HALMA

Halma plc
Half year results 2013/14

Summary of analysts' presentation by:

Andrew Williams, Chief Executive

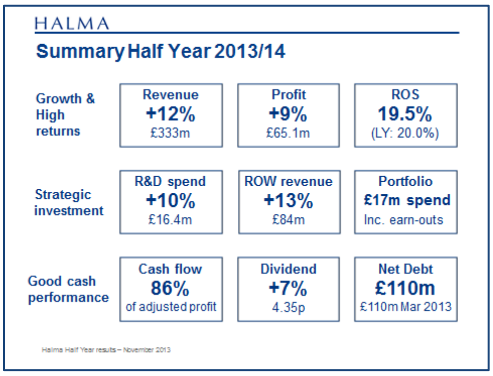
Kevin Thompson, Finance Director

19 November 2013

"Record first half results and continued dividend growth"

Andrew Williams, Halma's Chief Executive, began with a summary of the half year results.

Halma achieved record first half year revenue and profit. Revenue increased by 12% to £333m whilst adjusted[1] profit improved by 9% to £65.1m. Return on sales[2] of 19.5% was within our 18% - 22% target range although slightly below last year. Gross margins remained strong and there was higher strategic investment for growth, especially in International Expansion.



R&D spend increased by 10% to a new record of £16.4m for the first half year representing 5% of revenue. All four Halma sectors increased their investment in R&D.

We continue to benefit from the increased investment in International Expansion in recent years. Sales from outside the UK, Europe and USA increased by 13% to £84m, contributing over 25% of group revenue.

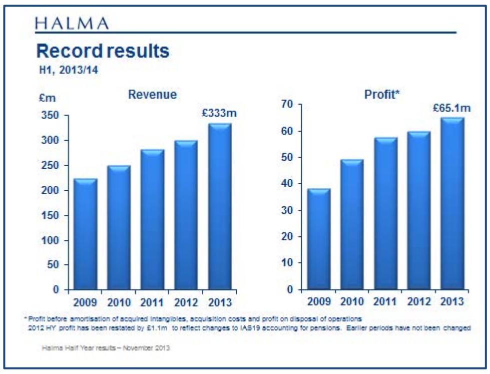
We spent a total of £17m on acquisitions. We acquired a UK based Flame Detector manufacturer, Talentum, for £3m in April 2013. The balance of £14m was spent on earn-out payments for the growth of acquisitions made in prior years.

Our operational performance was good, with cash generation in line with expectations. Cash flow was 86% of adjusted[1] profit, slightly above our 85% target.

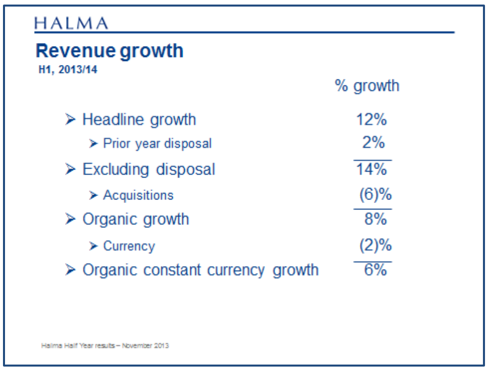
We are increasing our interim dividend by 7%, reflecting the Board's ongoing confidence in Halma's long-term growth prospects. These increases in strategic investment, dividend payments and tax payments made during the period resulted in us finishing the period with £110m of net debt, in line with our position at the end of the last financial year (March 2013).

Kevin Thompson, Finance Director, gave a review of the financial performance.

These record results are the continuation of a long trend. We have increased adjusted[1] first half profit in 36 of the last 38 years, and this year achieved £65.1m.



