HALMA

Halma plc
Final results
2015/16

Summary of analysts' presentation by:

Andrew Williams, Chief Executive
Kevin Thompson, Finance Director

14 June 2016

Record results and continued dividend growth

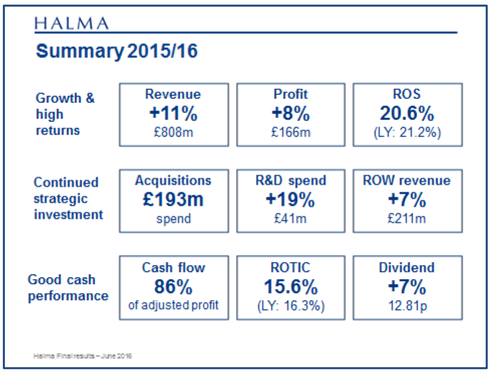
Andrew Williams, Halma's Chief Executive, began by summarising the highlights of the year.

Halma has had an excellent year where we have seen the strength of our strategy and business model coming through in varied market conditions. This was our 13th consecutive year of record revenue, profit and dividend.

Halma operates in markets with resilient growth drivers and we choose our market niches carefully. We can see the benefits of the diversity of these markets in the performance of our sectors. Our Infrastructure Safety and Medical sectors continue to grow well and there has been a strong recovery in our Environmental & Analysis sector. The record performances in these three sectors more than compensated for a challenging year in Process Safety due to weakness in energy related markets, to ensure the Group continued to make good progress overall.

We also benefitted from geographic diversity and have achieved growth in all major regions.

We have created an agile organisation which allows individual companies to adapt to market changes quickly. Their efforts are supported by increasing strategic investment in Innovation, International Expansion and Talent Development.



Our revenue increased by 11% to £808m and adjusted[1] profit by 8% to £166m. Return on Sales[2] at 20.6% was within our 18% to 22% target range. All four sectors had returns within or above this objective.

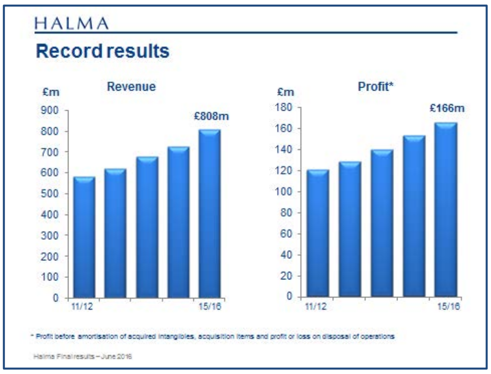
We continued to increase strategic investment for growth in the future. We spent £193m on four acquisitions, a record spend for a single year. R&D spend increased by 19% to a record £41m representing 5.1% of revenue. We are increasingly seeing the impact of digital technologies and data on our product development activities and there are examples of this later in the presentation.

We had record revenue from regions outside our traditional home markets of UK, Europe and USA. This international (ROW) revenue grew by 7% to £211m, with good contributions from both China and India.

It was another year of good cash flow with 86% cash conversion. Return on Total Invested Capital[3] remained strong at 15.6% and we increased our total dividend by 7%. This is the 37th consecutive year that we will have increased our total dividend by 5% or more.

Overall, I was very pleased with the combination of this strong financial performance and record investment which means we are well placed to make further progress in the year ahead in line with our expectations.

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



This is the 13th consecutive year of record results and we have increased revenue in 40 of the last 42 years. The chart above shows the progress achieved in revenue and adjusted[1] profit in the past five years.

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Revenue growth

FY 2015/16

	% growth
➤ Organic constant currency growth	6%
➤ Currency	2%
➤ Acquisitions	3%
➤ Headline growth	11%

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Revenue increased by 11% (£82m) to £808m (2015: £726m). Organic[4] constant currency revenue growth was 6%, ahead of our KPI of 5% growth. Currency translation had a 2% positive impact and acquisitions (net of a small disposal in the prior year) a 3% positive impact this year.

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Revenue growth

FY 2015/16

	£m	Total	Organic: Constant Currency
H1	380	11%	7%
H2	428	11%	4%
Total	**808**	**11%**	**6%**

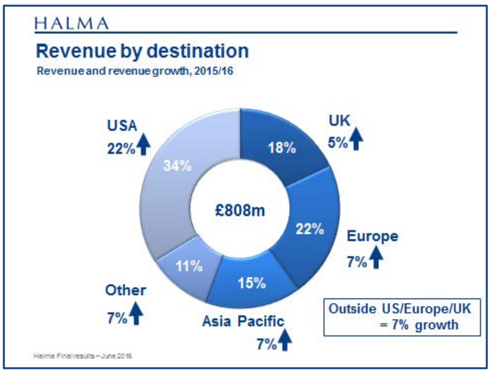
Halma Final results – June 2016

There was 11% headline growth in both first and second half, with a larger contribution from acquisitions in the second half.

