

# Halma plc Final results 2014/15

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

11 June 2015

## Record results and continued dividend growth

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

Halma has achieved a 12<sup>th</sup> consecutive year of record revenue and profit. This sustained record of performance clearly demonstrates the benefits of our clear growth strategy, simple financial model and customer-focused organisation.

- Our growth strategy is based on operating in markets with long-term global market growth drivers such as increasing health and safety regulations, increased demand for healthcare and increasing demand for life critical resources including energy and water.
- Our simple financial model is centred on maintaining good organic growth and strong cash generation. This gives us the resources we need to invest in our businesses and also to make acquisitions in, and adjacent to, our existing markets.
- Our customer-focused organisation is comprised of four highly focused sectors incorporating small to medium sized companies, which operate close to their markets. They are led by entrepreneurial, autonomous boards with control of the resources they need to execute their strategy according to the changing requirements of their markets.

During the year, Halma achieved strong growth and returns. Revenue increased by 7% to £726m and adjusted<sup>1</sup> profit increased by 10% to £153.6m. Return on Sales<sup>2</sup> improved from 20.7% last year to 21.2%.

We increased our strategic investment for growth, maintaining our focus on international expansion, innovation, talent and acquisitions.

HALMA Summary 2014/15			
Strong growth & returns	Revenue <b>+7%</b> £726m	Profit <b>+10%</b> £153.6m	ROS <b>21.2%</b> (LY: 20.7%)
Continued strategic investment	ROW revenue <b>+16%</b> £197m	R&D spend <b>+8%</b> £35m	Acquisitions <b>£84m</b> spend
Good cash performance	Cash flow <b>87%</b> of adjusted profit	ROIC <b>16.3%</b> (LY: 16.7%)	Dividend <b>+7%</b> 11.96p
<small>* Prior year restated Halma Financials - June 2015</small>			

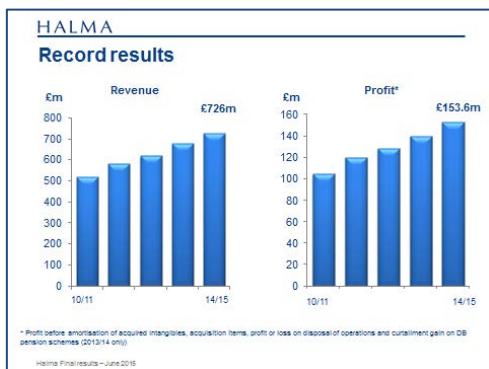
Revenue from outside UK/Europe/USA increased by 16% to £197m, to represent 27% of the group total. We increased investment in R&D, where spend rose by 8% to £35m, equivalent to around 5% of group revenue. We spent £84m on three acquisitions in May 2014 and all are performing well.

Another good cash performance demonstrated the strength of operational management within our companies. They generated cash equivalent to 87% of adjusted profit. Return on Total Invested Capital<sup>3</sup> remained strong, at 16.3%, and we are proposing to increase our full year dividend to shareholders by 7% to 11.96p per share, the 36<sup>th</sup> consecutive year of increasing our dividend by 5% or more.

Overall, I am very pleased with the progress made by Halma during the year, both financially and operationally.

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

This is another set of record results with a lot of good ingredients – high returns, growth across the geographic regions, three acquisitions and a disposal, strong cash flow and a further dividend increase. Halma's financial position remains strong with the headroom to support continued growth.



The chart above shows Halma's progress in the past five years. We have increased revenue in 39 of the last 41 years.

Revenue increased by £50m to £726m (2014: £677m), up 7%. Organic constant currency revenue growth was 5%, with all four sectors growing revenue.

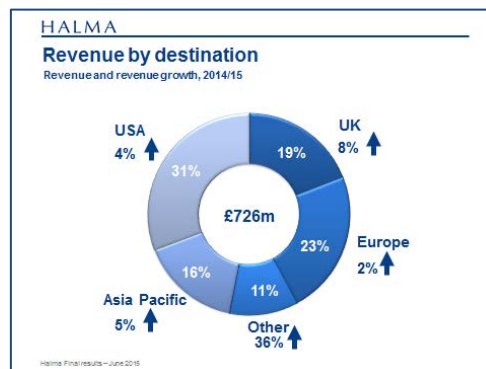
**HALMA**  
**Revenue growth**  
FY 2014/15

	£m	Total	Organic: Constant Currency
H1	341	2%	4%
H2	385	12%	6%
<b>Total</b>	<b>726</b>	<b>7%</b>	<b>5%</b>

Halma Financial results – June 2015

There was a significant (5%) adverse currency translation impact in the first half, reducing headline revenue growth to 2%. In the second half currency had a positive impact and with the greater benefit from acquisitions we saw a 12% revenue increase. At organic<sup>4</sup> constant currency we grew by 6% in the second half, following 4% growth in the first half.