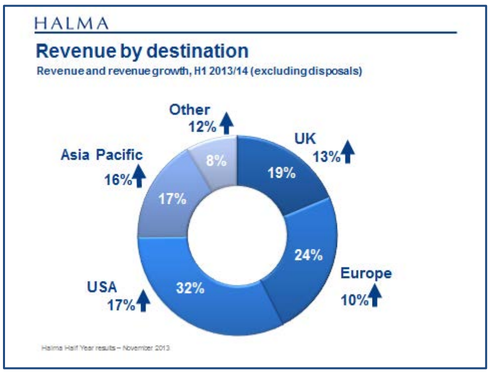
Revenue increased by 12%, 14% excluding the impact of the prior year disposal of Tritech.



	% growth
Headline growth	12%
Prior year disposal	2%
Excluding disposal	14%
Acquisitions	(6)%
Organic growth	8%
Currency	(2)%
Organic constant currency growth	6%

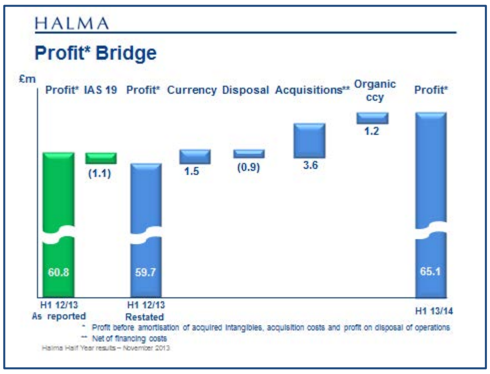
In the half year there was a positive impact due to acquisitions (6%) and currency (2%). We saw strong underlying organic revenue growth of 6%.

Excluding disposals, UK and Europe increased revenue at 13% and 10% respectively. The USA, our largest sales destination, also grew strongly by 17%. Whilst business in Southern Europe remains relatively weak, this represents a small part of Group revenue and we saw good growth in revenue across Mainland Europe as a whole.



Asia Pacific revenue grew 16% with China up 32%. Revenue outside of UK/Mainland Europe/USA increased to 25.2% (H1 2012/13: 24.8%) of total revenue and we continue to make progress towards our target of it being 30% of Group revenue by 2015. Progress is made tougher by the success we have had in maintaining organic growth and completing acquisitions in developed markets.

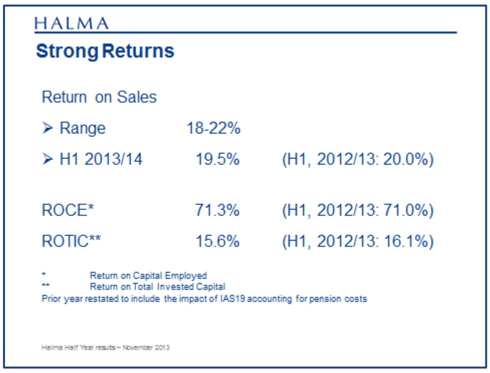
Excluding acquisitions, the prior year disposal and currency impacts there was a very consistent pattern of growth with all key regions growing 4% - 7%. The underlying growth in UK/Mainland Europe/USA is encouraging. Asia Pacific growth was a little lower than in recent years but there were strong increases in the Process Safety and Medical sectors. The widespread revenue growth reflects the robust long term drivers of growth present in our business due to increasing Health and Safety legislation, the demand for healthcare and the increasing demand for life critical resources.



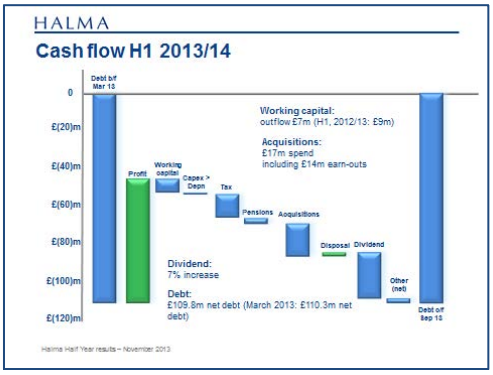
The Profit bridge above shows the restatement of the 2012/13 half year profit due to IAS 19[3] – a revision to the accounting for pensions (see the Half year report for more details). The rest of the bridge shows the movements through to this half year adjusted[1] profit of £65.1m

There was a positive currency impact in the half year due to a stronger US$ and Euro relative to Sterling. The half year on half year impact on adjusted[1] profit of last year's disposal was modest, although it was more significant on the statutory results (see Half year report Financial highlights) as we made a significant gain on the disposal last year.