Organic[4] constant currency revenue growth was 7% in the first half and 6% for the year. We had an extra week's trading in the first half of this year (due to our accounting calendar operating on 52 or 53 week years). Also, in the second half of last year, Process Safety benefited from a €4m contract in South America which did not repeat this year.

Measured at organic[4] constant currency all four sectors increased revenue in the second half compared with the first half.

There was good revenue growth in all main geographic regions.



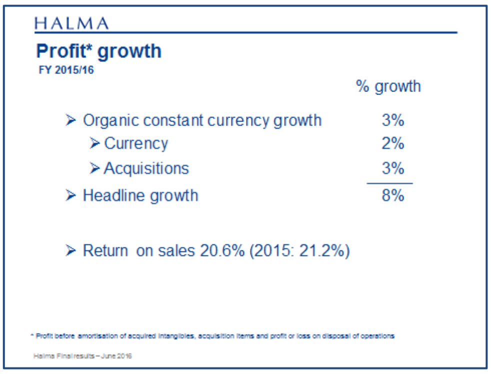
The USA remains our largest sales destination, now 34% of Group revenue, up from 31% last year, following 22% growth. All sectors grew revenue in the US with very strong growth from Infrastructure Safety, Medical and Environmental & Analysis sectors.

All sectors increased sales in the UK and also in Mainland Europe with the latter seeing particularly strong growth in the Medical sector. There was a revenue increase of 13% within US/Europe/UK.

Asia Pacific growth was mixed with good growth in Medical and Environmental & Analysis. Revenue growth in our "Other" territories included strong growth in Africa, Near and Middle East and a decline in our business in South America. Revenue outside US/Europe/UK grew by 7%.

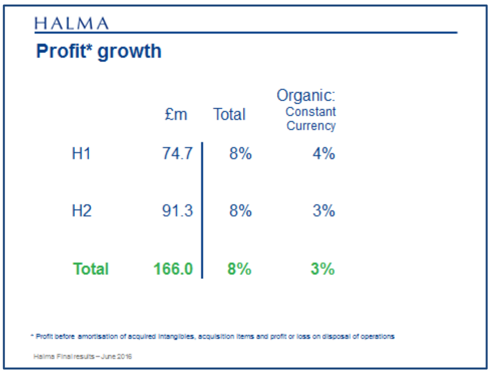
Measured at organic constant currency there was 9% increase in US revenue, solid performances in the UK, Europe, and Asia Pacific and a slight decline in "other" territories due to less business in South America.

Adjusted[1] profit increased by £12.4m to £166.0m (2015: £153.6m), up 8%.



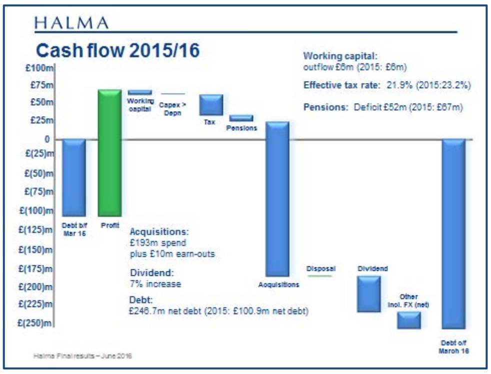
The full year ended with 2% currency translation benefit and 3% contribution to profit from acquisitions. At organic constant currency we grew adjusted[1] profit by 3%.

Return on Sales[2] was 20.6% (2015: 21.2%) with gross margin high, remaining above 64%, although a little lower than last year in the Process Safety sector. In addition there was an increase in Group financing cost due to higher average debt and higher interest rates on the US Private Placement.



The first half/second half adjusted[1] profit split was 45%/55%, quite typical for Halma, and in line with our current expectations for the coming year. All four sectors made more profit in the second half than the first half. As expected, Process Safety did not grow in the second half when measured at organic[4] constant currency, and Environmental & Analysis showed the strongest growth.

There was significant volatility of major currencies this year relative to Sterling. Sterling finished the year 6% weaker relative to the US Dollar and 8% stronger relative to the Euro, giving a net currency translation benefit to revenue and profit of 2%. If exchange rates continue around current levels we would expect a 2% positive impact from currency translation in 2016/17 with an estimated 3% benefit in the first half.



Cash flow was strong in the year with 86% cash conversion. Working capital was well managed across the Group. Capital expenditure was £24m this year (2015: £23m) including £4m expenditure on completing development of a property in the Medical sector, following £5m expenditure on the same property last year.

The effective tax rate was 21.9% (2015: 23.2%) with a reduction in the UK Corporation tax rate and further benefit from R&D related tax reliefs including UK Patent Box. We paid £27m in tax (2015: £31m).