There was revenue growth in all our five geographic regions.



The USA remains our largest sales destination. Process Safety grew strongly in the USA with good growth also from the Medical sector.

Infrastructure Safety dominated growth in the UK, helped by the Advanced Electronics acquisition. Performance in Europe was mixed but there was organic<sup>4</sup> constant currency growth in all sectors. Asia Pacific continues to grow with Environmental & Analysis a strong performer.

Revenue growth in our "Other" territories was high, boosted by the RCS acquisition, by a large safety interlock project in South America, and good progress in Africa, Near and Middle East in the two Safety sectors.

In 2010, we set ourselves a target of 30% of revenue coming from outside of UK/Mainland Europe/USA by 2015. This year we increased that revenue from 25% to 27% of the total. Since we set the target, we have doubled our "Rest of World" revenue but also increased developed market revenue by 47%, faster growth than we expected. We continue to invest actively in developing markets and believe they offer good long-term growth potential.

Adjusted<sup>1</sup> profit increased by £13.4m to £153.6m (2014: £140.2m), up 10%.

HALMA		
Profit* growth		
FY 2014/15		% growth
> Headline growth		10%
> Currency		2%
> Ongoing at Constant currency		12%
> Acquisitions		(5%)
> Organic constant currency growth		7%

\* Profit before amortisation of acquired intangibles, acquisition items, profit or loss on disposal of operations and curtailment gain on DB pension schemes (2013/14 only)

Halma Financials - June 2015

The full year ended with a net 2% adverse currency translation impact. At constant currency we achieved profit growth of 12%, approaching the 15% per year growth we need to meet our strategic target of doubling profit every five years. At organic<sup>4</sup> constant currency we grew adjusted<sup>1</sup> profit by 7%.

Statutory profit was 4% lower than last year. This was due to credits last year from the adjustment to acquisition earnouts and on closure of the Defined Benefit pension plans. There is more detail in the 2014/15 results announcement.

HALMA			
Profit* growth			
	£m	Total	Organic: Constant Currency
H1	69.0	6%	7%
H2	84.6	13%	7%
<b>Total</b>	<b>153.6</b>	<b>10%</b>	<b>7%</b>

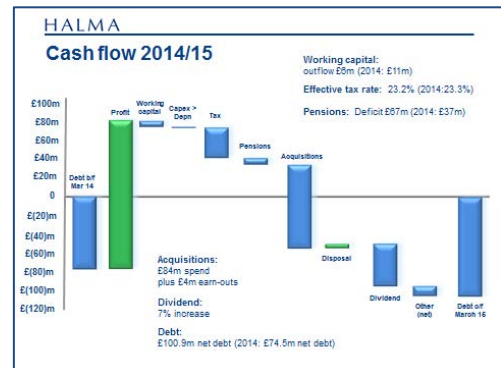
\* Profit before amortisation of acquired intangibles, acquisition items, profit or loss on disposal of operations and curtailment gain on DB pension schemes (2013/14 only)

Halma Financials - June 2015

Organic<sup>4</sup> constant currency profit growth was 7% in both halves, showing high and steady growth through the year. As with revenue, there was a significant adverse currency translation impact on adjusted<sup>1</sup> profit in the first half, which reversed somewhat in the second half. The second half also saw more benefit from acquisitions.

There was significant volatility of major currencies this year (US Dollar and Euro in particular) relative to Sterling, although the net adverse impact was smaller in the full year than the first half. If exchange rates

continue around current levels we would expect a small positive impact from currency translation in 2015/16, with the greatest benefit falling in the first half.



Cash flow in the year was strong; we achieved an 87% cash conversion, above our 85% KPI target. We spent £84m on three acquisitions plus £4m on earnout payments on prior year acquisitions (2014: £17m), made tax payments of £31m (2014: £28m), paid out £43m (2014: £40m) in dividends and continued to increase investment in our businesses.