Acquisitions in this year (one small acquisition) and last year contributed £3.6m, net of financing costs, to profit growth. Organic[4] profit growth at constant currency was 2%.



We maintained a high level of financial returns. Return on Sales[2] was very much in our targeted 18-22% range at 19.5% (H1 2012/13: 20.0%). Return on Capital Employed[5] (ROCE) was again over 70% showing the effective use of operating assets in our companies. Return on Total Invested Capital[6] (ROTIC) at 15.6% (H1 2012/13: 16.1%) remains well in excess of our Weighted Average Cost of Capital of 8-9%.



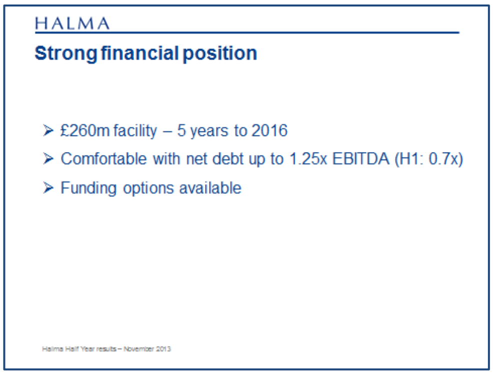
Cash flow was once again strong. We achieved an 86% cash conversion ahead of our 85% target. We finished the half year at the same level of net debt (£110m) as at March 2013 having financed our acquisition spend, tax payments, a record dividend pay-out and continued investment in our business.

Working capital requirements increased, which is typical for the first half of the year. £7.9m (H1 2012/13: £8.1m) was invested in fixed assets.

The effective tax rate was 24.6% (H1 2012/13: 23.4%) which is also our forecast for the full year effective rate. We continue to make extra contributions to fund our UK pension schemes as recommended by the scheme actuary, and aim to contain the future pension risk. Cash expenditure on acquisitions in the half year was mainly the payment of contingent consideration on prior year acquisitions for achievement against performance targets.

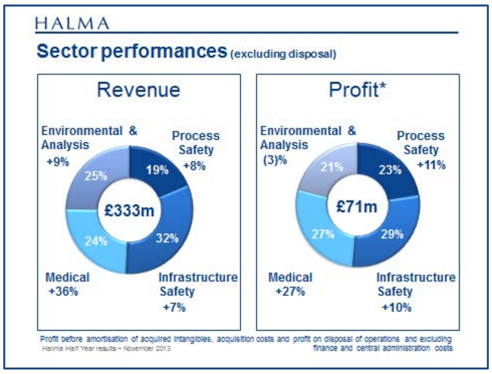
We increased the Interim dividend by a further 7%, the 35th year of 5% or more dividend increases, reflecting the Board's ongoing confidence in Halma's long term growth prospects.

Our financial position remains strong.



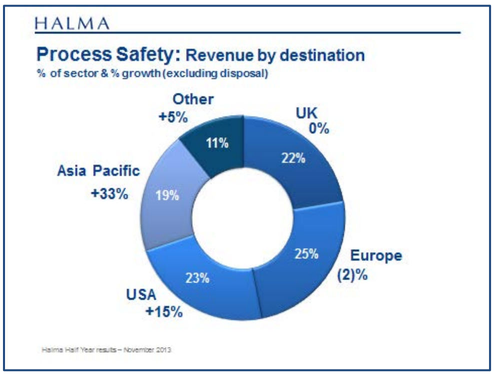
Our syndicated bank facility of £260m runs to October 2016. We remain comfortable with net debt levels up to 1.25x EBITDA, with gearing at the half year of 0.7x EBITDA. We make sure that we have sufficient funding available to continue to invest in our business and acquire new ones.

