HALMA

Halma plc
Final results
2016/17

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

13 June 2017

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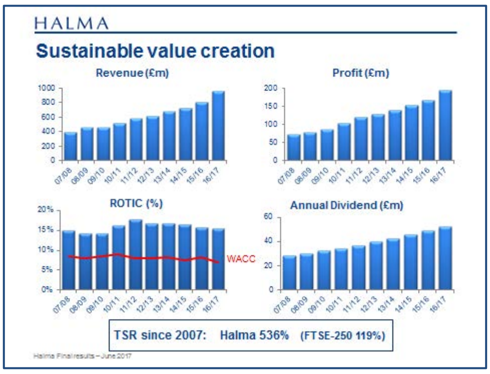
Record revenue, profit and dividend

Andrew Williams, Chief Executive, gave an overview of Halma's strategic approach and performance over the past decade.

Halma has had another record year, once again benefitting from the diversity of its markets and resilient growth drivers. Increasing investment over the past decade in new product innovation, international expansion and talent development has continued to drive organic growth. We have also evolved our culture and organisational structure to meet the challenges and opportunities of the future.



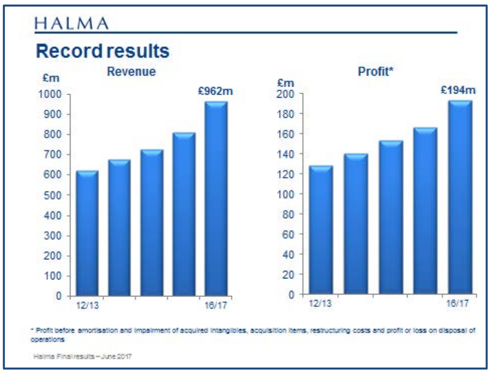
Our strategic goal is to double our business every five years and this aspiration drives the behaviours and growth strategies across our business. It causes us to focus on investing to grow revenue rather than just on cost reduction and efficiency gains. We aim for similar rates of organic, inorganic and dividend growth. We achieve high returns and strong cash generation. If we deliver the targeted rate of growth and returns, we can meet our growth objectives without our balance sheet becoming highly geared. We have an overall goal to keep gearing within 2x EBITDA.

This combination of growth, returns and a strong balance sheet has supported shareholder value creation, through both capital appreciation and dividend growth.

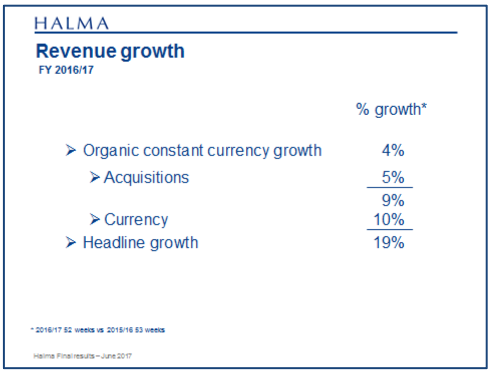
Over the past ten years, revenue and profit have had a compound annual growth rate (CAGR) of 10% and 11% respectively. Return on Total Invested Capital (ROTIC) has been an average of 15.7% versus an average Weighted Average Cost of Capital (WACC) of 8.2%. Dividend growth has had a CAGR of 7%. This has been achieved without net debt exceeding 1.27x EBITDA.

As a result of this, over the last ten years Halma's total shareholder return (TSR) has been 536% compared with the FTSE 250 TSR of 119%.

Kevin Thompson, Finance Director, reviewed the financial performance for the year.



This is the 14th consecutive year of record revenue and profit[1]. Halma has increased revenue in 41 of the past 43 years. The chart above shows the strong progress over the past five years.



Revenue increased by 19% (£154m) to £962m (2016: £808m). Organic[4] constant currency revenue growth was 4%. Contribution from 2015/16 acquisitions, and the acquisition in the current year, was 5% giving 9% constant currency growth. There was also a significant 10% benefit from currency translation in the year.

