HALMA

# Halma plc
# Half year results
# 2017/18

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

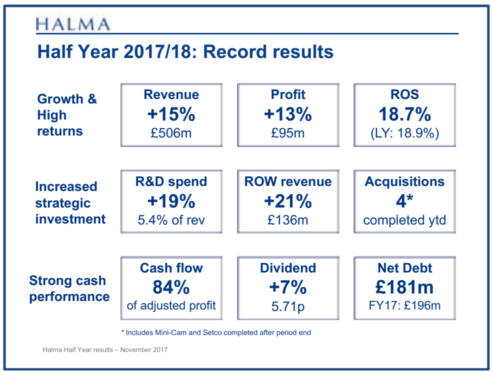
21 November 2017

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

# *Record first half results and continued dividend growth*

**Andrew Williams, Halma's Chief Executive, summarised the half year results.**

Halma had a strong first half, once again benefitting from the diversity of our portfolio and end-markets together with relentlessly increasing investment on innovation, international expansion and talent development. It was also encouraging to see the Sector M&A resources added in 2016 starting to deliver acquisitions.




It was another record first half, with revenue up 15% to £506m and adjusted[1] profit up 13% to £95m. Return on sales[2] remained strong at 18.7%. Gross margins were marginally lower than last year and we continued to invest for growth.

R&D spend was up by 19% to represent 5.4% of revenue. Our long-term investment in international expansion was reflected in Rest of World revenue rising by 21%, representing 27% of total revenue. China revenue increased by 31%, to represent 8% of the group total.

In the year to date, we have completed four acquisitions, including two in the first half year and two since the half year end, spending a total of £94m. This includes the purchase of Setco, a wireless elevator safety solutions business, for €17m earlier this month. I will provide details later in this presentation.

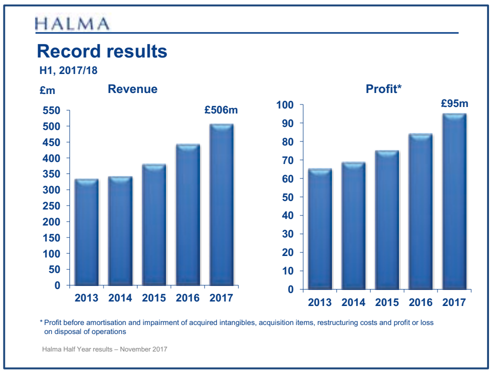
We had strong operating and cash performance. Cash flow was 84% of adjusted[1] profit. We are recommending an interim dividend increase of 7% maintaining our long-term progressive dividend policy. Our balance sheet remains strong with net debt of £181m. We have plenty of capacity for continued investment in line with our organic and acquisitive growth strategy.

In conclusion, I am very pleased with the overall progress made during the first half and Halma remains on track to meet our expectations for the full year.

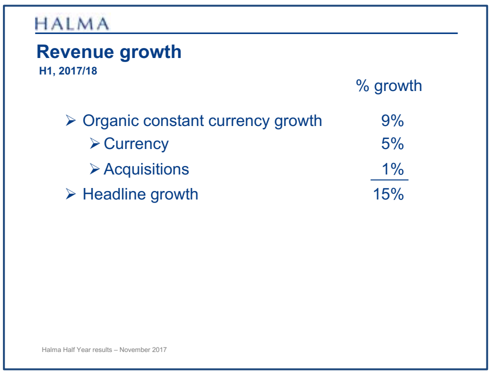
**Kevin Thompson, Finance Director, reviewed the half year's financial performance.**

Halma has delivered another strong set of results with widespread growth and four acquisitions so far this year.

The strong progress and record results over the past five years are shown in the chart below.

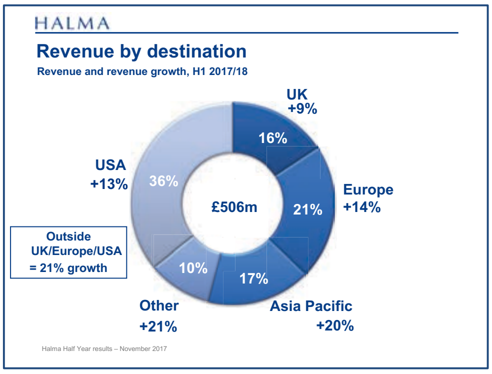



Revenue grew by 15% to £506m (2016: £442m), exceeding £0.5 billion for the first time in the half year results.