Working capital was well managed across the Group as our business grew. Capital expenditure was £23m (2014: £17m) including a £5m spend on a new property in our Medical sector, with a further £5m expected for this in 2015/16.

The effective tax rate was 23.2% (2014: 23.3%) with falling UK Corporation tax rates offset by more profit at higher tax rates in the USA.

The pension deficit increased to £67m (2014: £37m) due mainly to the significant fall in the discount rate used to value pension liabilities. We closed our UK Defined Benefit pension plans to future benefit accrual in December 2014, reducing our pension risk. We are currently reviewing with the Pension scheme trustees the level of contributions needed to fund the pension plans in the future and expect a modest increase in annual cash contributions.

We made three acquisitions in the year, all in May 2014. The main acquisitions were RCS within the Process Safety sector for

\$108m (£64m) and Advanced Electronics for £14m (plus up to £10m earnout) in the Infrastructure Safety sector. All acquisitions continue to perform well. Early in the year we disposed of a small elevator controls business making a small gain on sale. Since the year end we acquired VAS, based in the USA, and now part of the Medical sector, for \$5m (£3m).

We are proposing a further 7% increase in the final dividend per share, giving an increase of 7% for the year as a whole. This represents the 36<sup>th</sup> consecutive year of dividend increases of 5% or more.

Halma's financial position remains strong.

HALMA	
Funding	
<ul style="list-style-type: none"> <li>&gt; £360m facility – 5 years to November 2018</li> <li>&gt; Comfortable with net debt of up to 1.25x EBITDA (March 15: 0.57x)</li> <li>&gt; Strong balance sheet with significant capacity</li> </ul>	
Halma Financials – June 2015	

The year end net debt was £101m (2014: £74m). We have a £360m syndicated bank facility which runs to November 2018.

We are comfortable with net debt levels up to 1.25x EBITDA with gearing at March 2015 of 0.6x. We are prepared to go higher than 1.25x gearing temporarily, if the timing of acquisitions required it, and in due course will consider introducing some term debt into our funding as needed. We have a strong balance sheet and financial capacity to continue to invest in our businesses, pay increasing dividends to shareholders and make further acquisitions.

HALMA		
Financial KPI Summary 2014/15		
	Target	Achieved
Organic profit growth*	> 5%	7%
Organic revenue growth*	> 5%	5%
Revenue outside UK/Europe/USA	30% by 2015	27%
Return on Sales	> 18%	21.2%
Returns on Total Invested Capital	> 12%	16.3%
R&D investment (% of revenue)	> 4%	4.8%
Cash conversion	> 85%	87%
* at constant currency		
Halma Financials – June 2015		

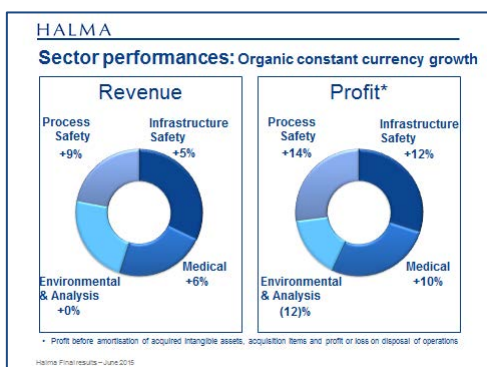
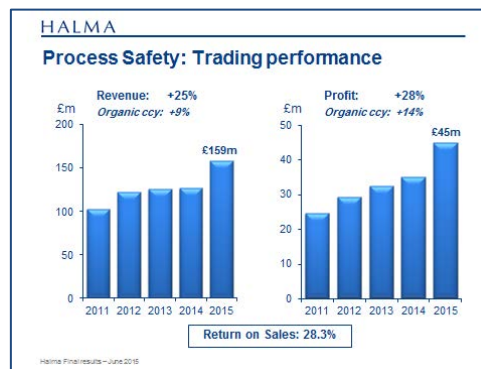
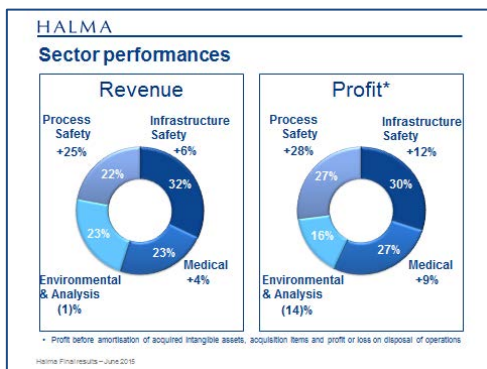
We have once again performed well against our financial Key Performance Indicator (KPI) targets. Organic profit growth at constant currency of 7% was above our 5% target, with revenue growth in line with target. Returns remained high, with Return on Sales<sup>2</sup> at 21.2% (2014: 20.7%) and above our 18% minimum target. Continued R&D investment and strong cash conversion will support our future growth.