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Revenue growth

FY 2016/17

	£m	Headline*	Organic: Constant Currency growth*
H1	442	16%	2%
H2	520	21%	6%
Total	**962**	**19%**	**4%**

* 2016/17 52 weeks vs 2015/16 53 weeks

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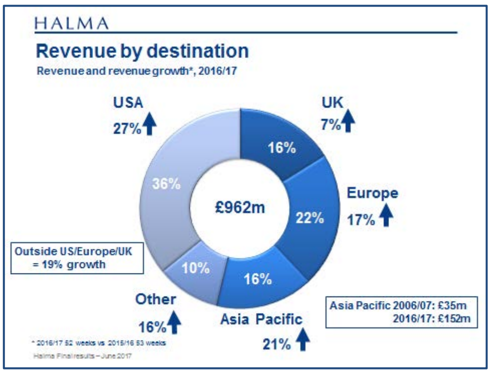
There was one more week in the first half of the prior year and 53 weeks in the full prior year. There were 52 weeks in 2016/17. In future our accounting calendar will finish on 31 March each year.

All four sectors delivered revenue growth. There was higher headline growth in the second half at 21% with a bigger contribution from currency and lower contribution from acquisitions than the first half.

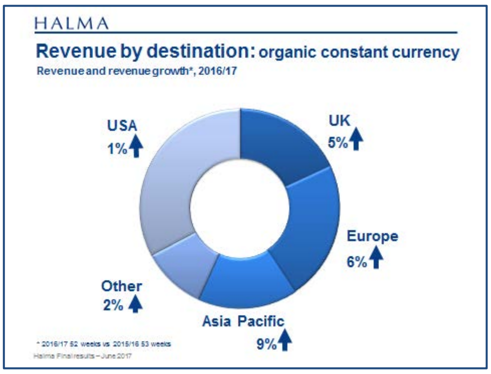
There was organic[4] constant currency revenue growth in all four sectors, with 2% growth in the first half (notwithstanding one less trading week than the prior year) increasing to 6% growth in the second half. We had a strong finish to the year in particular in the two safety sectors.

There was strong revenue growth in all the regions, boosted by the positive impact of currency and the benefit of acquisitions.



The USA remains our largest sales destination, up 27%, at 36% (2016: 34%) of total revenue. All four sectors grew in the USA.

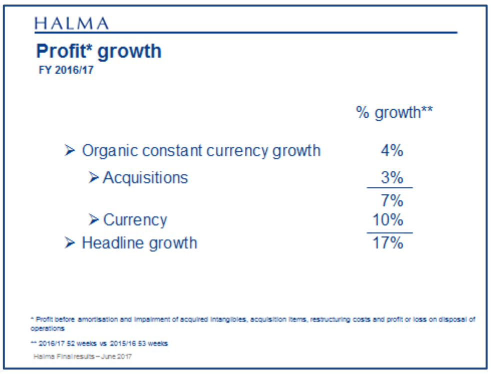
The UK grew by 7% and Mainland Europe was up 17% with all sectors growing. Asia Pacific increased by 21% and at £152m of revenue is only 2% lower than revenue in the UK. Asia Pacific has quadrupled from £35m of revenue 10 years ago. Other countries were 16% higher. Revenue from outside of USA/Mainland Europe/UK was up 19%, the same rate of growth as revenue within those territories.



Measured at organic[4] constant currency USA revenue increased by 1%, with revenue in the second half of the year in line with the prior year. The UK grew by 5% and Mainland Europe by 6% at organic constant currency with good growth in France, Germany and Spain.

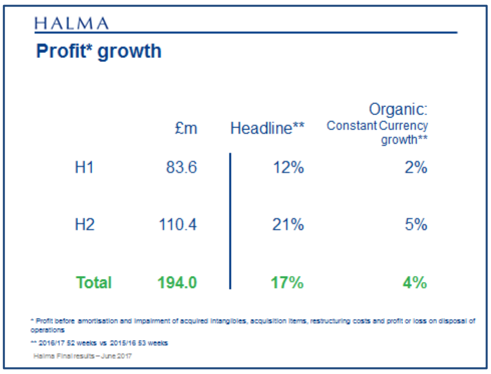
Asia Pacific grew well throughout the year and was up 9% with China up 11% and growth there in all sectors. In Other countries there was a mixed performance in Africa, Near and Middle East, good growth in Canada and some recovery in South and Central America.

