

Halma plc Final results 2012/13

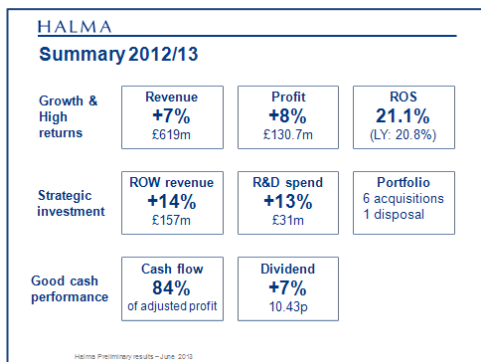
Summary of analysts' presentation by:
Andrew Williams, Chief Executive
Kevin Thompson, Finance Director

13 June 2013

Record results and continued dividend growth

Andrew Williams, Halma's Chief Executive, began by giving a summary of the year.

Halma has achieved record results for the 10th consecutive year. Revenue increased by 7% to £619m whilst profit¹ increased by 8% to £130.7m. Return on Sales² improved from 20.8% to 21.1%.



We continue to make good progress with our strategic investments. Revenue from outside UK/Mainland Europe/USA increased by 14% to a new record of £157m, 25.4% of the group total. R&D spend increased ahead of revenue growth by 13% and now is equivalent to 5% of total revenue. We had a busy year with lots of M&A activity, completing six acquisitions and one disposal.

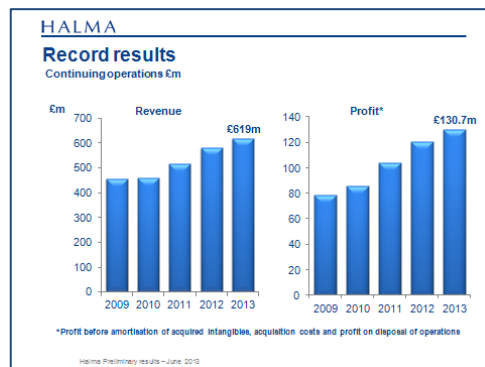
We maintained good operational performance with cash flow 84% of adjusted profit.

We are recommending an increase in our dividend of 7% which will be the 34th consecutive year of increasing dividends by 5% or more.

Overall, I am pleased with the progress the Group has made during the past year.

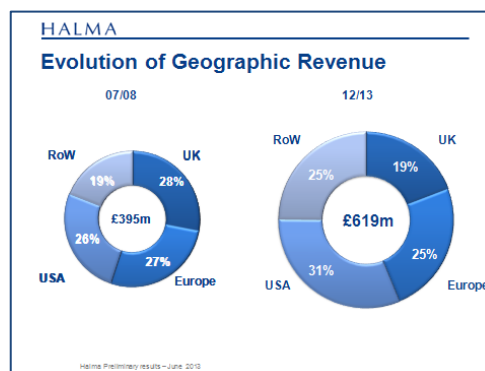
Kevin Thompson, Finance Director, reviewed the financial performance in more detail.

These record results once again show Halma's financial model in action; growth with high returns; international expansion with successful acquisitions and a disposal; good cash flow – financing investment and increasing dividends.



The pattern of revenue growth was even through the year with 7% revenue growth in the second half of the year and for the year as a whole. Organic³ revenue growth at constant currency (excluding the impact of acquisitions, disposals and currency translation effects) was 3% each half year.

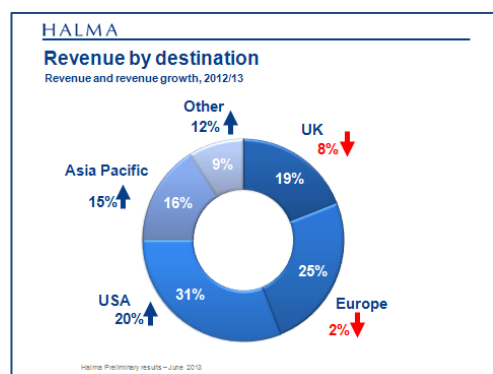
There have been significant changes in the pattern of geographic revenue over the past five years.



The USA is now our biggest sales destination following significant acquisition activity and strong organic growth. Mainland Europe revenue has

remained at a broadly similar percentage of the Group. The UK was 28% of total revenue five years ago and is now 19%, while sales to territories outside USA/Mainland Europe /UK have increased from 19% to over 25% of total Group revenue. This "Rest of World" growth reflects the resources and effort committed to locating higher growth opportunities.