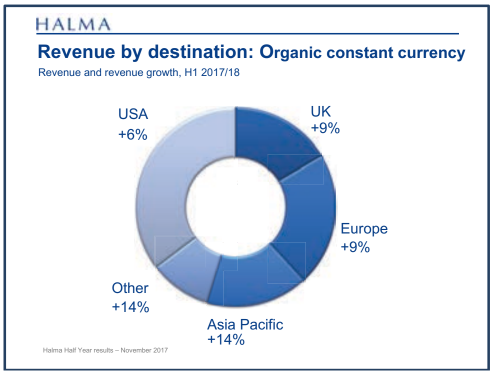

Organic revenue growth at constant currency (excluding the impact of acquisitions and currency translation) was 9%. There was a 5% positive impact from currency translation and 1% contribution from recent acquisitions.

There was strong growth across the geographic regions.



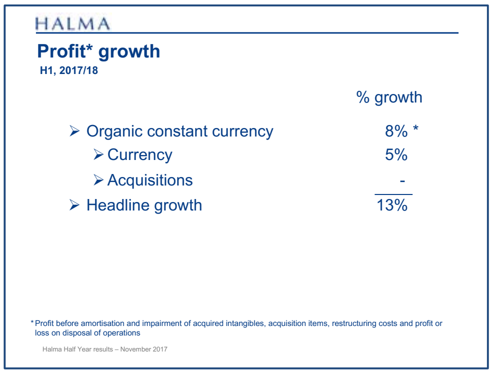

The USA remains our largest sales destination at 36% of Group revenue, up 13% this half year. Asia Pacific and Mainland Europe also showed strong increases with Asia Pacific revenue exceeding revenue to the UK for the first time, despite the UK growing by 9%. Other regions were up 21%. Revenue outside of USA/Mainland Europe/UK was 27% of Group revenue (25% last year first half) with 21% growth.

There was underlying growth in all the major regions at organic[3] constant currency (excluding acquisitions and currency translation impacts).




The USA grew in line with our expectations by 6% with a good recovery in the Process Safety sector. The UK and Mainland Europe both delivered 9% growth, ahead of our expectations. All four sectors grew in the UK, the water business in Environmental & Analysis in particular. It was more of a mixed picture in Europe with the two Safety sectors growing well. Revenue in Germany, Netherlands and Spain increased with France lower.

Asia Pacific achieved strong growth at 14% with very good progress in China, up 24% and growth in all sectors. The Other regions were up 14% with the Safety sectors up in Near and Middle East and with good contributions from Canada and Brazil.




Adjusted[1] profit grew by 13% to £95m. There was organic[3] constant currency growth of 8% and currency translation benefit of 5%. Acquisitions, net of their financing cost, did not contribute significantly in the half year. A stronger acquisition contribution is expected in the second half.

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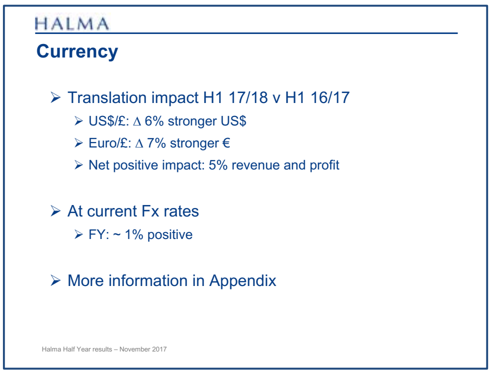
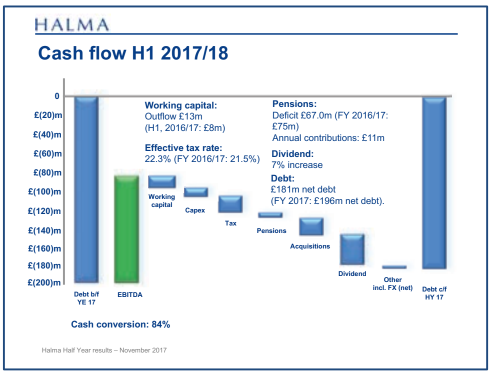



As expected we saw a positive currency translation impact due to a 6% stronger US$ and a 7% stronger Euro relative to Sterling.