Adjusted[1] profit increased by £28m to £194m (2016: £166m), up 17%. Organic[4] constant currency growth was 4%.

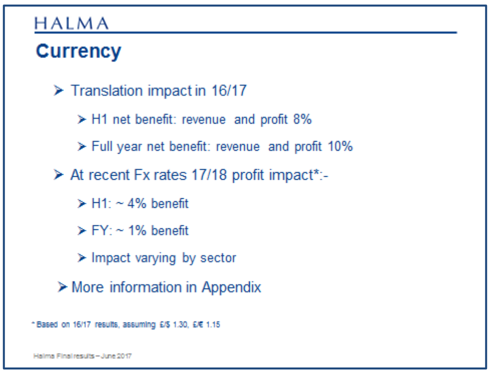


There was 3% contribution to adjusted[1] profit from acquisitions. As noted at the half year, the profitability and performance of the acquisitions made in 2015/16 was below our expectations. As anticipated, their performance improved in the second half of 2016/17, with contracts in place at the time of acquisition at Firetrace and CenTrak progressing to plan. We remain positive about the long term prospects of these businesses.

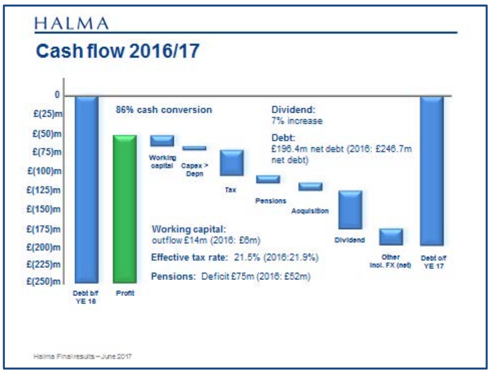
The benefit of currency translation added 10% to adjusted[1] profit this year.



Adjusted[1] profit growth increased from 12% in the first half to 21% in the second half, with a greater second half contribution from currency translation. Organic[4] constant currency profit growth increased to 5% in the second half.



There was significant currency impact on the year's results. Sterling weakened against the US Dollar and Euro in particular following the results of the EU referendum in the UK. In the first half we saw 8% benefit to revenue and adjusted[1] profit from currency translation and this had increased to 10% benefit by year end. If exchange rates continue around recent levels we would expect a 1% positive impact from currency translation in 2017/18 with an estimated 4% benefit in the first half, reversing somewhat in the second half.



There was good cash conversion in the year at 86%, ahead of our 85% KPI metric. Working capital increased, with higher debtors following strong revenue growth in the final quarter of the year. Debtor days remain in line with the prior year. Capital expenditure was £24m this year (2016: £24m). In the prior year there was £4m additional expenditure on Group properties and the underlying current year increase was spread across the four sectors. We are expecting further investment in 2017/18.

The effective tax rate was 21.5% (2016: 21.9%) and we continue to benefit from R&D related tax reliefs including UK Patent

Box. We paid £33m in tax (2016: £27m). There is uncertainty over potential tax legislation changes in the USA and although we do not expect these to be imminent, we are monitoring the situation closely.

The pension deficit increased to £75m (2016: £52m) mainly due to the reduction in the discount rate increasing the value of pension liabilities for accounting purposes. The next pension plan triennial valuations occur over the next 12 months and we will review future pension contributions based on the outcome.

We spent £10m on one acquisition, FluxData, in the year. We have continued to increase resources going into acquisition search and have significant financial capacity available to us.

We paid £50m (2016: £47m) in dividends to shareholders in 2016/17. A 7% increase in the final dividend per share is proposed, giving a 7% increase for the year. This represents the 38th consecutive year of dividend increases of 5% or more.

The Group's financial position remains strong.

