Interlock businesses shipped a single £3 million contract which was not repeated this year. Excluding this project, underlying revenue growth in Interlocks was 4%.



All other sub-sectors grew revenue and benefitted from improved energy markets and general improvements in the process industries. They have an increasing focus on new product development to gain market share and diversify into new market niches.

The regional spread of revenue in Industrial Safety is similar to Infrastructure Sensors where the US is a relatively small proportion. Growth in the UK, US and Europe was lower than ROW. Europe was down 5% due to last year's large interlock order not repeating this year. Excluding this, underlying revenue growth in Europe was 4%.

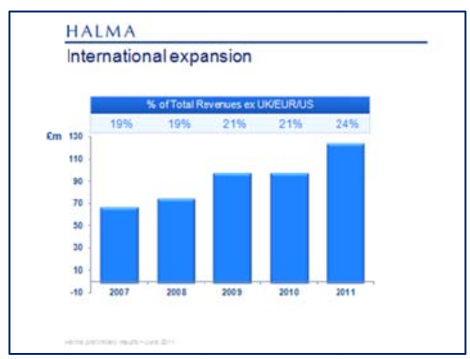


ROW revenue was up by 22% and is 26% of the sector, above the Group's average of 24%. As Health and Safety becomes more established in developing markets we are building a greater direct presence. South America will be a particular focus for our Industrial Safety businesses in 2011/12.

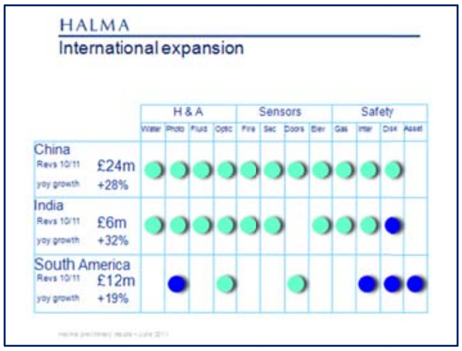
Andrew Williams reviewed Halma's strategy and the progress made on our four major strategic initiatives: International expansion, people development, innovation and M&A.

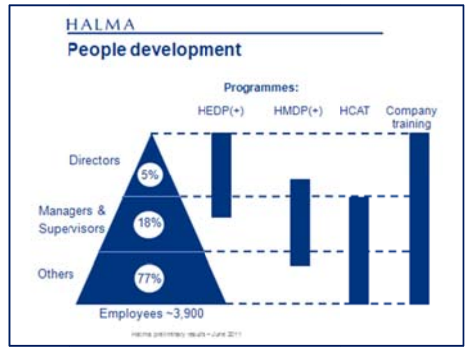
Halma's long term business model is to double profit every five years. We do this by achieving organic growth at 7-8% with high returns and cash generation. Our strong cash generation enables us to acquire an additional 7-8% of profit without becoming highly leveraged, giving us a total compound growth rate of 15% per annum.

In May 2011, we held our second Halma Innovation and Technology Exposition in Orlando, USA (see **Innovation** later). At this event, it was clear that the Group has changed significantly in recent years. It is more international, has better quality subsidiary management focussed on growth, is experiencing greater collaboration and innovation between companies and has a mix of businesses with higher levels of technology. I believe we are starting to see the benefits of this, reflected in our performance and the higher levels of growth and returns.



Investment in **International Expansion** has resulted in significant increase in revenue outside UK/Europe and the US. Since 2007, this proportion of revenue has increased from 19% to 24% of the Group total. We aim for it to be over 30% of the group by 2015. We are doing well, but there is still more to do.





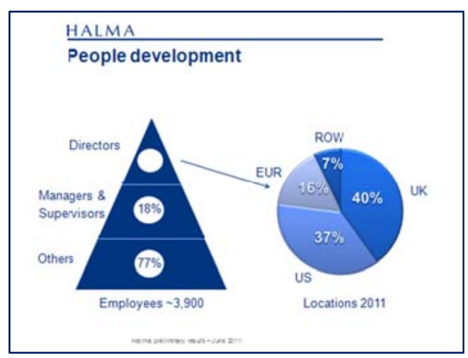
In China, revenue grew by 28% to £24 million and is now 4.6% of the Group total. During the year we opened three new regional offices (making 5 in total) and the number of Halma employees in China increased from 230 to over 350. Eleven out of our twelve sub-sectors now have a direct presence in China. During the year we will significantly improve our focus of developing MD level talent in Asia and also in building up our acquisition search activity in the region.