Andrew Williams then reviewed the performance of Halma's four sectors.

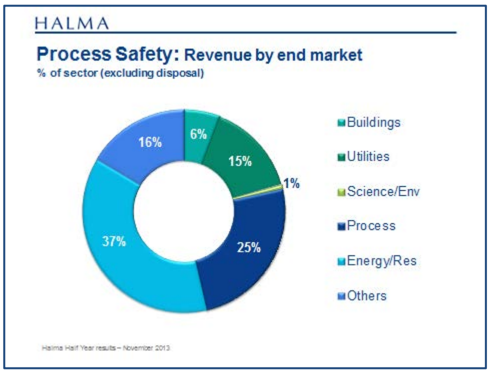


We achieved revenue growth, including organic[4] growth, in all four sectors. We achieved double-digit profit growth in the Process Safety, Infrastructure Safety and Medical sectors (excluding disposals). As expected, Environmental & Analysis sector profit was down a little, although good progress was made on the reorganisation activity planned for the first half. Halma's portfolio means that we benefit from the diversity of our markets, enabling the group to achieve and sustain growth despite some variability at the individual sector levels.

Our Process Safety sector had a very strong first half. Excluding last year's disposal (Tritech), revenue improved by 8% to £62m and profit by 11% to £16m. Organic constant currency growth was 7% for revenue and 11% for profit. This continues a very strong five year growth trend. Return on sales improved from 25% to 26% after absorbing a big increase in R&D investment, reflecting the stability of strong gross margins in this sector.



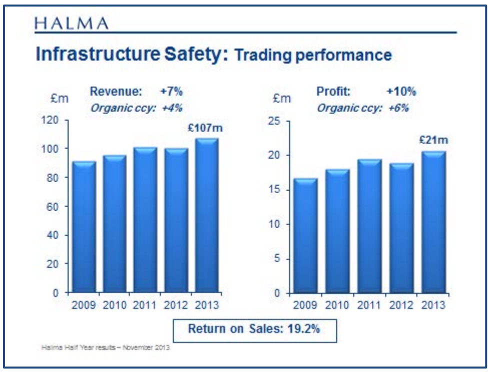
Asia Pacific revenue was up by 33% including a significant contribution from China. Other Asian countries delivering good growth included Singapore and Indonesia whilst in Australia we saw reduced demand from the Mining/Resources segment. There was encouraging progress in the USA but little growth in UK and Europe due to some project delays. Our current focus is on increasing selling resources in our higher growth markets together with enhancing our local product development capabilities. Through this, we aim to ensure that we are able to continue to achieve growth rates in excess of the underlying market growth.



Our Process Safety businesses sell into a diverse range of end-markets with the most significant being utilities, process industries and energy/resources. All three of these core markets delivered growth as we continued to benefit from the need to comply with increasing health and safety regulation and recent new product launches.

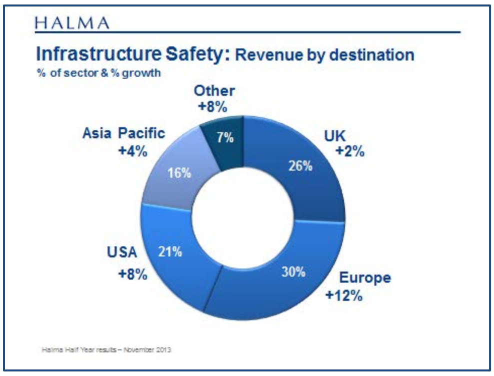
In summary, Process Safety delivered another strong performance and we expect continued progress in the second half.

I was pleased with the progress made by Infrastructure Safety. In this sector we have a number of world leading businesses including Apollo (Fire Detectors), BEA (Automatic Door Sensors) and Avire (Elevator Sensors). Avire is the business created as a result of last year's merger between Memco and TL Jones.