We are expecting a reversal of the currency impact in the second half as Sterling is now stronger relative to the US$ than it was in the second half of last year. If current currency rates continue we would expect around 1% currency translation benefit in the full year assuming our expected revenue and profit mix. We continue to encourage our UK exporting businesses to take the commercial opportunity of weaker Sterling whilst using their agile business models to cope with any increased input costs.

Cash conversion at 84% of adjusted[1] profit was in line with last year and just below our KPI target of 85%. We ended the half year with net debt of £181m (year end 2016/17: £196m). In the half year we financed higher taxation and pension payments and a record dividend.



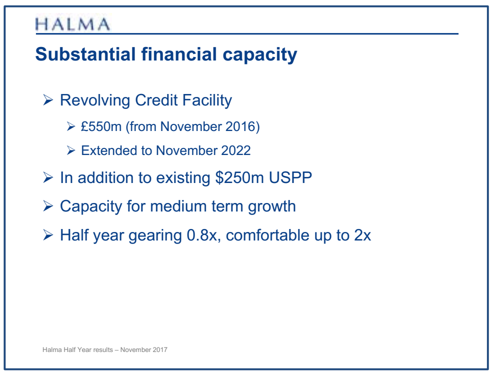

Working capital increased due to higher rates of revenue growth and increased inventory for new product launches. Capital expenditure at £10m was lower than the first half of the prior year due to less property related expenditure. The effective tax rate on adjusted[1] profit for the half year was 22.3%, which is also our forecast for the 2017/18 full year (full year 2016/17: 21.5%).

The deficit on our defined benefit pension plans was £67m (full year 2016/17: £75m) with employer deficit contributions of £11m per year. Over the next 6 months the triennial valuations of our UK pension plans are occurring and we expect employer contributions to increase following these valuations.

We spent £17m on acquisitions in the half year including Cardios (Brazil) and CasMed (USA) both joining the Medical sector. Since the half year end we have spent a further £77m on the acquisition of Mini-Cam and Setco (see below for further information).

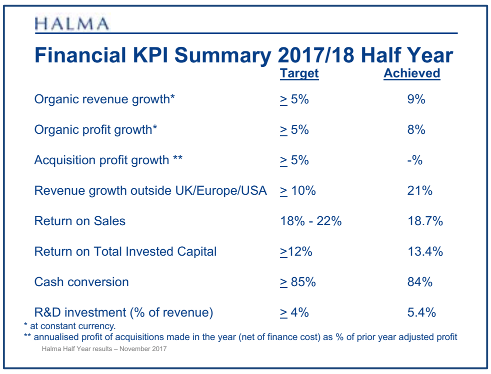
For the past 38 consecutive years we have increased the full year dividend by 5% or more. The interim dividend will be increased by 7%, continuing that record and in line with recent years.

In November 2016 we increased our Revolving Credit Facility to £550m. In November 2017 we extended that 5 year facility to 6 years running to 2022.




This gives us substantial medium term variable funding on top of the $250m US Private Placement we put in place two years ago. There is no change in our approach to our balance sheet gearing. We don't intend to become highly geared and are comfortable with gearing of up to 2x EBITDA if we find the right acquisitions.

The chart below shows our performance against our KPI targets.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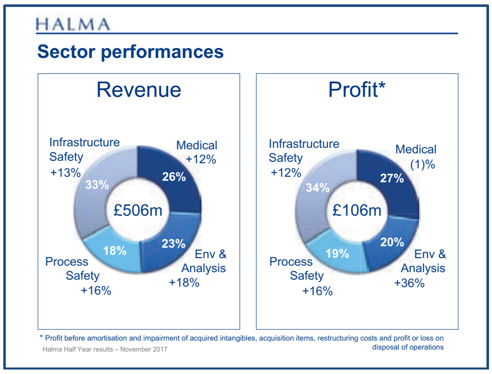
**Financial KPI Summary 2017/18 Half Year**

| | Target | Achieved |
|---|---|---|
| Organic revenue growth* | ≥ 5% | 9% |
| Organic profit growth* | ≥ 5% | 8% |
| Acquisition profit growth ** | ≥ 5% | -% |
| Revenue growth outside UK/Europe/USA | ≥ 10% | 21% |
| Return on Sales | 18% - 22% | 18.7% |
| Return on Total Invested Capital | ≥12% | 13.4% |
| Cash conversion | ≥ 85% | 84% |
| R&D investment (% of revenue) | ≥ 4% | 5.4% |