#### Andrew Williams reviewed the trading performance of each sector.

Halma has a well-balanced portfolio with two Safety related sectors, a Medical sector and an Environmental & Analysis sector. All four of our sectors have good long-term growth opportunities and high returns.

Three sectors, Process Safety, Infrastructure Safety and Medical made very good progress in the year, increasing both revenue and profit, while the Environmental & Analysis (E&A) sector had a small reduction in revenue and lower profit. All four sectors achieved organic<sup>4</sup> constant currency revenue growth and our Process Safety, Infrastructure Safety and Medical sectors all delivered double-digit organic constant currency profit growth.





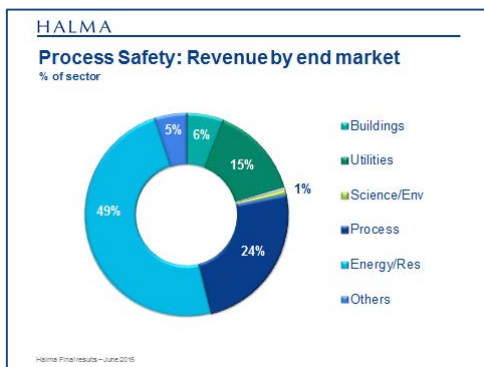
The disappointing performance in E&A was due to the two major factors previously highlighted: the consolidation of two of our photonics optical coating facilities in the first half of the year and lower spending by UK water utilities throughout the year, due to them being in the final year of their 5-year investment cycle. The photonics consolidation was completed in October 2014. We expect the rate of investment from UK water utilities to improve in the coming year as they began their next 5-year budget cycle in 2015.

The **Process Safety** sector had a very strong year with revenue up 25% to £159m, including 9% organic constant currency growth. Profit improved by 28% to £45m, including 14% organic constant currency growth. Return on Sales improved from 27.5% up to 28.3%.

This sector sells into diverse end-markets although, in almost all cases, demand is driven by increasing health and safety regulation. There were strong performances from our Bursting Disk and Valve Interlock businesses and an encouraging performance from our recent acquisition, RCS, which specialises in pipeline corrosion monitoring.



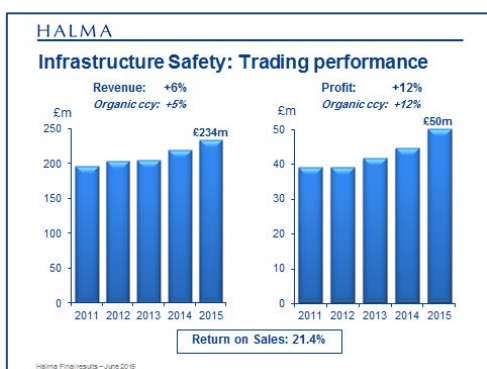
There was revenue growth in all regions with the USA performance boosted by strong organic growth from our Bursting Disk businesses and the RCS acquisition. There were strong increases in Asia Pacific and 'Other' regions, both of which benefitted from the RCS contribution. 'Other' revenue included a large valve interlock sale to South America. Revenue growth in the UK was lower this year, impacted by reduced demand from the North Sea oil industry. We achieved encouraging growth in Europe.



Almost half of this sector's revenue is from the energy sector. 90% of what we sell here is in mid- and downstream oil/gas applications and the vast majority of demand is driven by safety regulation. Our businesses selling into this market performed well during the year despite the low oil price, although we do continue to expect a tougher year ahead. Consequently, we continue to increase investment in diversifying into new markets through new product development and international market expansion.