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Increased financial capacity

- Revolving Credit Facility
  - increased to £550m (previously £360m)
  - to November 2021
  - 5 existing plus 3 new banks
- In addition to existing $250m USPP
- Capacity for medium term growth
- Year end gearing 0.86x, comfortable up to 2x

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We finished the year with net debt of £196m (2016: £247m). In November 2016 we increased our Revolving Credit Facility to £550m from £360m for five years to 2021. This gives us additional variable funding on top of the US$250m US Private Placement we put in place in 2015/16.

Gearing (net debt to adjusted[1] EBITDA) was 0.86x at the year end (2016: 1.27x). We are comfortable with gearing up to 2x to fund acquisitions and meet our medium term growth objectives. We have a strong balance sheet, high cash generation and capacity to invest.

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ROTIC*

	2013	2014	2015	2016	2017
ROTIC	16.9%	16.7%	16.3%	15.6%	15.3%
WACC**	8.1%	8.1%	7.6%	8.1%	7.1%
ROTIC> WACC	8.8%	8.6%	8.7%	7.5%	8.2%

- ROTIC continues above 12% target
- Achieving a good premium above WACC**
- Driving growth, maintaining good returns

* Return on Total Invested Capital
** Weighted Average Cost of Capital

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Return on Total Invested Capital[3] (ROTIC), the post tax return on invested capital including all historic goodwill was 15.3% (2016: 15.6%) ahead of our target of 12% and well in excess of our Weighted Average Cost of Capital (WACC) of 7%. With our high level of ROTIC, and its premium over WACC, our focus continues to be on prioritising growth organically and through acquisitions.

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Financial KPI Summary 2016/17

	Target	Achieved
Organic revenue growth*	≥ 5%	4%
Organic profit growth*	≥ 5%	4%
Acquisition profit growth **	≥ 5%	1%
Revenue growth outside UK/Europe/USA	≥ 10%	19%
Return on Sales	18% - 22%	20.2%
Return on Total Invested Capital	≥12%	15.3%
Cash conversion	≥ 85%	86%
R&D investment (% of revenue)	≥ 4%	5.3%

* at constant currency. 2016/17 52 weeks vs 2015/16 53 weeks
** annualised profit of acquisitions made in the year (net of finance cost) as % of prior year adjusted profit

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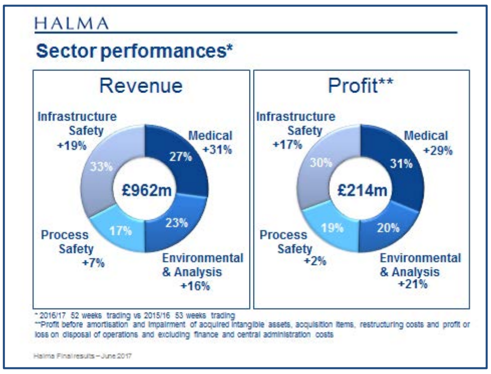
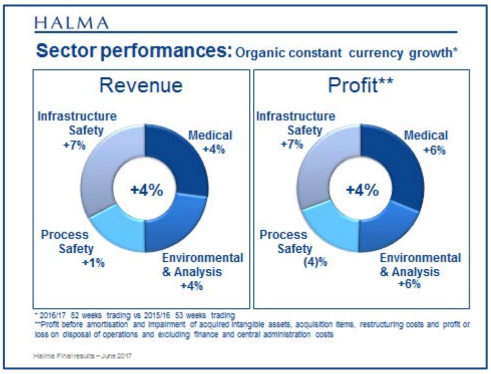
The chart above shows our performance against our KPI targets. Organic[4] constant currency revenue and profit growth were both 4%; adjusting for one less week this year would have put both metrics above our 5% target. Return on Sales[2] continued at a high rate, with the small reduction from the prior year due to lower profitability on recent acquisitions. ROTIC[3] remained high and cash conversion was strong, enabling further investment including record R&D expenditure for development of new products. R&D expenditure increased to 5.3% (2016: 5.1%) of revenue.