The pension deficit decreased to £52m (2015: £67m). We closed our UK Defined Benefit pension plans to future benefit accrual in 2014, reducing future risk. Following the triennial plan valuations, cash contributions to pension plans will increase from £8m this year to £11m in 2016/17, with smaller increases in future years.

We spent £193m on four acquisitions this year, and paid £10m of deferred consideration related to prior year acquisitions, our highest ever acquisition expenditure in a single year. VAS (Medical sector) based in the USA was acquired for $5m (£3m) in May 2015. Firetrace (Infrastructure Safety sector) was acquired in October 2015 for $110m (£73m) and is based in the USA. Visiometrics (Medical sector) based in Spain, was acquired in December 2015 for an initial consideration of €18m (£13m) and a maximum deferred consideration of €107m (£78m) with our current expectation being a payment of £22m in deferred consideration. CenTrak (Medical sector) based in the USA, was acquired in February 2016 for $140m (£97m). The integration of all acquisitions is proceeding well.

We paid £47m (2015: £43m) in dividends to shareholder in 2015/16. A 7% increase in the final dividend per share is proposed, giving a 7% increase for the year as a whole. This represents the 37th consecutive year of dividend increases of 5% or more.

The Group's financial position remains strong.

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Funding

- USPP over 5,7,10 years
  - $250m
  - Weighted average interest rate of 2.5%
- £360m bank facility – 5 years to 2018
- Comfortable with:
  - net debt ~ 1.25x EBITDA (March 16: 1.27x)
  - temporarily higher gearing to fund acquisitions
- Strong balance sheet with significant capacity

Net debt at year end was £247m (2015: £101m). In the year we completed a US Private Placement for $250m over 5, 7, and 10 years at a weighted average interest rate of 2.5%. This adds diversity to our funding which includes a £360m syndicated credit facility which runs to November 2018.

Gearing (net debt to adjusted[1] EBITDA) was 1.27x at March 2016. We are comfortable with gearing at this level and would allow it to be temporarily higher to fund acquisitions to meet our medium term growth objectives. We have a strong balance sheet, high cash generation and capacity to invest. We aim to maintain sufficient headroom on debt facilities to enable investment as opportunities arise.

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Financial KPI Summary 2015/16

	Target	Achieved
Organic revenue growth*	≥ 5%	6%
Organic profit growth*	≥ 5%	3%
Acquisition profit growth **	≥ 5%	8%
Revenue growth outside UK/Europe/USA	≥ 10%	7%
Return on Sales	18% - 22%	20.6%
R&D investment (% of revenue)	≥ 4%	5.1%
Cash conversion	≥ 85%	86%
Return on Total Invested Capital	≥12%	15.6%

* at constant currency
** annualised profit of acquisitions made in the year (net of finance cost) as % of prior year profit
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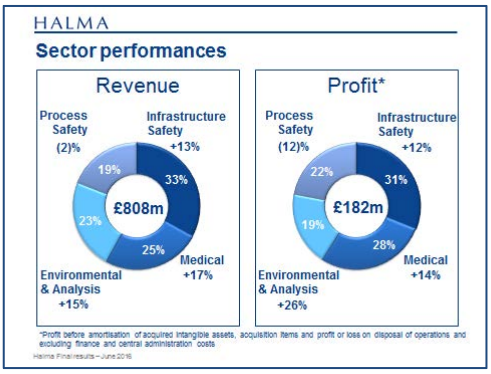
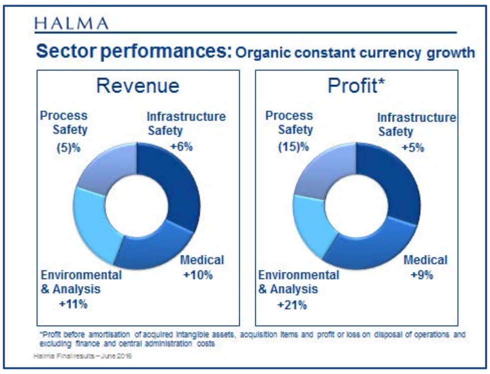
Once again we have performed well against our financial Key Performance Indicators (KPIs). Organic[4] revenue growth at constant currency of 6% was above our target of 5% and organic[4] profit growth at constant currency was just below target. Profit from acquisitions was above target and returns (Returns on Sales[2] and Return on Total Invested Capital[3]) continued at a high rate. Strong cash conversion has enabled further investment in our businesses, including in R&D for new products, which will support our growth in the future.

Andrew Williams reviewed the performance of each sector in more detail.

The Group has made excellent progress and I am especially pleased with the revenue growth. This reflects our strong market growth drivers including increasing health and safety regulation, increasing demand for healthcare and increasing demand for life critical resources including water and energy. We have also continued to sustain increased investment in new products, International Expansion and Talent Development.