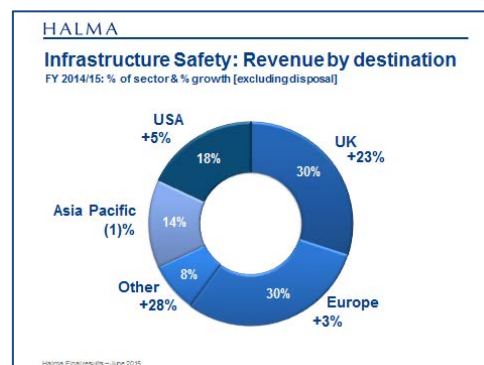
In summary, Process Safety had a very strong year with significant organic growth boosted by a substantial acquisition. We expect this sector to make progress in the year ahead although we anticipate market conditions will be tougher due to slower demand from the oil and gas market segment.

**Infrastructure Safety** delivered an excellent performance with revenue up 6% to £234m, including 5% organic constant currency growth. Profit improved by 12% to £50m, including 12% organic constant currency growth. Return on Sales improved from 20.2% up to 21.4%.

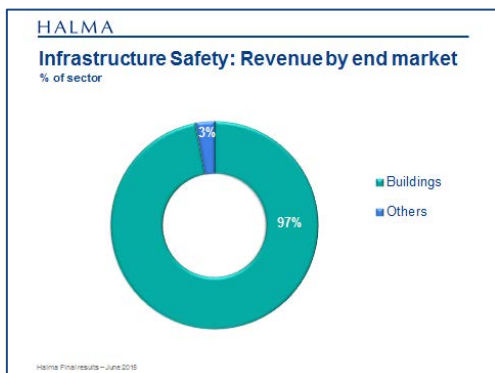


Demand in this sector is predominantly driven by health and safety regulation. Our fire detection, automatic door sensor and security sensor businesses all performed well. Advanced Electronics, the UK based fire panel manufacturer acquired in May 2014, also performed well and added fire panel and system capability to our wide range of fire detection devices. During the year we sold our New York-based elevator fixture manufacturing business, Monitor. The margins and returns of this business were coming under increasing pressure due to a lack of product IP and growth opportunities outside its local region.

Infrastructure Safety increased revenue including organic constant currency revenue growth in all developed regions. The encouraging performance in the UK was boosted by the acquisition of Advanced, but also included double-digit organic growth.

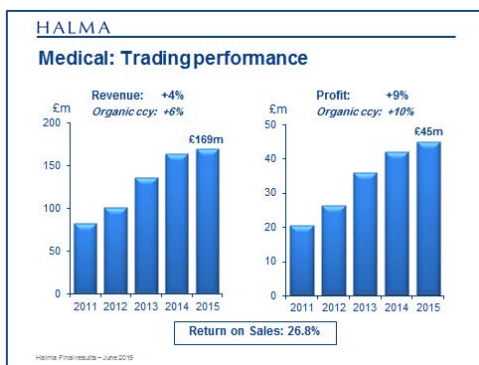


There was strong growth in 'Other' regions with revenue up 28%, including particularly good increases from the Near and Middle East. There was a small decline in Asia Pacific and here we are reshaping our product offering in our fire, elevator and door sensor businesses to ensure they are more appropriate for the local market needs.



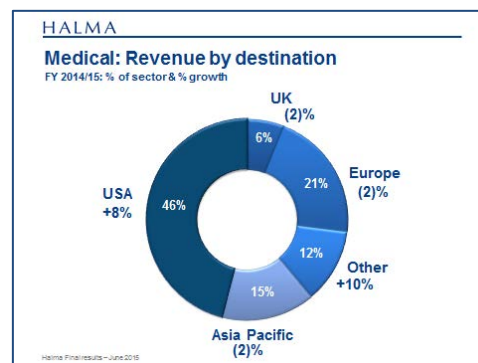
Two-thirds of what we sell in this sector is for refurbishment and modernisation rather than new construction. Over 90% of our revenue comes from commercial applications with a relatively small proportion going into residential markets. Demand is driven by health and safety regulation and this sector has delivered sustained growth and high returns over many years. We expect this trend to continue in the year ahead.

Our **Medical** sector achieved a strong full-year performance after a slow start to the year. Revenue increased by 4% to £169m, including 6% organic constant currency growth. Profit was up by 9% to £45m, which included 10% organic constant currency growth. Return on Sales improved from 25.6% up to 26.8%.