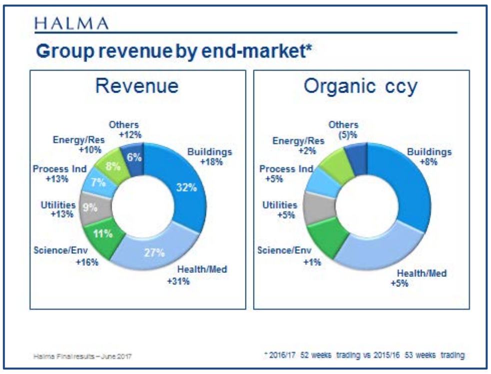
Andrew Williams reviewed the performance of each sector in more detail and gave a strategy update



All sectors achieved record revenue and there was record profit in all sectors, except Process Safety. There was a strong performance from Industrial Safety, although the Medical sector achieved the highest profit for the first time. Environmental & Analysis built upon its strong recovery last year and it was pleasing to see Process Safety return to growth in the second half of the year.

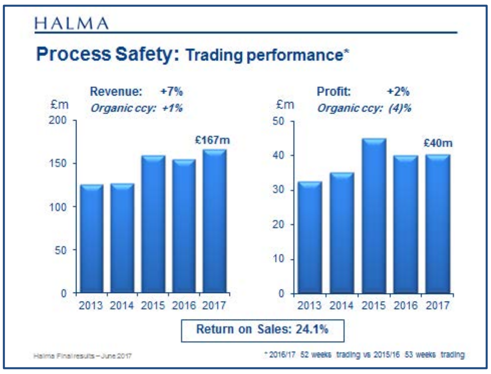


There was organic constant currency revenue growth in all sectors. There was good organic constant currency profit growth in Infrastructure Safety, Medical and Environmental & Analysis. Process Safety delivered a 4% organic constant currency profit decline, but returned to growth in the second half after a 13% organic profit decline in H1.



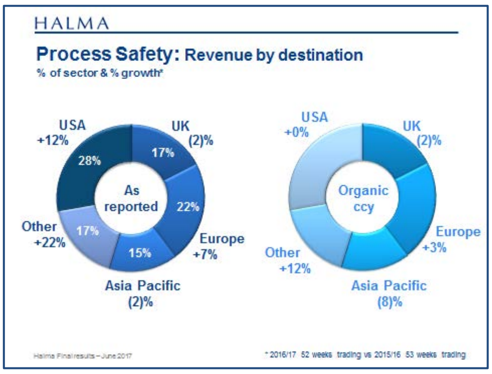
The group continued to benefit from the diversity of its end markets. All major markets reported increased revenue although the underlying organic constant currency trends showed a greater variation.

Organic constant currency revenue growth in the Buildings market segment was 8%, with a strong contribution from Infrastructure Safety. The Medical sector contributed to Health and Medical revenue rising by 5% and a good performance from our Water businesses within the Environmental & Analysis sector boosted Utilities revenue by 5%. Process Safety's recovery resulted in our Process Industries market segment growing revenue by 5%, with Energy and Resources also up by 2%.



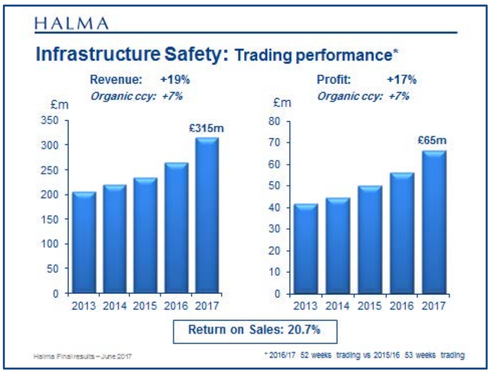
The Process Safety sector achieved a very encouraging result. Revenue was up by 7% to a record £167m, including 1% organic constant currency growth. Profit improved by 2% to £40m. As expected, there was organic growth in the second half of the year. Return on sales was strong at 24.1%. The sector continued to invest in new products and new market diversification with R&D investment up by 5%, which was 3.6% of revenue.

Regional revenue trends were mixed. There was marginal organic constant currency growth in the USA, where weakness in the Pipeline Management business was compensated for by better performances from the Safety Interlocks and Pressure Relief businesses. The latter benefitted from improvement in the USA onshore Energy market in the second half of the year.