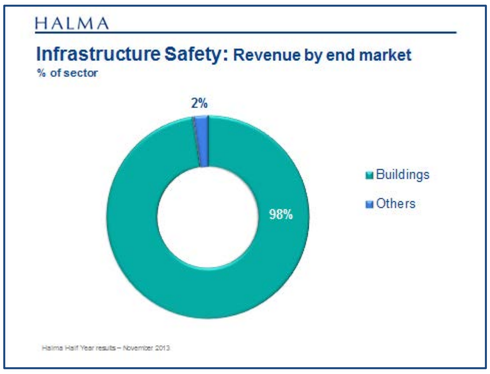


Revenue improved by 7% to £107m and profit by 10% to £21m. Organic growth at constant currency was 4% for revenue and 6% for profit. It was encouraging to see these positive rates of organic growth following the reorganisation within Elevator Safety in the last financial year. The Talentum (Flame Detection) business acquired earlier in the year performed well and its integration with our existing business (Fire Fighting Enterprises) is going to plan.

Return on sales improved from 18.7% up to 19.2%. Our gross margins improved slightly as we maintained good control of costs.



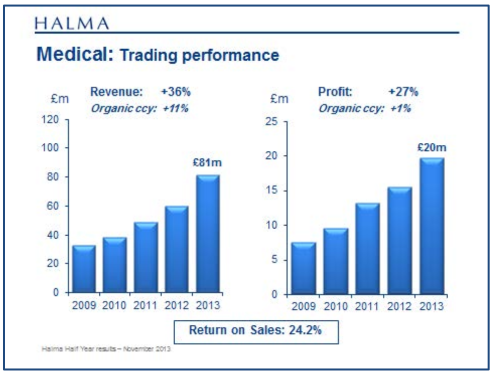
Infrastructure Safety increased revenue in all major regions, including both developed and developing markets. Europe improved by 12% with good growth in Northern Europe and continued weakness in Southern Europe. In the USA, revenue increased by 8%, with improving performances from our Fire Detection and Door Safety businesses against the backdrop of the slowly recovering non-residential market. Asia Pacific revenue growth of 4% was a little disappointing although we have started to see some positive signs for the future including a long awaited recovery in the China High Speed Train investment programme and market share gains through more local R&D.



Our Infrastructure Safety sensors are sold into commercial and public buildings with very few going into residential buildings. Around two thirds of what we sell goes into existing infrastructure, underpinned by the legal requirement to comply with health and safety regulations. The "Others" revenue segment covers revenue into transportation markets.

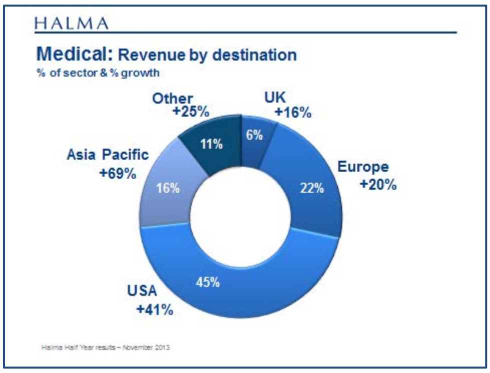
I expect market conditions within this sector to remain broadly the same in the second half. Growth will come from our investment in both international expansion and new product development.

Our Medical sector achieved strong headline figures continuing a very impressive five year trend. This sector includes our ophthalmology device companies such as Keeler, Volk and Medicel, together with primary care device businesses such as SunTech and Riester.