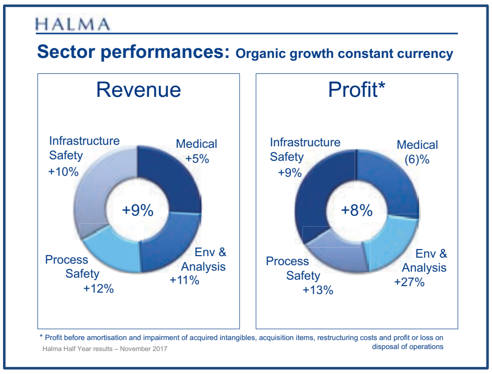
* at constant currency.
** annualised profit of acquisitions made in the year (net of finance cost) as % of prior year adjusted profit
Halma Half Year results – November 2017

Organic[3] constant currency revenue and adjusted[1] profit growth were 9% and 8% respectively, above our 5% target. Return on Sales[2] remains strong and ROTIC[4] is ahead of target. Good cash conversion enabled further investment including record R&D expenditure for development of new products. R&D expenditure increased by 19% and is now 5.4% of revenue (2016: 5.2%).

**Andrew Williams then looked at the performance of each of our sectors, followed by a brief update on strategy including M&A.**

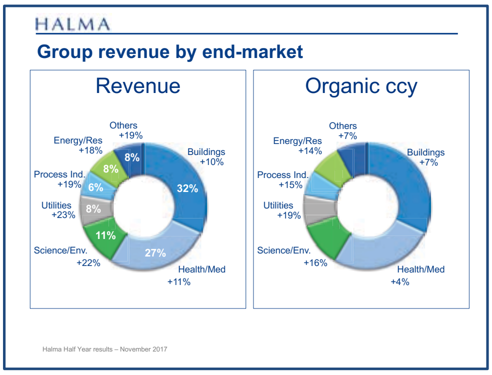



There was double-digit revenue growth reported in all sectors and double-digit profit growth reported in three sectors. The Medical sector had slightly lower profit with overhead spending higher in R&D and Sales and Marketing. Gross margins were also lower than the prior year in this sector, mainly due to the mix of company performances and some deterioration in pricing to certain major OEMs.

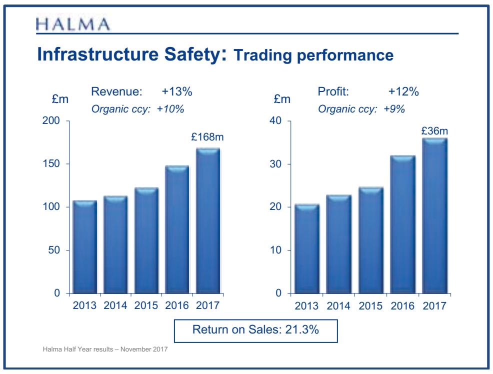



There was strong organic[3] constant currency revenue and profit growth in three sectors. There was also good organic[3] constant currency revenue growth in the Medical sector, but a 6% profit decline.

The strong sector performances reflect the benefits of diversity across our business enabling us to increase investment in certain sectors whilst reaping the benefit of previous investment in others. The benefit of diversity was also reflected in the end-market revenue trends where there was widespread growth.




Each of our end-markets is supported by strong regulatory drivers either to drive demand or for product approvals. Our Buildings end-market had organic growth of 7% and this was predominantly driven by the performance of our Infrastructure Safety sector. The Health and Medical segment increased revenue by 4% reflecting the growth in our Medical sector. Our Environmental & Analysis sector sells mainly into the Science/Environmental and Utilities markets. Sales into these markets were up by 16% and 19% respectively. The Process Safety sector sells predominantly into the Process Industries and Energy & Resources markets, where we achieved healthy growth of 15% and 14% respectively.

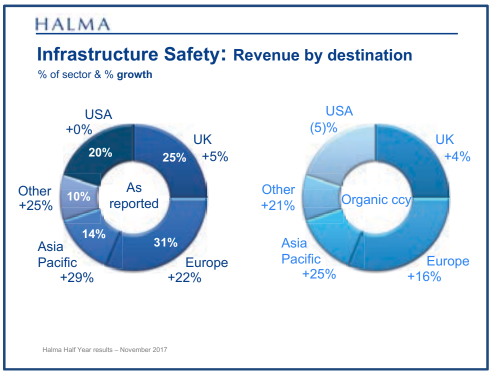



**Infrastructure Safety** continued the strong progress made in a good FY17. Revenue increased by 13% to £168m, which represents 10% organic constant currency growth. Profit improved by 12% to £36m including 9% organic constant currency growth.