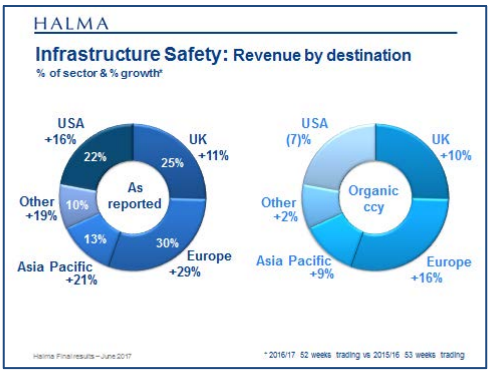
UK revenue was down slightly with low activity in the North Sea Energy market. There was a solid performance from Mainland Europe. In Asia Pacific, conditions remained challenging, particularly in the Energy and Resources markets in Australia. There was a strong performance from Other regions, which represented 17% of Sector revenue. There was 12% of organic constant currency growth, including a strong contribution from the Middle East.

In summary, the Process Safety sector increased momentum in the second half of the year and this, together with an improving order intake trend, provides a good platform for progress in the year ahead.



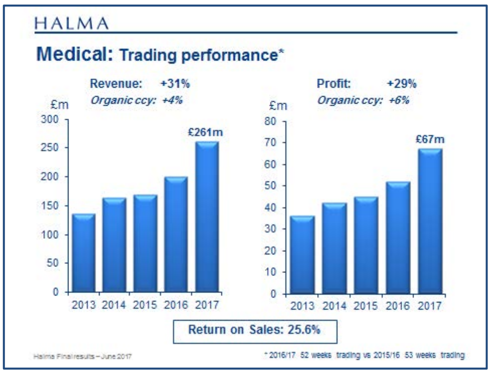
The Infrastructure Safety sector had a very good year with record revenue and profit. Revenue increased by 19% to £315m, including 7% organic constant currency growth. Profit grew by 17% to £65m, including 7% organic constant currency growth. Return on sales remained strong at 20.7%. There was a significant increase of 27% in R&D spend, which was 5.7% of revenue. The Fire Detection and People/Vehicle Flow sensor businesses performed well with solid progress from both Elevator Safety and Security.

As reported at the Half Year, FireTrace, the Fire Suppression business acquired in October 2015, performed below expectations. However, new management and the resumption of a major contract early in FY18 means that we expect to make progress this year and also remain confident of its long term growth prospects.



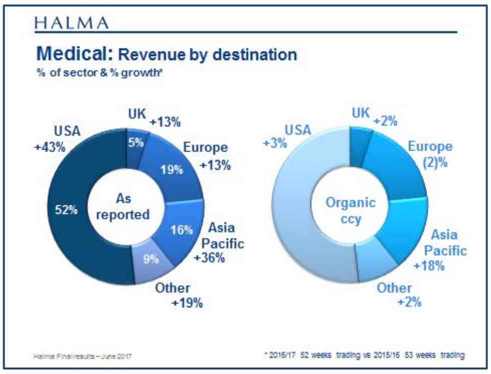
There was double-digit revenue growth in all major regions. In organic constant currency terms, growth was strongest in the UK and Mainland Europe with good contributions from Fire Detection and People/Vehicle Flow Sensors. USA revenue was down by 7% due to a combination of lower demand from Fire Suppression and slower demand in the residential Fire Detection market in particular in the second half of the year. There was widespread progress in Asia Pacific, where organic revenue increased by 9%.

In summary, this was a very good year for the Infrastructure Safety sector with wide spread growth and increased investment. We expect to make further progress in the year ahead.



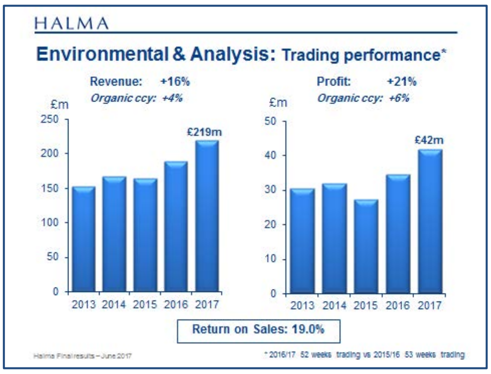
The Medical Sector achieved record results with revenue up by 31% to £261m including 4% organic constant currency growth. Profit improved by 29% to £67m including 6% organic constant currency growth. Return on Sales remained high at 25.6%. R&D investment increased by 27%, which was 4.3% of sector revenue.