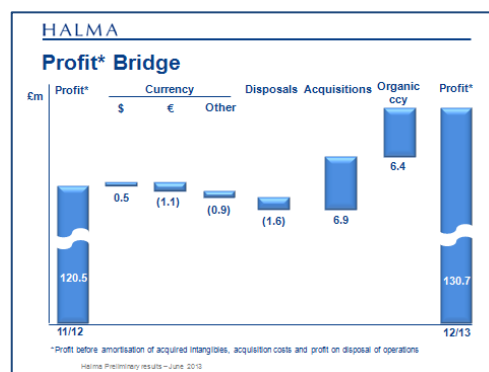
The trends in 2012/13 geographic growth were consistent throughout the year.



Sales to the UK were 8% lower but stripping out acquisitions and disposals were only 3% down – a good performance given the tough comparative of 2011/12 when our UK water businesses performed very strongly. European revenue was 2% down – continuing satisfactorily in a tough trading environment. The majority of our sales in this region are to Northern and Eastern Europe, giving us some resilience. Revenue to the USA was up 20% with all four of our sectors growing there, supported by acquisitions.

Revenue to Asia Pacific was up 15% and was over £100m for the first time. China grew by 25%. Revenue outside UK/Mainland Europe/USA amounted to more than 25% of the Group, showing good progress toward our target of 30% of Group revenue coming from these territories by 2015.

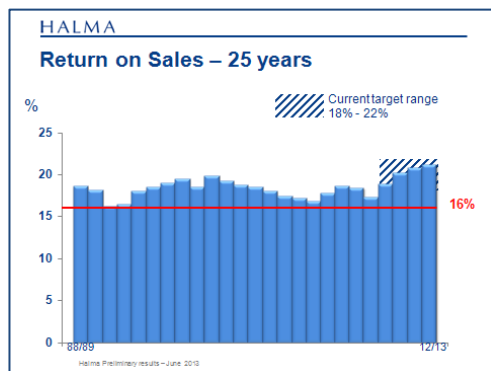
The profit bridge that follows shows the movement between the 2011/12 profit¹ of £120.5m and the £130.7m profit¹ achieved in 2012/13.



There was a modest adverse net impact from currency translation in the year with a stronger US\$ and a weaker Euro relative to the prior year. Approximately 40% of our business is transacted in US\$. The impact of the one disposal and six acquisitions in the year can be seen in the profit bridge. Together with a small contribution from acquisitions made in 2010/11, the acquisitions contributed £6.9m to profit¹ (net of financing costs). Completing the profit bridge we have organic² profit growth at constant currency of £6.4m (5.3%). Profit grew faster in the second half of the year (11% growth on the prior year compared with 6% growth in the first half).

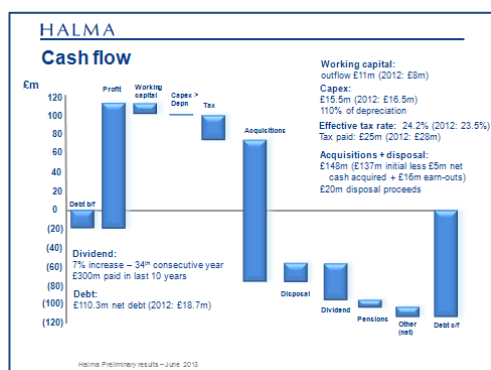
Our returns are high and remain strong. Return on Capital Employed⁴ (ROCE) was over 70% showing the effective use of operating assets within our companies. Return on Total Invested Capital⁵ (ROTIC) was 15.8% (2011/12: 16.8%) well in excess of our Weighted Average Cost of Capital estimated at 8.4%.

Return on Sales² (ROS) increased once again to 21.1% (2011/12: 20.8%) with three of our four sectors increasing their profitability.



Our Return on Sales has been 16% or more every year for more than 25 years and we are operating well within our target range of 18-22% for ROS.

Cash flow in the year was good once again. We started the year with £18.7m of net debt and ended the year with £110.3m of net debt having made our largest ever spend on acquisitions, financing a record dividend and making continued increased investment in the growth of our businesses.