Return on sales of 21.3% was above FY17 with R&D investment up by a further 7% after a major increase of 27% in the prior year. Gross margins were lower but good cost control resulted in a robust profit performance.

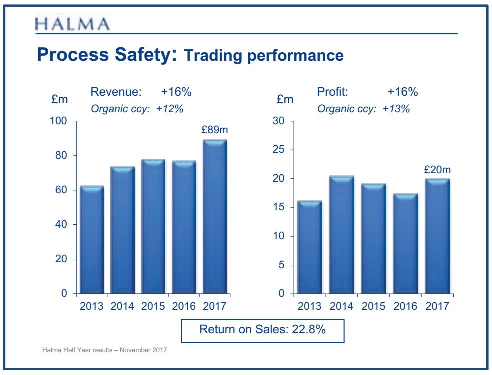
There was growth in all of the major end market segments, with the People and Vehicle Flow business performing especially strongly. The management changes made in our Fire business earlier in the year are now bedded in and we expect to see an improved performance in the second half of the year.

In November 2017, the sector completed the acquisition of Setco for €17m, adding annualised profit of €1.7m on to our Avire elevator safety business. Setco is based in Spain and is a manufacturer of wireless communication devices for elevator safety. This addition will accelerate Avire's R&D roadmap by 3-5 years and benefit from using Avire's sales channels to grow internationally.




The sector reported growth in all major regions. There was organic constant currency decline in the USA, mainly due to the performance of our Fire businesses while the strong performances in Europe and Asia Pacific was due to People/Vehicle Flow and Fire. In Other regions, once again Fire delivered a strong performance.

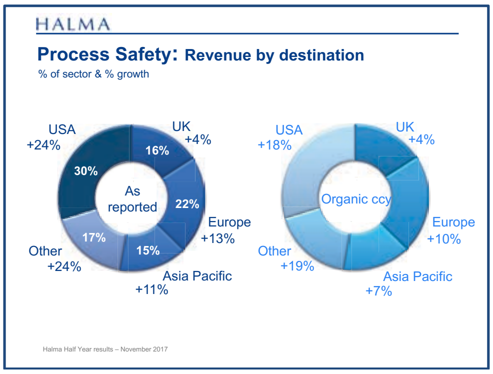
In summary, the sector had a very good first half with widespread growth. With the continued organic progression and the contribution from Setco, we expect the sector to make progress in the second half.




**Process Safety** made excellent progress, following its strong recovery in the second half of last year. Revenue improved by 16% to £89m, which included 12% organic constant currency growth. Profit was up 16% to £20m, including 13% organic constant currency growth.

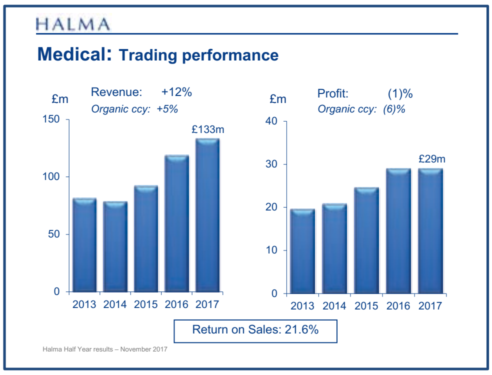
Return on sales was slightly above H1 last year, at 22.8%. R&D spend increased by 11% on the first half of last year and gross margins were also marginally higher than H1 of the prior year.

There was good growth in Safety Interlocks and Pressure Relief with the latter benefiting from growth in the US onshore Energy market.




There was organic constant currency revenue growth in all major regions. The strongest growth was in Other regions and the USA, while there was solid progress in the UK, Europe and Asia Pacific.

In the second half of the year, we are not expecting any recovery in the Oil and Gas markets, although growth from the US onshore market should continue. The market diversification of this sector will support continued growth in the second half, despite the tougher comparator.