In India, revenue grew by 32% to £6.4 million and we now have nine out of twelve sub-sectors with direct presence in the region (2009/10: five out of twelve sub-sectors). During the coming year, the Halma Hub will move to larger premises in Mumbai with additional technical support capabilities. We will also consider regional expansion in line with our efforts in China.

In South America, revenue increased by 19% to £12 million. At the end of the year, only our Automatic Door Sensors and Health Optics sub-sectors had a direct presence here. An additional four sub-sectors have plans to establish direct presence and by the end of the year we will consider whether a central Halma investment could support and accelerate this process.

Today, Halma has over 3,900 employees with the top 5% being subsidiary company directors or divisional chief executives.

We have increased investment in **people development** further and are seeing the benefits of that in our performance. HEDP (Halma Executive Development Programme) and HMDP (Halma Management Development Programme) provide leadership and strategic training for our top managers, whilst HCAT (Halma Certificate in Applied Technology) gives project management and financing training to our technical staff. During the past year, over 150 of our managers have benefitted from one of these Halma training programmes. In addition, I have been most encouraged by the increase in training being provided for employees by their companies.



During 2011/12, we plan to add further strategic training for our most senior MDs and DCEs, to establish a graduate recruitment programme in 2012 and to develop some specific programmes for developing talent in Asia. Today, just 7% of Directors are based outside of Europe and USA. When we consider that, by 2015, we intend that 30% of our revenue will be based outside of UK/Europe and USA we clearly have a challenge ahead of us.

Halma's competitive advantage over the years has been built on having local resources managed by local Boards making local decisions based on close contact with customers.

There has been a real cultural shift in how we approach **Innovation** within Halma. In May 2011, we held our second Halma Innovation and Technology Exposition in the US, following the inaugural event in the UK, in 2009. At HITE, all 38 Halma companies had stands at an Exhibition, sharing technology and know-how with each other. There were Technical Working Groups focussing on key areas of new technology – for example, wireless technology or sensors. We held conferences for all the functional disciplines to ensure that best practice was shared and new goals set.

At HITE, it was clear to see the significantly increased level of collaboration already going on. In addition to seeing larger scale new product innovations, it was encouraging to see the amount of lower-level problem solving and knowledge sharing which was happening through informal interaction between Halma companies. This will allow us to continue to build competitive advantage across a wide range of technologies and disciplines.

HITE also allowed us to benchmark performance and set even more challenging goals for the future. The teams from newly acquired businesses were able to understand what companies elsewhere in the Group could offer them and see what it takes to become a top company within Halma.

Finally, HITE gives us the opportunity to celebrate success. The Halma Innovation Award 2011, with a top prize of £20,000, was won by a Test Engineer from Ocean Optics who had developed a new way of testing their core spectrometer products.

During the year we made excellent progress in **M&A** spending £82 million completing seven acquisitions. We have an active programme of portfolio management to ensure, in the medium and long-term, we can maintain growth and high returns. This process also enables us to "scale-up" our business whilst maintaining our operational model of independent, autonomous companies. Whilst our profits have more than doubled since 2005, the number of companies has reduced from 44 to 38.

The quality of the acquisitions we make is directly related to the strength of our pipeline of opportunities. We have added a further manager to focus on company search and qualification, who will be based in Europe and will assist us building up our search activities in Asia. We continue to look for acquisitions in all three Halma sectors, although Health and Analysis still seems to be the most fertile ground.

A great example of what an active search programme can bring is Medicel, the ophthalmic surgical device business we acquired in March 2011. Medicel provides us with an entry into the adjacent market for ophthalmic surgical devices. They have a strong presence in India and great opportunity for growth in other emerging markets in Asia. The opportunity to acquire Medicel came as a result of a coordinated search effort since the business was not being actively marketed for sale.

In summary, you have seen today that Halma has had a terrific financial result and that the strategic investments of recent years are delivering increased rates of growth and returns. We look forward to making further good progress in the year ahead.

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[1] *Before amortisation of acquired intangible assets and acquisition costs of £6.3 million (2010: £4.8 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 Capital Employed is defined as operating profit from continuing operations before amortisation of acquired intangible assets as a percentage of capital employed. **

[5] *Return on Total Invested Capital is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, 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.**

** see 21 June 2011 Preliminary Announcement for more details.*

***CAUTIONARY NOTE.** The information contained in this summary is believed to be correct at 21 June 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.*