There was good progress in the Ophthalmology and Vital Sign sub-sectors. CenTrak and Visiometrics, both acquired in the prior year, performed better in the second half of the year. The trials of CenTrak's real-time location monitoring system with the NHS in the UK are going well.



The USA is the sector's largest market and represented 52% of sector revenue. In organic constant currency terms, USA revenue increased by 3%. The UK improved by 2% with Mainland Europe down 2% due to lower demand from some key ophthalmic OEMs. Strong growth continued in Asia Pacific, with revenue up by 18% supported by a growing contribution from new products and new channels to market.

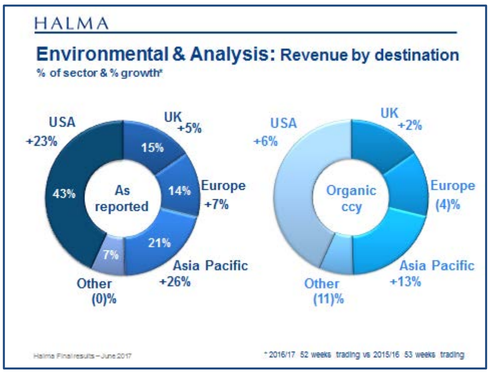
In summary, the Medical sector continued to achieve good growth and continued to invest in new products and international expansion. We expect to see this underpin growth in the coming year.



The Environmental & Analysis sector performed well following an impressive recovery last year. Revenue improved by 16% to £219m, including 4% organic constant currency growth. Profit rose by 21% to £42m, including 6% organic constant currency growth. Both revenue and profit were record results.

Return on sales improved to 19% and was comfortably within our 18% - 22% target range. R&D investment increased by 22% to 6.9% of revenue - the highest rate of investment by any of our sectors.

All sub-sectors performed well. The Life Sciences/Research, Water and Food Safety and Environmental sub-sectors all increased revenue and profit.



There was strong growth in the USA and Asia Pacific. USA had organic constant currency revenue growth of 6% while Asia Pacific was up by 13% including organic growth from China of 20%. Revenue from Mainland Europe was down by 4%. UK revenue was up by 2%, following a stronger contribution from our Water business.

In summary, I was very happy with the progress made this year and the sector is well placed for this to continue in the year ahead.

Halma's long term success has been achieved partly by building on our core strategic and financial strengths and partly by constantly evolving our business. Our ability to sense market and technological changes, change fast and get ahead is one of our key competitive strengths. These strengths are summarised as follows:-.

- We operate in markets with resilient long-term market growth drivers. These include increasing health and safety regulations, increased demand for healthcare and increasing demand for life critical resources.
- Our organisation is agile, with resources kept close to customers. We are a group of small to medium-sized businesses, which are able to move fast as markets and technology shift.
- We have valuable application and technology intellectual property (IP) which generates high returns. Our IP is focussed on niches with sustained growth opportunities.
- We have a strategy-led talent management approach, which ensures that we develop talent and build new capabilities ahead of the changing market needs.
- We leverage the diversity of our business to create greater innovation through collaboration. We support this through a variety of training and group-wide events.
- We help our businesses to expand globally, through direct expertise and our international Halma hubs, particularly in China and India.
- We have proven M&A capabilities which are core to sustaining growth. Halma's decentralised organisation gives us the flexibility to buy, sell and merge businesses as our markets change. Over the past decade we have completed over 25 acquisitions, including one this year and four last year. Although the number of deals in any one year can vary, we can sustain an active approach to portfolio

management with a relentless search process. Our pipeline of opportunities for the next 18 months is good, with a balance across the four sectors.

M&A keeps our portfolio focused on growing markets and also stops the group from becoming too complex as we grow. In 2007 we had revenue of £355m and 39 operating companies. Today, we have revenue of £962m but we still only have 42 operating companies.