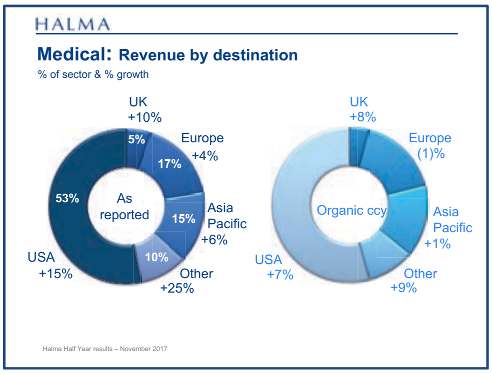

The **Medical** sector delivered a mixed result with good revenue growth of 12% up to £133m including 5% organic constant currency growth. However, profit growth was disappointing with a 1% drop to £29m, including a 6% organic constant currency decline.

Return on sales at 21.6% was lower than the prior year. As stated earlier, this was due to lower gross margins and overhead increases. Most of the overhead increases were to generate growth in the future, including Sales and Channel Development. R&D investment was up 25% to 4.4% of revenue.

We continue to see strong growth potential in our sensor business, CenTrak, which performed well in the first half.

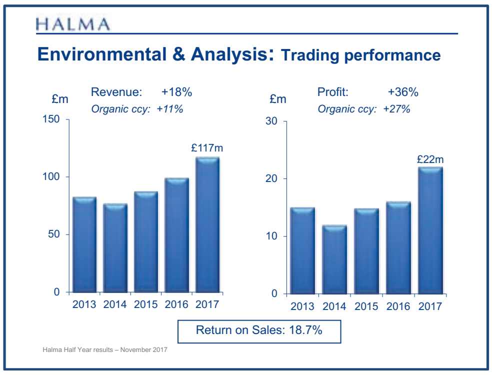
The main factors affecting gross margin were mix related, including stronger growth in lower margin businesses as well as lower margin product lines. In addition, certain businesses saw lower pricing from some of their major OEM contract renewals.

There were good performances in Opthalmology and our Sensor businesses. During the half we acquired the CASMED non-invasive blood pressure monitoring OEM product line and Cardios. These add new blood pressure monitoring technology as well as an improved geographic footprint in Brazil.




There was revenue growth reported in all major regions. In organic constant currency terms, there was middle single-digit growth in the USA, UK and Other regions. Europe was slightly down and Asia Pacific slightly up, with the former seeing the major impact of lower pricing on certain OEM contracts.

For the second half of the year, we expect the sector to maintain good revenue growth. Through better cost control and the benefit of previous investments, we expect improved profitability for the second half of the year.

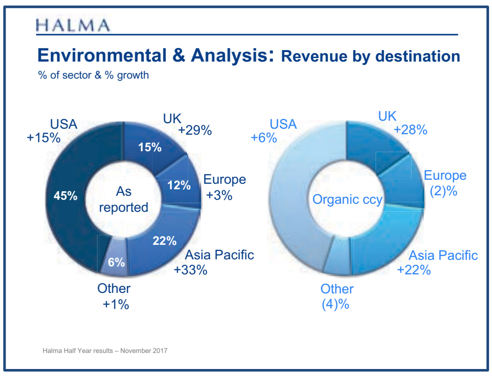



The **Environmental & Analysis** sector delivered an excellent performance, which was particularly pleasing following the reorganisation completed in the first half of last year. Revenue was up by 18% to £117m, including 11% organic constant currency growth. Profit improved by 36% to £22m, including 27% organic constant currency growth.

Return on sales improved significantly to 18.7% from 16.2% in the first half of last year. Gross margins improved while R&D investment was up by 33%, to 7.6% of revenue.

There was growth in all major market segments, with a particularly strong performance in Spectroscopy and Photonics.

In October 2017, we acquired Mini-Cam for £62m plus a £23.1m earn-out based on growth through to March 2020. Mini-Cam has annualised profit of £5.2m and is a UK based Waste Water pipeline monitoring business, which is very complementary to our Water and Environmental Monitoring businesses.