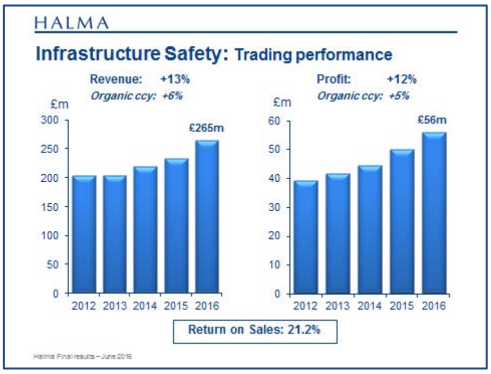


We have a well balanced portfolio with all four of our sectors offering good long-term growth. There were record results in Infrastructure Safety, Medical and the Environmental & Analysis sectors with more resilient demand in Process Safety despite the adverse impact of weaker energy markets. Process Safety profit reduced more than revenue, partly due to the lower gross margin achieved on sales into non-oil and gas markets and partly due to increased investment and diversification into those new markets.

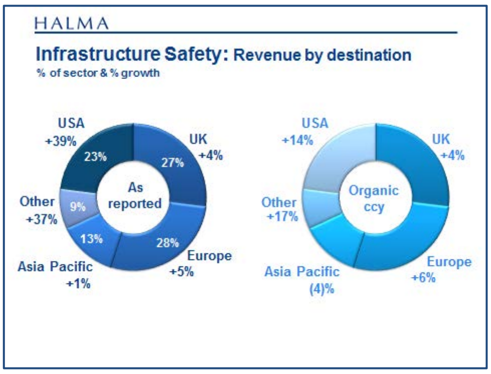


Organically we see similar relative performances from the four sectors and I have been particularly happy with the recovery in Environmental & Analysis together with the continued strong performance of Infrastructure Safety and Medical.

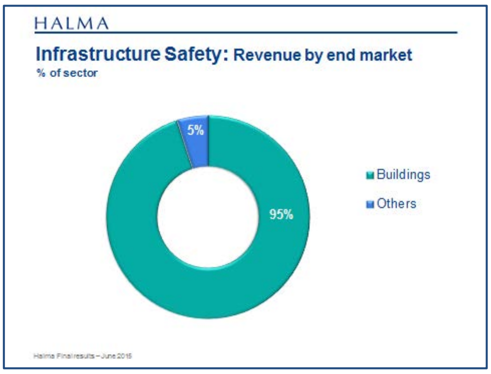
Our largest sector, **Infrastructure Safety**, delivered a good performance with revenue up 13% to £265m including organic constant currency growth of 6%. Profit improved by 12% to £56m, including organic constant currency growth of 5%. Return on Sales[2] at 21.2% was in line with the prior year.



In this sector, demand is driven by increasing health and safety regulations and the majority of what we sell is installed into existing infrastructure rather than being reliant on new construction – a trend we are now seeing emerge in China. Of the individual business segments, our Fire Safety and Door Safety businesses performed very strongly whilst our Elevator Safety and Security Sensor businesses had more mixed performances. We acquired Firetrace, a US based fire suppression business which complements our existing strong fire detection capabilities. The integration has proceeded well.



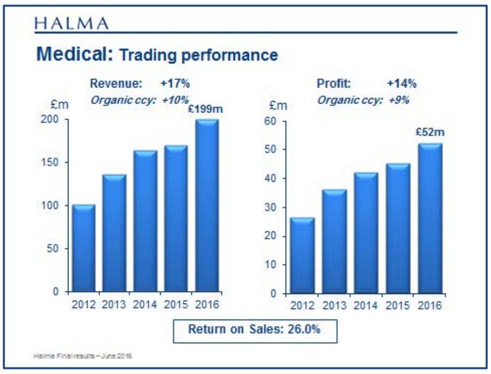
Infrastructure Safety achieved growth in all developed markets. Organically, the strongest growth was in the USA, in particular due to good growth in Fire and Door Safety. In Europe, there was also good growth especially in Germany. In Asia Pacific, organic revenue was down with weaker demand in China for our Fire and Elevator Safety products, although we saw a good upturn in demand for our Security Sensors in India. In Other markets there was a strong performance from our Fire businesses in the Middle East region.



Two thirds of revenue is from refurbishment or modernisation of existing infrastructure and one third due to new construction. Around 90% of what we sell is into commercial property. However, the residential segment is growing, with more home automation systems linking into our Fire and Security systems. The 5% of 'Other' revenue includes transportation which is a market served by both our Door Safety and our new fire suppression business.

In summary, Infrastructure Safety has had a good year. With continued growth in developed markets, improvements in developing markets and the acquisition of Firetrace it is well placed to make further progress in the year ahead.