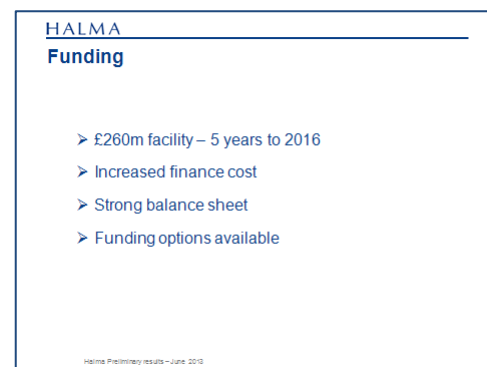
Adjusted operating cash flow was 84% of adjusted operating profit. This new cash conversion metric showed a performance in line with our KPI target of 85%.

Working capital performance was satisfactory through the year. Capital expenditure at £15.5m (2011/12: £16.5m) was in line with expectations but was below the prior year as there were fewer larger capital investment projects. The effective tax rate on adjusted profit was 24.2% (2011/12: 23.5%) due to greater profits earned in higher tax jurisdictions including the USA.

We spent £148m on six acquisitions in the year, a record amount, and further detail on each is given in the 2012/13 Annual Report. We also received £20m for the disposal of Tritech in the year, recording a gain on sale of £8m. A further payment of £2m is expected to be received in 2013/14.

The pension deficit increased to £47m (2011/12: £33m) with a lower discount rate increasing pension liabilities more than assets increased. We continue to actively manage the Group's pension risks. Accounting changes in 2013/14 mean that pension costs recorded in the Income Statement will increase by approximately £2m, but comparative year figures will be restated by a similar amount so the year on year impact will be small. There is no cash impact from this change in reporting.

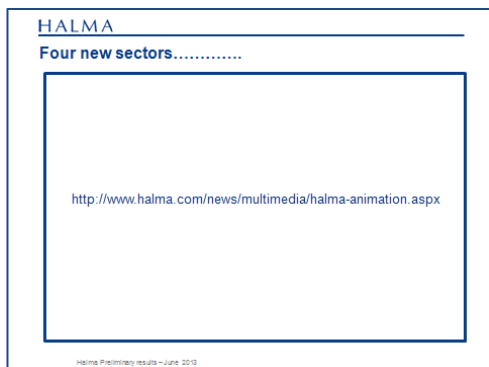
Subject to shareholder approval we will increase our final dividend by 7.1% following a 7.1% increase in the interim dividend and this represents the 34th consecutive year of dividend increases of 5% or more. With this dividend we will have paid out £300m in dividends to shareholders in the past decade.



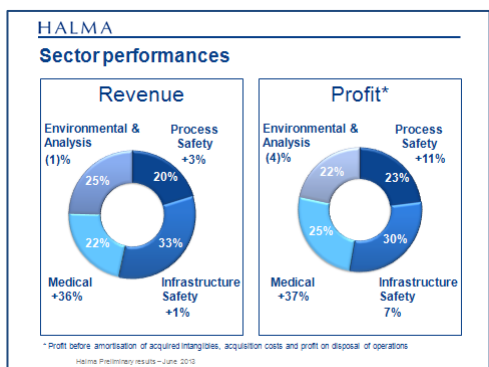
In 2011 a revolving credit facility for five years to October 2016 was put in place. We are starting to make good use of this facility but still operate a strategy relying on moderate levels of debt. We continue to search for our typical value adding acquisitions. There is adequate headroom in our facility and we have access to alternative debt funding in addition to traditional bank lending

should we need it. Our financial position remains strong.

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



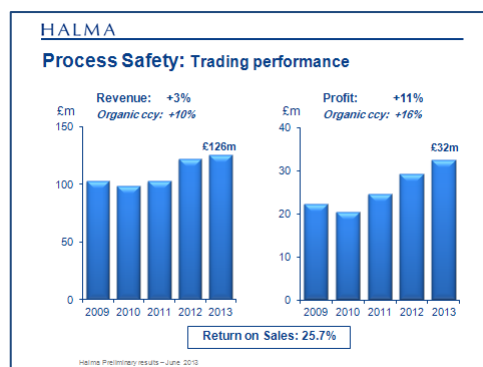
As announced in February 2013, Halma is reporting its results under four sectors for the first time. Our “Introduction to Halma” animation has been updated to show what we do and where our businesses fit within the new sectors. It is a great way to explain Halma to investors, employees and potential business partners. It can be found on our website www.halma.com.