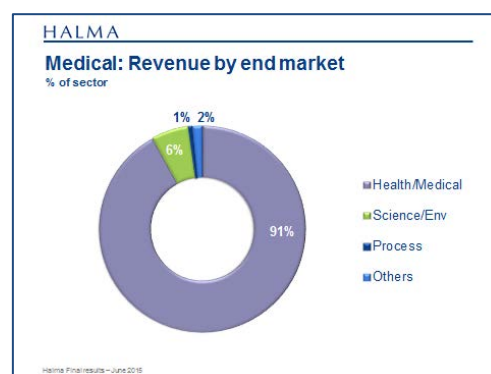
Increased demand for healthcare drives the demand for our products. Growth in many of our chosen market niches is also boosted by the increasing occurrence of conditions such as obesity, diabetes and hypertension. This is particularly relevant for our ophthalmic and vital signs device businesses, both of which made strong progress. Our fluid technology businesses

achieved an improved performance in the second half, after a slow start to the year.



Revenue from USA constitutes almost half the sector revenue, which is also a reflection of this country's significance in the global medical device market. Here revenue was up 8%, including 10% organic constant currency growth. The 'Obamacare' healthcare reforms in the US are becoming more established, giving our customers greater certainty to support their buying decisions.

Revenue from the UK, Europe and Asia Pacific was slightly lower although Europe and Asia Pacific did deliver positive organic constant currency growth. The key to improvement in these regions is the successful delivery of a strong new product pipeline which will help us to gain market share and expand into adjacent market niches.



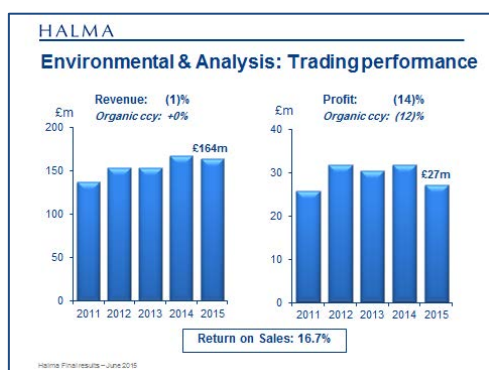
Our Medical sector revenue is dominated by the healthcare and medical device markets. One of the keys to us growing faster than the market overall is to choose our niches carefully where specific medical conditions drive demand above the basic market



growth rate. Around 6% of sector revenue is to Science and Environmental markets. Nearly all of this is from our fluid technology businesses which sell specialist fluidic valves, pumps and tubing components.

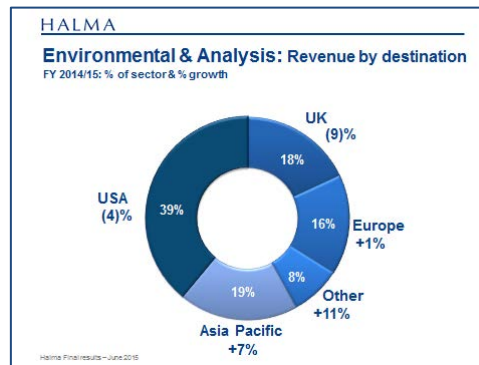
In summary, this was a strong year for our Medical sector and it remains well placed to make further progress in the year ahead.

The **Environmental & Analysis** sector had a challenging year, although a significant improvement in performance started to emerge in the second half of the year.



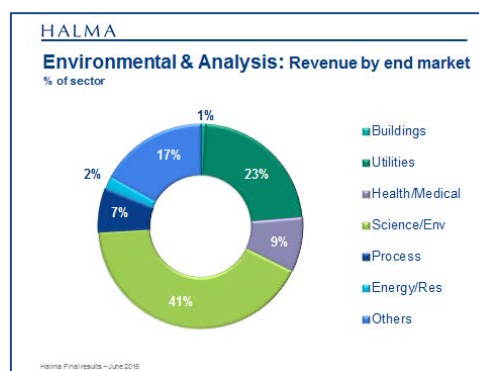
Revenue reduced by (1)% to £164m, although encouragingly there was slightly positive organic constant currency growth. Profit reduced by (14)% to £27m including a (12)% organic constant currency decline. Return on Sales was 16.7%. There were no acquisitions in this sector this year and there was a 1% - 2% adverse currency impact.

As mentioned earlier, the first half of the year was disappointing as we completed the consolidation of two of our photonics optical coating businesses in the US and the UK water utilities reduced spending at the end of their 5-year investment cycle. However, we did see an encouraging improvement in the second half of the year compared to the first half, including revenue up by 16%, profit up over 30% and Return on Sales improving from under 16% to over 17%. We expect Return on Sales to come back into our group target range of 18% - 22% range in the current year.