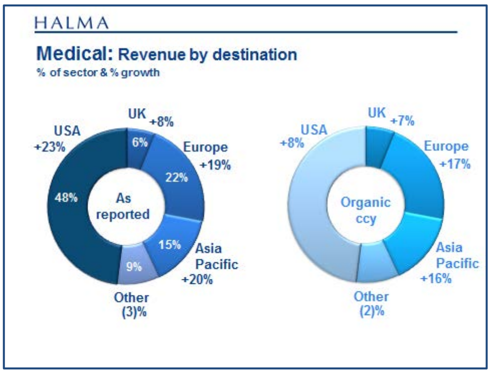
Our **Medical** sector delivered a very strong performance and is now closing in on Infrastructure Safety as Halma's highest profit sector. Revenue improved by 17% to £199m, including organic constant currency growth of 10%. Profit improved by 14% to £52m, including organic constant currency growth at 9%. Return on Sales[2] remained strong at 26%. This was slightly lower than last year, partly due to the new acquisitions and partly due to R&D investment increasing by more than 30% this year.



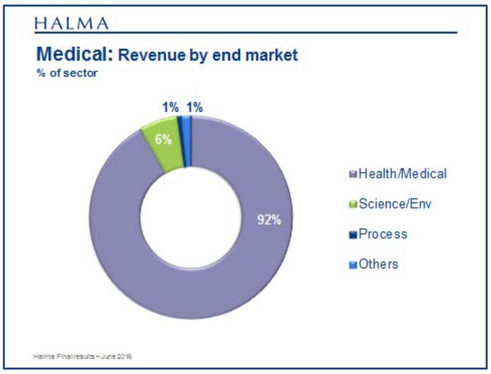
Growth in this sector is underpinned by increased demand for healthcare globally, although we choose our niches carefully so that they have the potential to grow at a faster rate than the market overall. Demand for many of our products is driven by the increasing prevalence of medical conditions such as obesity, diabetes and hypertension.

Our Medical sector activities fall into two categories. We have products which improve patient care (e.g. ophthalmology and vital signs monitoring) and products that improve solutions for healthcare providers (e.g. fluidic components for blood analysers and our real-time location monitoring of facilities).

During the year we completed three acquisitions. In H1, we acquired VAS, a bolt-on for one of our fluidic component businesses, Diba Industries based in the US. In H2, we acquired Visiometrics, a new ophthalmic device manufacturer. Towards the end of the year, we acquired CenTrak, adding the new market niche of real time location monitoring. These acquisitions are explored in a little more detail later on in the presentation.



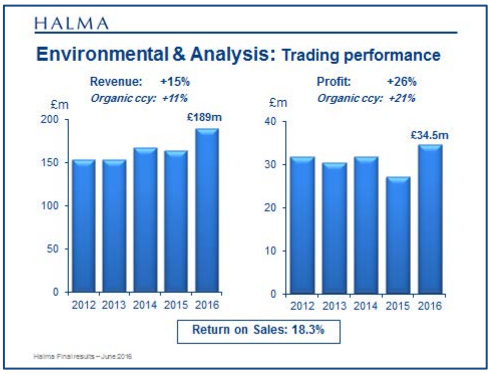
There was strong growth in all major regions, except South America. Demand in the USA was particularly strong for our ophthalmic and fluidic components. We saw a significant revenue increase from Europe and this was widespread across the sector businesses. There was good growth in France, Germany and Netherlands as major OEM customers increased their demand. It was pleasing to see the strong performance in Asia Pacific, which was again widespread across the sector. Revenue from China was up by almost 30% as we continued to benefit from recently gained product approvals and improved distribution.



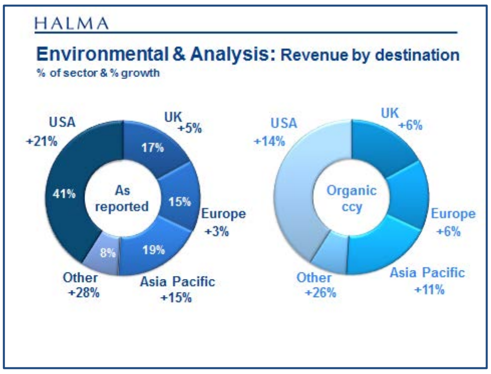
Demand for our Medical products is dominated by the Healthcare and Medical markets. The addition of CenTrak and Visiometrics strengthens this. 6% of revenue comes from Science and Environmental markets, which is for our fluidic components.

In summary our Medical sector had another very strong year with three acquisitions, good organic growth and more investment in new products and international expansion. We expect more progress in the year ahead.