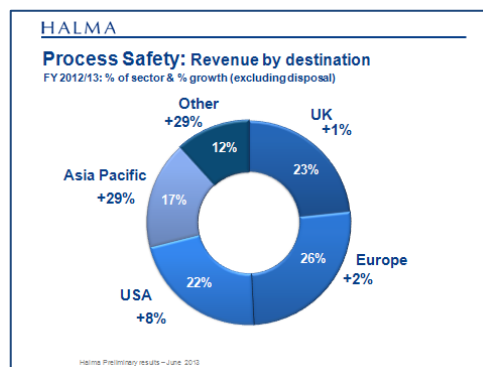
Our Medical sector delivered outstanding results with a strong contribution from both acquisitions and organic growth. Solid progress was made by both Process Safety and Infrastructure Safety whilst our Environmental & Analysis business had a disappointing year. All four sectors continue to deliver high Return on Sales.

Process Safety achieved good results with revenue up by 3% to £126m and profit up by 11% to £32m. Organic

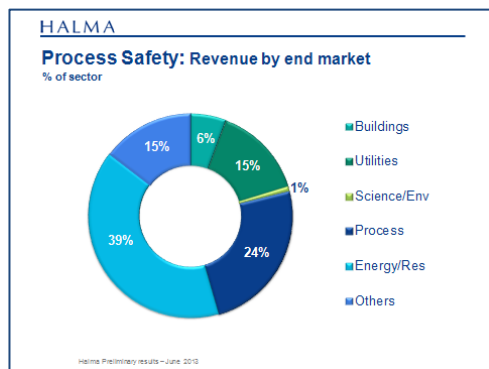
constant currency growth rates were 10% for revenue and 16% for profit, reflecting a much stronger underlying performance. Return on Sales improved from 23.9% up to 25.7%.



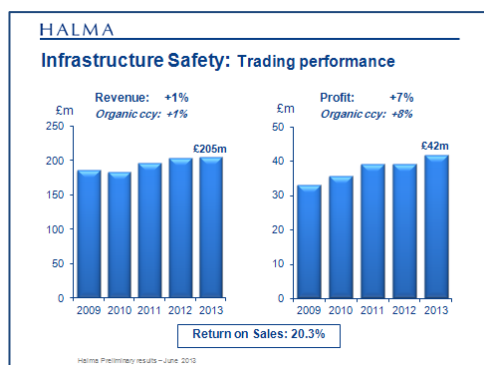
Organic growth and the improvement in Return on Sales resulted from the Tritech disposal in August 2012, new products (for example new Bursting Disks for fracking) and continued international expansion. The impact of international expansion is shown by revenue from outside UK/Mainland Europe/USA improving by 29% to represent 29% of the total sector. There was lower growth in developed markets.



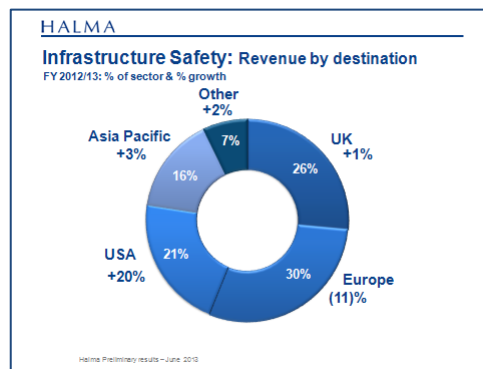
Growth is underpinned by Health and Safety regulation, market share gains through new product innovation and the development of new sales channels. It is particularly encouraging that our Process Safety companies have created a dedicated trading hub in Brazil to accelerate market penetration.



Our Process Safety businesses serve a diverse range of end-markets. The largest is Energy and Resources which represents 39% of the total and saw strong growth during the year, in particular in the Middle East. I expect to see continued good progress across these core markets during 2013/14.