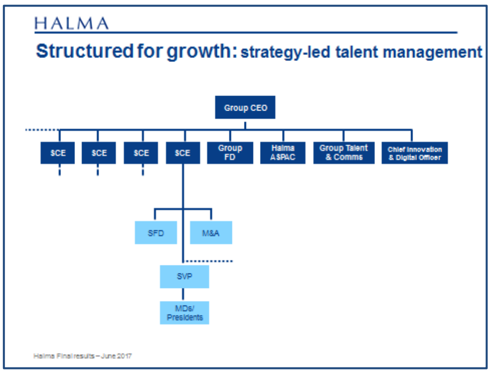
An example of how we increase our innovation through collaboration is the Halma Innovation and Technology event which is held every two years. It began in 2009 as an internal tradeshow at a UK venue and started the process of fostering greater collaboration amongst our companies. It has been transformed into an event which helps us to develop, and communicate, our growth strategy across the group.

This year it was held in San Diego, California and focussed on the challenges and opportunities we face in the 4th Industrial Revolution (the shift to data-led and digital-led business models). We were able to focus our leadership development on the needs for the next 3-5 years.

The event helps to drive cultural change. It has not only significantly increased collaboration but also ensured that our leadership attention is balanced across the short, medium and long-term time horizons and provided an opportunity for us to identify the new talent and skills that we will need to be successful in the future.

You can view a film on the Halma Innovation and Technology event on our website: http://www.halma.com/news-and-media/media-gallery/videos

The evolution of our culture and organisation in recent years is a good example of our ability to change ahead of our market needs. This includes the reorganisation of our Executive Board around our four sectors, which are now operating as 'mini-Halmas' with their own sector boards.



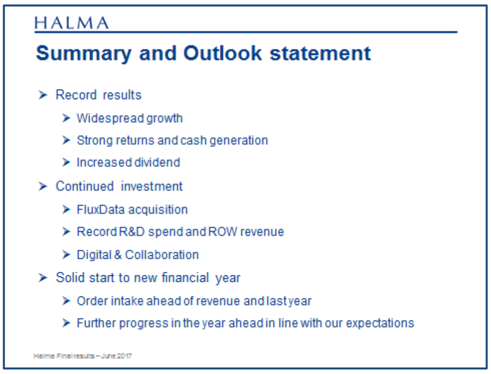
Today's Executive Board retains a simple chain of command, with Sector Vice Presidents (SVP) chairing operating companies and reporting directly into a Sector Chief Executive (SCE).

We have also added new resources and capabilities to support our strategic growth objectives. For example, each sector has a Chief Executive, Finance Director and M&A Director providing around four times more resource for M&A than before. As we add new companies, the structure will also allow us to add extra SVPs and/or new SCEs as the group expands.

We have added new roles to the Executive Board, which reflect our strategic growth priorities. We have a Group Talent and Communications Director and have expanded the Halma China President role to the wider Asia Pacific region.

We have just finalised the recruitment of the new role of Chief Innovation and Digital Officer. I am pleased to announce that Inken Braunschmidt will join us from Innogy SE (previously RWE AG) in early July 2017.

Inken will help the group, sectors and operating companies evolve their digital growth strategies as well as build an even stronger collaborative community across our business.



To summarise, Halma has achieved record results with widespread growth in all sectors. We have continued to achieve strong returns, good cash generation and, once again, increased our dividend.

We continue to invest for the future. Our Environmental & Analysis sector completed the acquisition of FluxData, adding new technology and knowhow. R&D spend was at a record level and we achieved record revenue from markets outside the UK, Mainland Europe and the USA.

We are focussed on our efforts to grow in the digital world, through greater collaboration between our businesses.

We have had a solid start to the new financial year, with order intake ahead of revenue and order intake 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 and impairment of acquired intangible assets, acquisition items, restructuring costs and profit or loss on disposal of operations, totalling £36.3 m (2015/16: £29.7 m).

[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.

** see the Results published on 13 June 2017 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 strategies and the expansion and growth of Halma plc's operations and potential synergies; and (iii) the effects of government regulation on business.

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