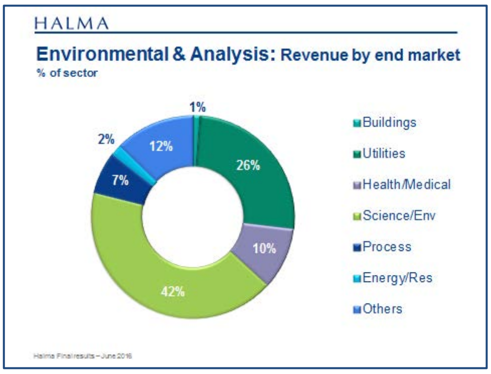
Our **Environmental & Analysis** sector achieved a record year. Revenue improved by 15% to £189m, including organic constant currency growth of 11%. Profit improved by 26% to £34.5m, including organic constant currency growth of 21%. Return on Sales[2] improved to 18.3% and is now back within the group's 18% - 22% target range as expected.



Demand in this sector is driven by the need for life critical resources. Our technology improves the quality of the air that we breathe, the water that we drink and the food that we eat. All sub-sectors contributed to another record year. Our Water businesses started to see more demand from UK water utilities in the second half of the year and also saw improving demand for their technology in developing markets. Our Photonics businesses have found new major OEM customers and, through product and process innovation, also grew in developing markets.



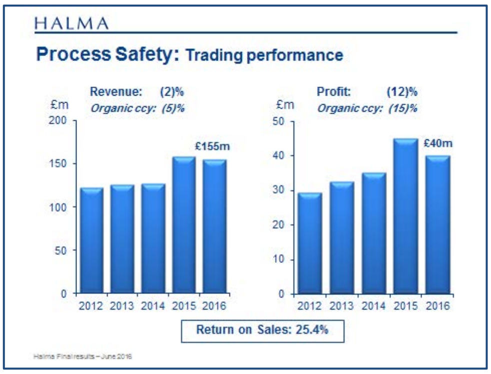
There was strong growth in all regions both as reported and organically. In the USA there was a significant increase in revenue across all sub-sectors and in Asia Pacific double-digit organic growth was supported by a strong performance in India and China. In Other markets there was particular good growth in the Middle East from our Water and Photonics businesses.



The Environmental & Analysis sector is our most diverse sector in terms of end markets. The largest segment, Science and Environmental is a substantial market for our Photonics and Fluidics businesses. We saw an improvement in demand from UK water utilities in the second half of the year which helped to increase the Utilities segment share from 23% to 26% of the sector. We have some exposure to medical markets in this sector through the sales of our Photonics and Fluidics components.

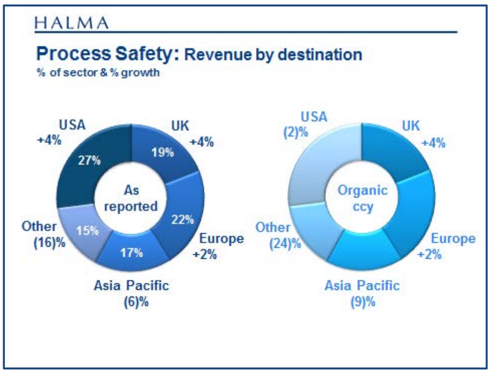
In summary, I have been very pleased with the recovery of this sector this year. There is more that we can do to improve in terms of new products and development internationally and therefore I expect the sector to build on this progress in the year ahead.

Our **Process Safety** sector has had a challenging year although, in the circumstances, I have been pleased with the resilient demand. Revenue was down by 2% to £155m including organic constant currency revenue decline of 5%. Profit was down by 12% to £40m which represents organic constant currency decrease of 15%. I have been pleased with this sector's relatively resilient performance despite seeing slightly lower gross margin. R&D spend increased by 4% and Return on Sales[2] remained strong at 25.4%.



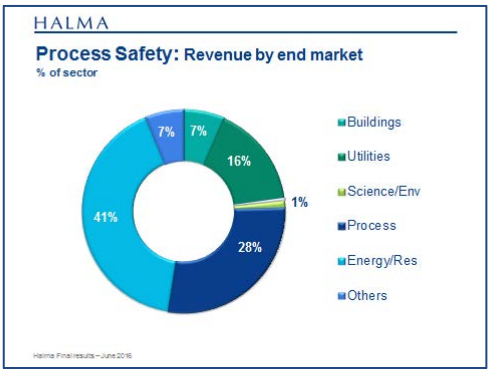
Demand for our products is predominantly driven by health and safety regulation. Despite the current low oil price, I believe that energy remains a good long-term market for us and demand for energy will rise in the medium to long-term. 41% of this sector's revenue comes from the energy markets and 90% of that comes from mid and downstream applications.

The impact of the oil price decline was felt most in our Bursting Disk and Pipeline Monitoring businesses and both have already made progress to diversify into other industries. For example, our Bursting Disk business has refocused efforts from shale gas to pharma, fire suppression and chemical process industries. The low oil price had much less impact on our Gas Detection and Interlock businesses, which both continued to grow.