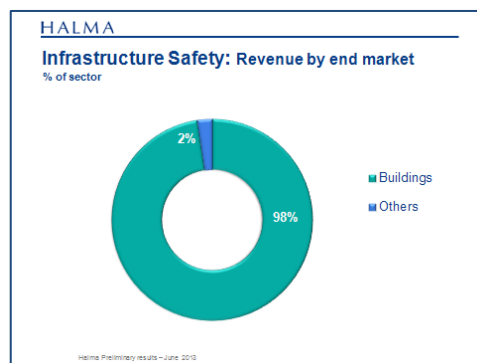


Infrastructure Safety achieved another solid year with revenue up 1% to £205m and profit up 7% to £42m. Organic growth was at very similar rates as there was no significant M&A during the year. Return on Sales was up from 19.1% to 20.3%, benefitting from the consolidation of our European and Asian Elevator businesses during H1 and the subsequent improvement in profitability during H2. Overall, I am pleased with the progress made.



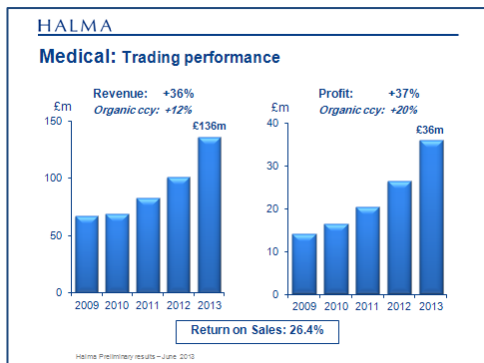
The geographic growth trends in Infrastructure Safety in some regions were different from our other sectors, although trading conditions in UK and Europe were also quite tough.

We achieved strong growth in the US, with revenue up by 20% due to successful new product introductions (e.g. wireless fire detectors) and a slow but steady improvement in the residential construction and refurbishment market. We saw lower growth in Asia Pacific, which reflects the fact that these markets are more mature, with more local competition than we see in the other three Halma sectors. Our recently increased investment in local R&D should deliver higher rates of growth over the next 2-3 years.



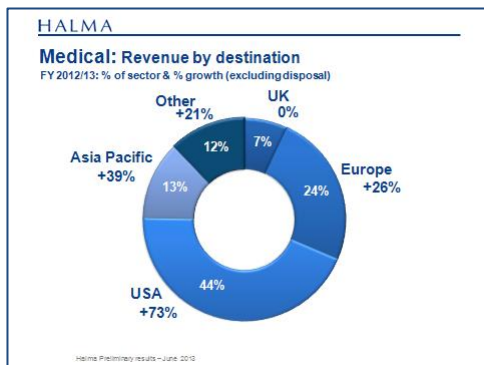
Two thirds of Infrastructure Safety revenue comes from existing buildings, with one-third from new construction. More than 95% of our revenue comes from the non-residential market. I expect another solid year of performance in 2013/14.

The standout performer this year was our **Medical** sector. Revenue was up 36% to £136m and profit up 37% to £36m. Return on Sales increased from 26.2% to 26.4%.



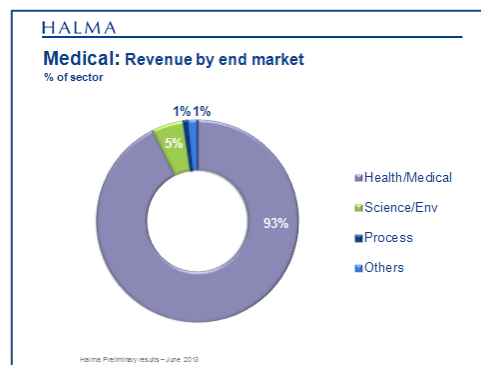
There was significant M&A activity during the year and organic growth at constant currency was very strong with revenue up 12% and profit up 20%.

After a good first half, the second half performance was even better. New products in ophthalmology and continued recovery in demand from major Medical OEM customers for our Fluid Technology components ensured we had good momentum coming into 2013/14.



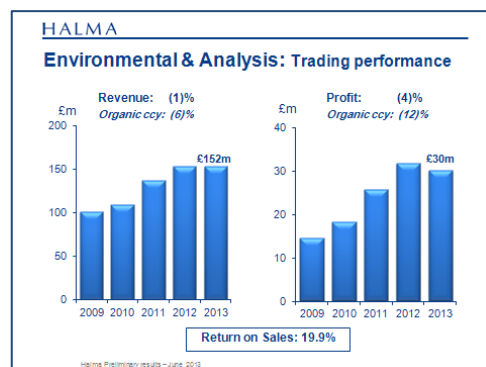
US revenue grew by 73% following a significant amount of M&A activity. Organic constant currency growth was impressive too, with 12% growth in the US, 17% growth in Europe and 12% in developing markets. These global growth trends reflect the fact that this sector benefits from demand driven by an ageing population in the West and a growing, wealthier population in the East. However, there were some headwind

factors during the year. These included the new US Medical device tax and increasing global product registrations/approvals which are becoming even more costly and time consuming to obtain. In the longer term this will provide a stronger barrier-to-entry to new market entrants and allow us to sustain competitive advantage and strong market positions.