In developed markets, the strongest growth was from Europe including mid single-digit organic growth due to improving demand for our photonics and water quality testing equipment. UK revenue was down (9)%, reflecting the reduced demand from UK water utilities whilst the USA was down (4)% mainly due to the disruption caused to us by the consolidation of our two photonics businesses. In developing markets, Asia Pacific performed well with mid single-digit growth, also helped by good demand from our water quality test businesses and an improved performance from our UV water treatment business which is expanding further in the bottled drinking water market.

Environmental & Analysis is our most diverse sector. The largest market segment is Science and Environmental which is a substantial end-market for our photonics and specialist gas conditioning businesses, which continued to perform well.



In summary, this was a disappointing year for this sector but we expect the improved performance in the second half of 2014/15 to continue into 2015/16, especially as UK water utilities are expected to start to

increase investment during the latter part of the year.

### Finally, Andrew Williams gave an update on Halma's strategy for growth.

Halma continues to focus its strategic investment on innovation, international expansion, talent development and M&A.

**HALMA**  
**Strategy update**

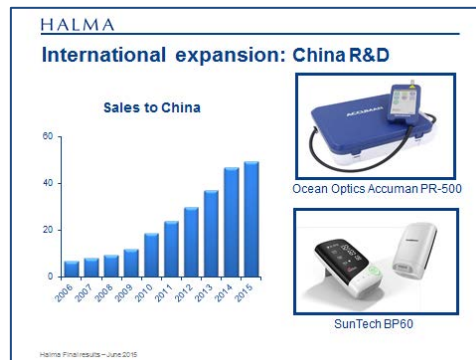
- Innovation
- International Expansion
- Talent Development
- M&A

Halma Financials - June 2015

Our focus on **innovation** encompasses all aspects of our business, including products and processes. In April 2015, we held our fourth biennial Halma Innovation and Technology Exposition (HITE) in Barcelona. This was another excellent event which was created to encourage greater collaboration and knowledge sharing between the senior managers of all Halma companies. This year we introduced a new, innovative format including a 'virtual' trade show and it was particularly encouraging to see how collaboration is now firmly embedded in the Halma culture.

A key focus for **international expansion** in recent years has been to increase localised new product development. An example of this is in China where revenue has increased from £6m to £49m since we established our first commercial hubs in Shanghai and Beijing in 2006. Following regional expansion and the creation of a manufacturing hub, our latest initiative was to introduce a subsidy program in 2013 for subsidiaries to add local R&D resources to develop products for the local markets. So far, 15 companies have recruited a total of around 25 engineers and started 27 new product development projects. Of these, 10 products have already been launched contributing £2m to revenue in 2014/15 and

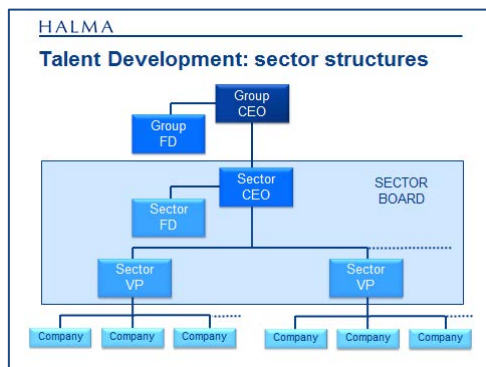
their contribution is forecast to grow to £5m in 2015/16.



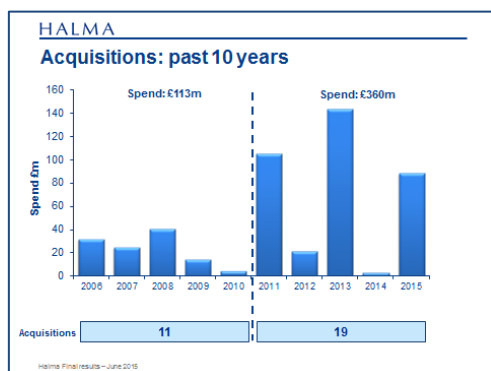
Examples of these new products include Accuman from Ocean Optics. This is used to test the authenticity of raw materials in pharmaceutical manufacturing. Another Halma company, SunTech, has introduced a smaller, lower-cost blood pressure monitor which has particular appeal for the local Chinese market. Interestingly, both businesses are now considering marketing these products outside of China. This initiative is a good example of how our operating companies can grow faster by being a Halma company.