Overall performance was more positive in developed markets with the UK and Europe increasing revenue.

In Asia Pacific, we saw reduced demand from Energy markets in Australia although there were some bright spots elsewhere with increasing demand in South Korea, China and India. Other regions revenue was lower this year following a major project in South America in the prior year.

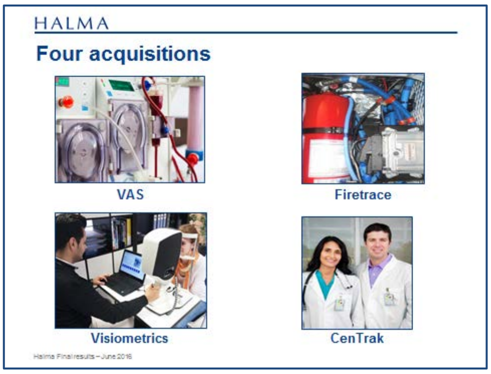


The proportion of sector revenue from Energy and Resources reduced from 49% to 41%, so to maintain just a 2% revenue drop overall required good performances elsewhere. For example, Process Industries improved from 24% to 28% of the sector.

In summary I am reasonably satisfied with how the sector is positioned after a challenging year. We are not anticipating any improvement in energy markets in the year ahead and are relying on other markets to deliver growth.

Andrew Williams gave an update on Halma's strategy concentrating on the four key areas of strategic investment: M&A, Innovation, International Expansion and Talent Development.

Halma completed four acquisitions during the year for a total spend of £193m. Each of these acquisitions was related very closely to our existing activities but each also added new technology and new market opportunities.



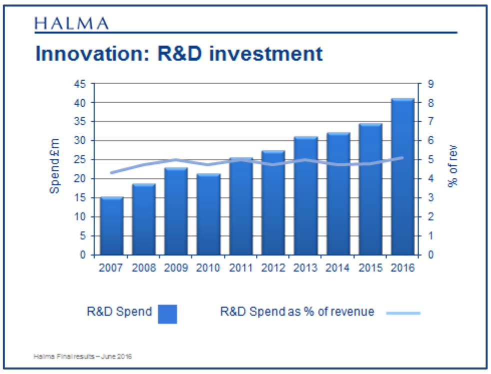
VAS has technology which integrates pumps, valves and connector tubing from other manufacturers within the heart of analytical machines. This acquisition is helping us to bundle fluidic components from Halma businesses, such as Diba Industries, when selling to major OEMs. VAS has integrated well and is already making a good contribution to our Medical sector.

Firetrace adds fire suppression capability to our existing fire detection business. Their fire suppression capabilities have major benefits in confined spaces and they offer our other Fire businesses the opportunity to expand into new markets.

Visiometrics has developed a new way of testing the quality of eyesight objectively. We believe that their technology could become a standard of care worldwide. Consequently, Visiometrics is at an earlier stage in its growth than we typically acquire. This is priced into the deal structure with a larger proportion of consideration based on future growth.

CenTrak is an exciting addition to our Medical sector, and develops real time location monitoring solutions for healthcare facilities. This is used to improve safety, compliance and efficiency. To date it has focussed on the US healthcare market but has recently been conducting trials in other countries, including the UK. Halma can help CenTrak grow internationally especially through collaboration with our existing medical businesses. We can also help expand its technology into other markets through our other sectors. Halma companies can learn from CenTrak how to scale up a digital business and how to leverage external partnerships to grow faster.

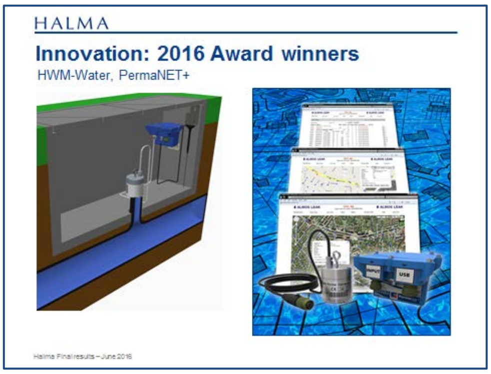
You can view a film on CenTrak on our website:
http://www.halma.com/news/video/acquisitions.aspx



This chart shows that Halma has consistently increased its R&D spend both in absolute terms and as a percentage of revenue, over the last 10 years.

Over the last decade our R&D spend has increased from £15m to £41m and from 4.3% to 5.1% as a proportion of our revenue. Group revenue has grown from £355m to £808m and profit from £66m to £166m. Return on Sales has also improved from 18.6% to 20.6%. I believe that increasing our R&D spend over this period has been a key differentiator for Halma and critical to our ability to outperform markets both in terms of growth and returns.