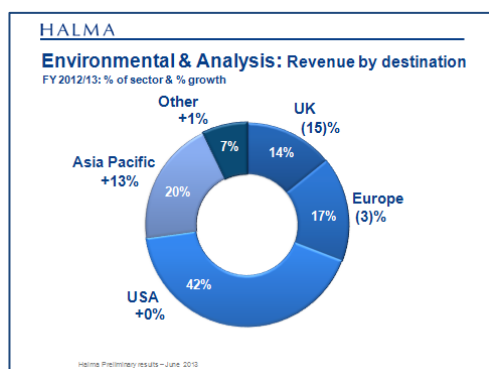
93% of our revenue in this sector comes from Health and Medical markets, and 5% from Science and Environmental markets where there is some technology overlap. We see our Medical sector as offering strong global organic and M&A growth opportunities.

It was a disappointing year for our **Environmental & Analysis** sector. Revenue reduced by 1% to £152m whilst profit declined by 4% to £30m. However, Return on Sales was still strong at 19.9% (20.6% last year). Organic declines at constant currency were 6% for revenue and 12% for profit.

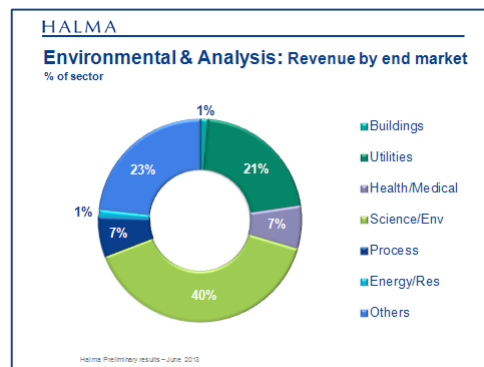


As expected, UK water utilities reduced spending during the year in line with the

typical phasing of their 5-year AMP investment cycle. Significant growth in export markets failed to fully compensate for this decline. We also saw reduced US Government research spending and we do not expect this to recover quickly. Therefore, we are taking action to improve performance including consolidating two US manufacturing facilities and adding more senior management resources to high growth potential projects, such as further development of UV LED technology and establishing independent Asian businesses. We expect these actions to cost approximately £1m in 2013/14 with most of the cost falling in the first half. However, with the benefits starting to emerge in the second half, we expect Environmental & Analysis to have a steadier year in 2013/14.



The impact of these market factors is seen in the regional trends. Lower water company spend in the UK reduced revenue there by 15% whilst lower government spend in the USA meant that here revenue was flat. There was more encouraging progress in Asia Pacific where revenue was up by 13%. Revenue from outside the UK/Mainland Europe/USA represents 27% of this sector's revenue.



Environmental & Analysis has the most diverse range of end-markets. There was a decline in the Utilities and Science and Environmental (US Government research spend) markets. I am confident that the actions being taken in 2013 will not only improve short-term performance but also better position this sector to sustain growth in the longer-term.

We continue to be committed to increasing investment in our four strategic areas of **Portfolio Management, Innovation, People Development and International Expansion**.

In **Portfolio Management** we had a very busy year, completing six acquisitions and one disposal. In April 2013, we also completed a small bolt-on acquisition for FFE, one of our Fire Detector businesses.



The six acquisitions made in the year, included four within our Medical sector. These were Accutome and MST which both make ophthalmic devices, SunTech which makes blood pressure monitoring products and LongerPump which

manufactures precision pumps and valves. Our two acquisitions in the Environmental & Analysis sector were Sensorex which makes water quality sensors and ASL which makes wireless technology products for the water and energy markets. All acquisitions are trading well and integration is proceeding to plan.