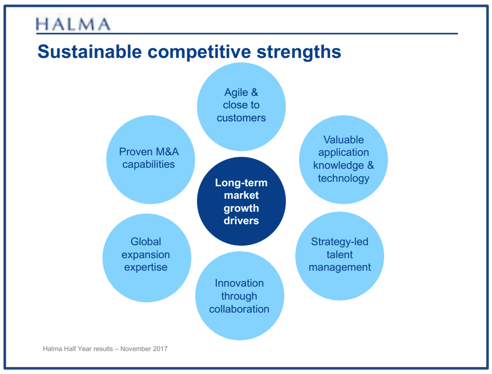



Revenue growth was reported in all major regions. There was a more mixed picture in organic constant currency terms. The UK saw organic constant currency growth of 28% with the UK Water Utilities investing in Flow, Pressure and Leakage monitoring products. Asia Pacific also grew strongly by 22% with growth across all segments and good momentum in China. There was a solid performance in the USA, while in Europe there was lower organic revenue across all segments, especially in the French Water market.

In summary, this was an excellent first half for the Environmental & Analysis sector. With the addition of Mini-Cam plus strong organic revenue growth we expect progress in the second half, albeit with a tougher prior year comparator.

**Andrew Williams then gave a brief update on strategy.**

Halma has clear, sustainable competitive strengths which underpin the long-term track record of sustained growth and high returns. During the first half we have continued to focus on the growth opportunities offered to the group through developments related to the 4th Industrial Revolution. This was a focus of our HITEx company innovation conference held in San Diego in April 2017.




Inken Braunschmidt joined our Executive Board in July 2017 as our Chief Innovation and Digital Officer. Inken has spent much of this initial period visiting Halma operating companies and sector board meetings to truly understand their growth strategies and also to help them to understand their broader growth opportunities. She is already finding new ways to exploit collaborative growth opportunities across the group.

We are starting to see the benefits of the Sector based M&A search approach which has been introduced over the past 18 months. In June 2017, I mentioned that we had a better pipeline both in terms of quality and quantity across all the sectors. Since then, we have completed four acquisitions in three sectors. We have spent a total of £94m with an average multiple of 10.5 to 11x EBIT (on a trailing basis).

Our M&A teams are gaining experience and are also working closely together. For example, the Mini-Cam acquisition was found by our Process Safety sector team who then worked closely with the Environmental & Analysis sector to close the deal for the Environmental & Analysis sector.


Our Medical sector acquired the CASMED BPM product line and Cardios during the first half. The CASMED line included non-invasive blood pressure monitoring technology for OEM customers and was an exciting bolt-on to our blood pressure monitoring business, SunTech. The transfer of intellectual property and manufacturing was completed to plan.

Cardios was our first ever acquisition in Brazil. Cardios is a market leader for ambulatory ECG and BPM monitors. This acquisition improves our BPM technology and also provides a stronger channel to market in South America. We will also be working with the Cardios team to grow their business internationally.

The Environmental & Analysis sector's acquisition of Mini-Cam added new hardware and software capabilities for waste water pipeline monitoring. This is already a core market for our Environmental & Analysis sector and we expect Mini-Cam to work closely with Group companies including HWM and Hydreka. There are cross-selling opportunities, especially internationally, although in the long-term we might also be able to add new imaging and sensor technology to their in-pipe monitoring solutions.

Our Infrastructure Safety sector has just acquired Setco, in November 2017, adding new wireless communication products for elevators, including emergency phones. Setco is based in Spain and is being added to our Avire Elevator Safety business. We expect to grow Setco's business internationally via Avire's global sales channels and also believe that their technology will accelerate Avire's wireless product development roadmap.

All four acquisitions are exciting additions within, and adjacent to, current Halma markets and we believe that we can bring Halma's competitive strengths to them to accelerate their growth. These recent deals also demonstrate that we can continue to acquire good quality businesses at sensible prices. Our acquisition pipeline remains healthy.


In summary, this was a strong first half. We have good organic constant currency revenue momentum in all sectors. Order intake since the period-end has remained on track and was higher than order intake for the prior year and also above current revenue trends. We will benefit from acquisitions made so far this year. Halma remains on track to meet expectations for the full year.

We plan to hold an investor dinner in early February 2018, to talk more about our digital strategy within the context of Halma's purpose of "Growing a safer, cleaner and healthier future for everyone, every day".

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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 £17.7 m (2016/17: £18.4 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] 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.*

*[4] Return on Total Invested Capital (ROTIC) is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, acquisition items, restructuring costs 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.*

*See the Half year report published on 21 November 2017 for more details. A webcast of the half year results presentation will be available on Halma's website www.halma.com from 21 November 2017.*

***CAUTIONARY NOTE.***

*This document contains statements about Halma plc that are or may be forward-looking statements.*

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

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