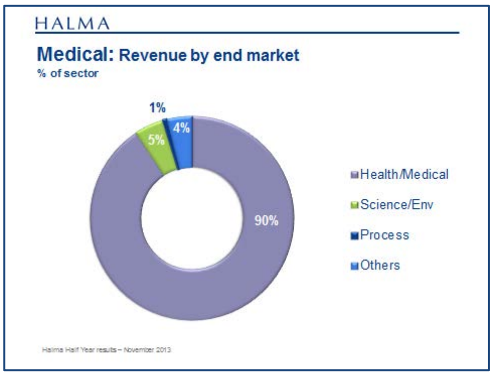
Revenue grew by 36% and profit by 27% including organic constant currency revenue growth of 11% and profit growth of 1%. Return on sales reduced from 25.7% down to 24.2%, partly because our recent acquisitions had a lower return on sales than the sector average (at the time of joining Halma). In addition, we continued to see strong investment in International Expansion. This investment included adding sales resources and gaining the necessary product approvals to sell into these new markets. Gross margins were in line with last year.

There was wide spread growth in all major regions and we achieved growth in developed markets despite government austerity cuts. This reflects the fundamental resilience of our chosen market niches (ophthalmology and advanced blood pressure monitoring).



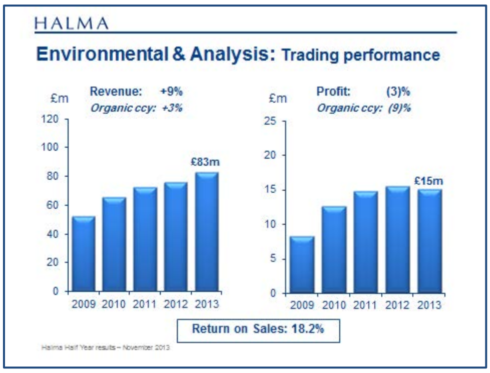
In the USA, revenue improved by 41% including a significant contribution from recent acquisitions. Here we had to overcome challenges such as the recently introduced Medical Device Tax and the continuing disruption caused by US government healthcare reforms. The latter delayed certain customer investment decisions and we expect this uncertainty to continue as we enter 2014, before gradually improving as the year progresses.

Asia Pacific revenue increased by 69% including the contribution from the Longer Pump acquisition made earlier in 2013. Longer Pump is performing well under its local management team which was retained through the acquisition process.



This sector is clearly dominated by the Health and Medical end-markets which provide a great opportunity for long-term growth due to the aging population in the west and the wealthier population in the east. Our chosen niches also experience demand due to increasing rates of obesity and diabetes. Some of our Medical products, particularly our Fluid Technology components, are sold into other markets such as Science and Environmental.

Finally we saw a mixed performance from Environmental & Analysis. Here our products include opto-electronic (or Photonics) devices provided by Ocean Optics and Water Monitoring products made by HWM which can measure flow and pressure in water networks.

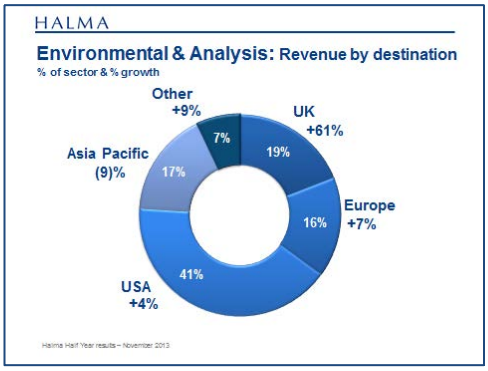


Revenue increased by 9% and profit reduced by 3%. Organic revenue growth was 3% whilst organic profit declined by 9%.

Return on sales reduced from 20.5% to 18.2%. Key factors in the organic profit decline were:-

- Gross margin was slightly lower due to product mix
- A supplier quality issue which cost £0.5m in the half year
- Selling overheads significantly increased (especially in Asia)
- Reorganisation costs totalling around £0.5m