A number of these newly acquired companies are already collaborating with other Halma companies. For example, SunTech and Riester are collaborating on new product innovations and sales channel development, whilst LongerPump and Bio-Chem are exploring the potential to cross-sell products in their respective home markets.

Our acquisition pipeline is being re-filled and we are starting to see more prospects in Process Safety and Infrastructure Safety. We remain confident in our prospects for further acquisitions over the next 2-3 years.

R&D spend increased by 13% to £31m, representing 5% of group revenue. Although R&D spend is an important metric, of more importance is building a culture where product and process **innovation** thrives. A great example of how we achieve this is through our biennial Halma Innovation and Technology Exposition (HITE) event which involves 300 of our senior managers. HITE includes training conferences and a 2-day Halma trade show where all Halma companies (and their Boards) present their latest technological and process innovations. This year, we invited investors and analysts to visit our trade show which proved to be a great way to see the whole group in one day.



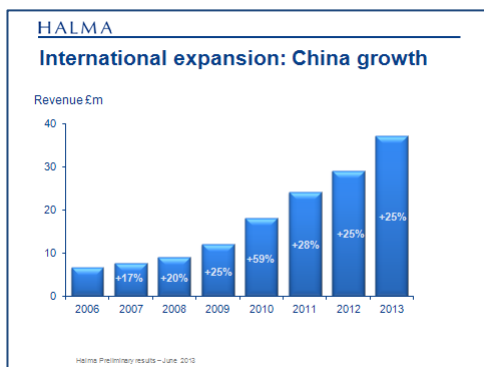
The overall objective of HITE is to build a sustainable learning and collaborative culture. The 5-day event climaxed with Halma's 10th Innovation Awards ceremony which offered £20,000 to the winning team. This year's award was won by a team from Hanovia who have developed a new UV based solution for ballast water treatment in marine shipping. The runners up were Oseco, who have designed a new bursting disk which operates effectively for both fluids and gases. In 3rd place was BEA's new IXIO sliding door sensor, which is the easiest sensor to install on the market today.



Halma takes the lead in investing in **People Development** for our companies. This year we increased our focus on management training in Asia as well as completing the first year of our new Halma Graduate Development Programme (HGDP). The 2012 intake of talented graduates from top UK and US universities includes many who are already showing potential for rapid career development within Halma. HGDP promises to be a powerful way of increasing management diversity with

over 70% of our 2013 intake being female scientists and engineers.

We continue to invest in **International Expansion** with our focus on China a real Halma success story. Since the China hubs were established in 2006, revenue has increased nearly six-fold from £6.6m to £37m and the number of local employees has increased from around 80 up to almost 800. Our China hubs have helped us increase diversity in our management teams and also fundamentally change how Halma companies collaborate to pursue significant growth opportunities. The creation of the Process Safety hub in Brazil, is a good example of the progress that is being made.



January 2013 was an important milestone for Halma, with our largest acquisition in China. LongerPump manufacture precision fluid and pump products which are used in a range of scientific and medical markets. We are finding a number of high quality businesses within our sectors in China and are able to use our local Halma China resources to help with the search, due diligence, negotiation and integration processes. I expect M&A to play a bigger part in our China growth story in the next five years, alongside continued strong organic growth.

To finish, I would like to summarise our priorities and outlook statement for the current year.

HALMA

Priorities 2013/14

- > Portfolio management
 - > acquisition integration
 - > opportunity pipeline progression
- > Organic growth
 - > strategic investment
 - > E&A improvement

Halma Preliminary results - June 2013

We will continue to work hard on the integration of our recent acquisitions and will develop our acquisition pipeline so that we get more opportunities into the latter stages of the process. There will be increased strategic investment to drive organic growth with continued investment in our key areas of Innovation, People Development and International Expansion.

Finally, we will complete the reorganisations within the Environmental & Analysis sector and expect to see the benefits start to emerge as we move into 2014.

Order intake since the start of 2013 has been consistent with our expectations of sustaining year-on-year organic growth and high returns. We remain confident that Halma will make further progress in the year ahead.

¹ Before amortisation of acquired intangible assets, acquisition costs, movement on contingent consideration and profit on disposal of operations of £8.4 million (2011/12: £8.5 million).

² Return on Sales is defined as profit¹ 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 (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. *

⁵ Return on Total Invested Capital (ROTIC) is defined as profit for the year 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 Preliminary Statement published on 13 June 2013 for more details.

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