Our focus on **talent development** this year has included establishing the new Executive Board structure introduced in April 2014, with a Sector CEO (SCE) responsible for each sector. During the year, we have also appointed new Sector FDs (SFD) and Sector VPs (SVP) who chair our operating companies. Of the four SVPs appointed so far, two have been promoted internally and two recruited externally.

This new sector management structure allows each sector to scale-up to potentially become the size of Halma today. In addition, it encourages greater collaboration between sector businesses and assists with succession planning. Each Sector Board, incorporating the SCE, SFD and SVPs, provides more senior management resources to accelerate the M&A activity within that sector. I have been very pleased with our ability to make this significant change this year yet continue to deliver strong financial results and increase investment for the future.



Over the last 10 years, we have increased the pace of our **M&A** activity. In the second half of this past decade, we have completed almost twice the number of acquisitions and invested over 3 times the amount of capital compared to the first five years.



We have accomplished this during a period of good organic growth, excellent cash generation, increased investment and strong returns. During the 10-year period, profit has more than tripled from £50m in 2004/5 to over £153m this year, we have spent £473m on acquisitions, £243m on R&D and we have paid £327m in dividends to shareholders. However, this has been achieved without becoming financially stretched. At the end of March 2015 we had a modest net debt of £(101)m compared with net cash of £12m at the end of March 2005.

We need to keep increasing our M&A activity in order to keep pace with the growth of the group overall. We have strong financial capacity and the new sector management structure gives us the resources we need to meet our growth objectives, while still buying small to

medium sized private companies in our chosen sectors.

In summary, Halma has delivered an excellent performance, achieving growth in all regions and organic constant revenue growth in all sectors. We further improved our Return on Sales<sup>2</sup> and maintained a high Return on Total Invested Capital<sup>3</sup>.

We increased strategic investment for growth and continued to benefit from past investment.

Our sustained focus on international expansion has resulted in revenue from outside UK, Europe and USA now contributing 27% of the total group.

We increased investment in new products and focused more of this onto developing markets, including China.

Talent development remains a key priority and the new sector structure is established and working well giving us more resources to support future growth.

Finally, we completed three acquisitions and sold one company, demonstrating our active portfolio management which sustains our success over the longer-term.

I am very pleased with Halma's performance in 2014/15 and we expect to make further progress in the year ahead.

HALMA

**Summary and Outlook statement**

*"..... through continued and disciplined execution of our well proven growth strategy. We expect to make further progress in the year ahead"*

HALMA Final results - June 2015

<sup>1</sup> Adjusted to remove the amortisation of acquired intangible assets, acquisition items, profit or loss on disposal of operations and the effects of closure to future benefit accrual of the defined benefit pension

schemes net of associated costs (prior year only) totalling £20.0 million (2013/14: £1.6 million).

<sup>2</sup> Return on Sales is defined as adjusted profit<sup>1</sup> before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

<sup>3</sup> Return on Total Invested Capital (ROTIC) is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, acquisition items, profit or loss on disposal of operations and the effects of closure to future benefit accrual of the defined benefit pension schemes net of associated costs (prior year only) but after taxation; expressed as a percentage of average shareholders' funds, adding back net retirement benefit obligations, cumulative amortisation of acquired intangible assets and historic goodwill.\*

<sup>4</sup> 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.

\* see the Results published on 11 June 2015 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.

These forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Halma plc. They involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any results, performance or achievements expressed or implied by such statements. They are based on numerous assumptions regarding present and future business strategies and the future operating environment. All subsequent oral or written forward-looking statements attributable to Halma plc or any of its shareholders or any persons acting on its behalf are expressly qualified in their entirety by this cautionary statement. All forward-looking statements included in this document speak only as of the date they were made and are based on information then available to Halma plc. Investors should not place undue reliance on such forward-looking statements, and Halma plc does not undertake any obligation to update publicly or revise any forward-looking statements.

No representation or warranty, express or implied, is given regarding the accuracy of the information or opinions contained in this document and no liability is accepted by Halma plc or any of its directors, members, officers, employees, agents or advisers for any such information or opinions.

This information is being supplied to you for information purposes only and not for any other purpose. This document and the information contained in it does not constitute or form any part of an offer of, or invitation or inducement to apply for, securities.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of laws of any such other jurisdiction.