Great examples of innovation in Halma are recognised in the Halma Innovation Awards, which this year was won by the Halma Environmental & Analysis business, HWM. They have developed Permanet+, a remote leak monitoring and pin-pointing system. This is a great example of how Halma companies are harnessing new digital and communication technology to drive competitive advantage and growth in their market.



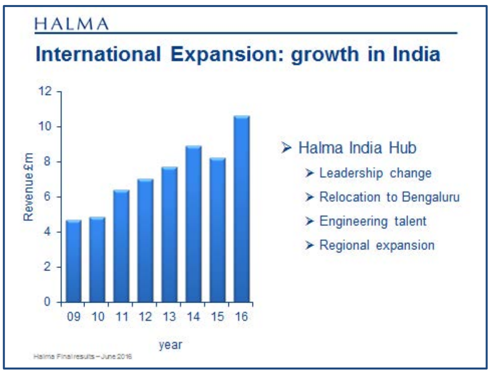
Acoustic sensors and data loggers with GSM communication capability are fitted to pipes underground across a large network or zone of water pipes. Each sensor can automatically determine if a leak is close by and sends an alarm (and leak sound recording) to the water utility which has stored the location of each sensor on their mapping system. If two or more sensors are in leak mode, the remote operator can send instructions (via GSM) to pin-point the leak exactly on the map through a novel time synchronisation algorithm.

Talent Development has continued to be a strong focus for Halma and for me personally. Our Sector board structure is developing well and each sector now has two Sector Vice-Presidents (SVPs), a Sector Finance Director and has, or is recruiting, a Sector M&A Director.

We have revamped our Halma People Development programmes including the launch of a new flagship programme, HPD Enterprise. This programme helps our MDs and SVPs think differently about how to innovate and become more entrepreneurial in their businesses, with a particular focus on digital business models.

We have had another strong intake of graduates on our HPD Graduate programme. Graduates who joined our first programme in 2012 are now working full-time in Halma companies and we are working hard to develop a better understanding of how we can support them after the HPD Graduate programme finishes.

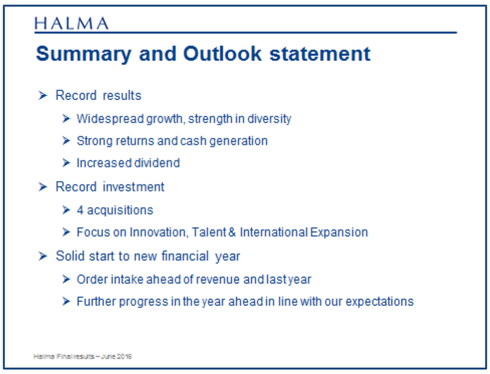
Our commitment to Talent Development is not just about developing individual talent but also provides a great way to foster and encourage Halma's culture of collaboration within our business.



In recent years we have often focused on China, and our activity there continues to develop strongly. However, we are slowly seeing India rise up the agenda of many of our operating companies. It still has a very positive economic environment and safety, health and environmental concerns are slowly gaining traction in society. Our revenue in India is still relatively small at £10m but in the last year it was up by 29%.

This improvement is due to a number of factors, not least the appointment of a new Director of Halma India who is providing more effective engagement with our companies through the Halma India hub, much like we have achieved in China over the last decade. We have relocated our head office from Mumbai to Bengaluru (Bangalore) since this has a much better availability of talent. This is particularly pertinent for those businesses which see opportunities to recruit engineers to support their new product development activities, in countries where availability of local technical talent is more challenging.

We have an active programme of developing new regional offices with additional offices in Chennai and Delhi due to come on-line in the next 12-18 months. Over the next five years I expect India to become a more significant market for Halma companies.



In summary, Halma has had an excellent year with record results. We have seen widespread growth across our business which has also clearly demonstrated our strength in diversity. We have delivered strong returns and cash generation and will have increased our dividend by 5% or more for the 37th consecutive year. It has also been a record year for investment with four acquisitions completed and a continuing focus on investing in Innovation, International Expansion and Talent Development.

We have had a solid start to the new financial year with order intake ahead of revenue and last year. We expect to make further progress in the year ahead in line with our expectations.

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[1] *Adjusted to remove the amortisation of acquired intangible assets, acquisition items and profit or loss on disposal of operations totalling £29.7 million charge (2014/15: £20.0 million).*

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

[3] *Return on Total Invested Capital (ROTIC) is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, acquisition items and profit or loss on disposal of operations 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.*

[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. Acquisitions are removed to calculate organic results for the first full year of ownership.*

Please see Halma's latest results announcements, presentations and webcast at www.halma.com for more details.

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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

Halma plc, Misbourne Court, Rectory Way, Amersham, Bucks HP7 0DE, UK. Registered in England number 40932.
Tel: +44 (0)1494 721111 Fax: +44(0)1494 728032 Email: investor.relations@halma.com Web: www.halma.com

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.

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