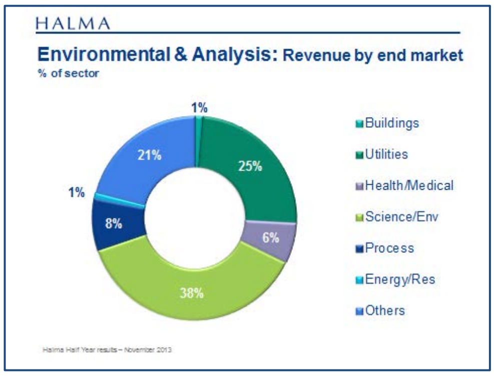
Clearly, a positive aspect to the half year was that revenue increased despite poor momentum at the start of the year and the distraction of reorganisation activity. In the second half, I expect us to maintain revenue growth whilst completing the planned reorganisation. The main outstanding action is the consolidation of two USA based Photonics businesses, which will incur costs of £0.5m in the second half. Consequently, total reorganisation costs are forecast to be £1m for the full year, in line with expectations at the start of the year. Despite this, we are still aiming to match prior year profit for this financial year.



The UK increased revenue by 61% as UK water companies continue to invest in flow and pressure monitoring products in preparation for the de-regulation of the UK commercial water market by 2017. We expect this investment by UK Water companies to continue in the second half.

Asia Pacific revenue declined by 9% due to tough comparatives with the prior year which included major projects in both Photonics and Water. We still believe that the long-term growth potential in this region is good and have established a standalone Photonics business in China with the necessary senior management resource and new product development capability.

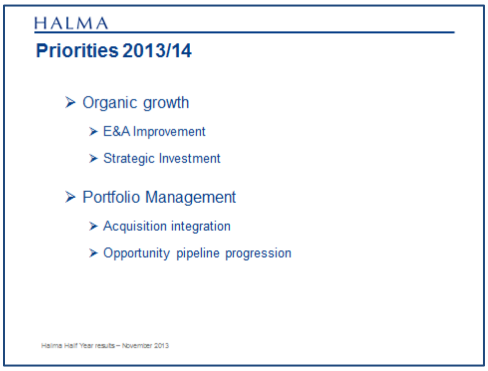
In the USA there were some tougher market conditions as US government research spending was depressed. In response, we have shifted more resources to our industrial markets.



Our Environmental & Analysis sector serves diverse end-markets. The major trends in the period included growth in utilities (UK water investment) and in

Process Industries as our Photonics businesses changed their focus away from research and towards industrial customers. I expect these overall trends to continue in H2.

In summary, our Environmental & Analysis sector is maintaining reasonable revenue growth rates whilst we complete the reorganisation projects within our Photonics business during the second half of the year. Good cost control should enable us to see profitability slowly improving in the second half.



Organic growth remains our top priority and I have been pleased with the acceleration in revenue growth compared with last year. As stated earlier the reorganisation within Environmental & Analysis is going to plan and we have continued to increase investment for growth in People Development, International Expansion and Innovation.

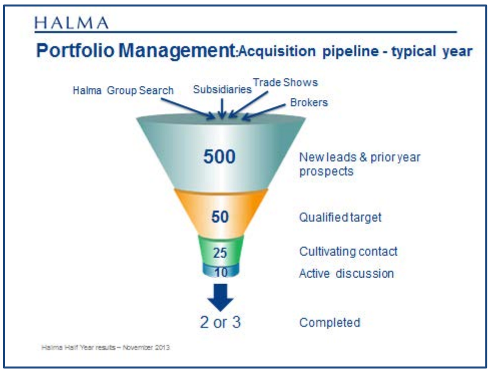
As regards to Portfolio Management, the six acquisitions we completed last year and the one acquisition we completed this year are integrating well. At the start of the year, we set an objective of getting more opportunities into the latter stages of our acquisition pipeline and increasing opportunities in our Safety sectors and in Asia. We are making good progress against both of these objectives.

I believe that after choosing the right products and markets, the most critical factor driving our success is the quality of our people. Since establishing the HEDP (Halma Executive Development Programme) in 2006 for our Company Directors, we have created the HMDP (Halma Management Development Programme) for first line managers and HCAT (Halma Certificate in Applied Technology) for engineers.

Success from such investment can be difficult to measure. However, two metrics which show that we are on the right track are that revenue and profit have more than doubled since 2006 (following a period of low growth), whilst the rate of internal promotions to Halma company boards has improved from "1 in 15" five years ago to "1 in 5" today.

To date, our focus on training and development has been at the senior management levels. The Halma Graduate Development programme (HGDP), which was launched in 2012, further develops our talent pipeline.

We aim to attract 8-10 graduates from top universities each year, with a current bias towards Technical degrees. We provide 6-month placements covering operations, product development and commercial functions, preparing them to earn full-time positions within group subsidiaries after a two year period. Consequently, our 2012 graduate intake are starting to turn their attention to gaining their first permanent jobs and competition amongst subsidiaries for their services is growing. I am confident that many of the graduates on the current HGDP have the potential to become senior leaders within Halma in the future.



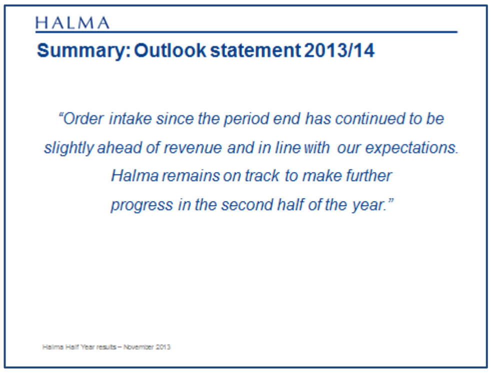
Our M&A strategy has a clear focus on finding companies operating in our existing market sectors with technology we understand. We look for businesses with similar financial characteristics to Halma companies in terms of both size and returns. We buy businesses where the current management team wish to stay on and continue leading their company to further success under Halma's ownership.

We find most of our acquisitions ourselves. In the past five years, eleven out of our fourteen acquisitions completed have been sourced internally. To achieve this, we have developed a clear process for managing our acquisition pipeline supported by a system which tracks the progress of acquisition prospects through the pipeline. All prospects are formally categorised and tracked with records of direct contact and new commercial information added as it occurs.

In a typical year, we complete just two to three deals from around 400 to 500 initial ideas. Getting lots of those ideas into the start of the process is critical. Therefore, in recent years we have appointed Group Acquisition Executives whose primary role is finding and qualifying new opportunities for our Divisional Chief Executives to progress. In a typical year, DCEs will hold "active discussions" with around ten company owners, where our conversion rate is around 20% - 30%.

An important part of our strategy at this stage is to remain patient, keeping in touch with business owners even if they don't want to sell at that time. For example, the Kirk Key Interlock business that we acquired in 2012, was first contacted by Halma in 1988!

Today, our acquisition pipeline is healthy with over 500 company names in the database. As targeted, we are finding more opportunities in our two Safety sectors although the majority of our prospects are still within the Medical and Environmental & Analysis sectors. As always, timing of any deals is uncertain although the prospects for 2014 remain positive.



In summary I have been pleased with the progress that Halma has made during the first half of the year. Order intake since the period end has continued to be slightly ahead of revenue and in line with our expectations. Halma remains on track to make further progress in the second half of the year.

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[1] *Before amortisation of acquired intangible assets, acquisition costs, movement on contingent consideration and profit on disposal of operations of £9.1m charge (2012/13: £1.4m credit).*

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

[3] *The Group adopted IAS 19 (revised) in 2013/14, which changed the accounting for defined benefit*

pension plans. The prior period has been restated resulting in a £1.1m reduction in adjusted[1] profit.

[4] 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.

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

*[6] Return on Total Invested Capital (ROTIC) is defined as profit from continuing operations before amortisation of acquired intangible assets, acquisition costs, movement on contingent consideration and profit on disposal of operations 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 the Half year report published on 19 November 2013 for more details.*

CAUTIONARY NOTE.

This document contains statements about Halma plc that are or may be forward-looking statements. Forward-looking statements include statements relating to (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of Halma plc's operations and potential synergies; and (iii) the effects of government regulation on business.

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