Halma plc
Half Year Results 2021/22

Summary of analysts' presentation by:

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Marc Ronchetti, Chief Financial Officer

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Record first half results and continued dividend growth

Andrew Williams, Halma's Group Chief Executive, introduced the presentation of the half year results.

Good morning and welcome to our half year results' presentation.

Last time I was here in June, at our full year results presentation, I discussed how the COVID pandemic had tested every aspect of our business, and how pleased I was with not just what we'd achieved through our strong financial performance but also how we had achieved it.

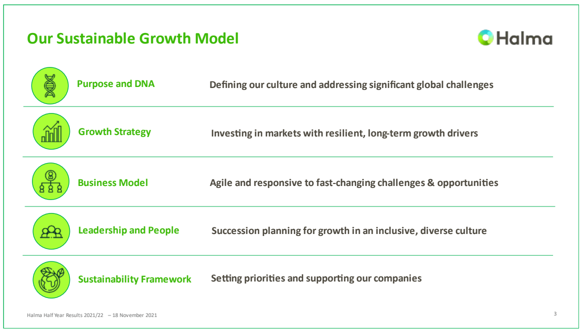
Although these challenges have evolved since then, I am pleased to report that we have continued to make strong progress and today are announcing record revenue, profit and dividend for the first half of this year.

This has required another extraordinary effort from everyone within Halma and I would like to thank all of them for their leadership, hard work and dedication in what remain challenging times.

That leadership is a core element of our Sustainable Growth Model which explains underpins Halma's ability to keep delivering relentlessly, whatever challenges it may face.

So let me remind you of the core elements of our Sustainable Growth Model, which has been constantly evolving over the past 50 years and is now a well-established system and a key differentiator against other businesses.

In doing so, it's important to note that we do not have a separate Sustainability strategy – Sustainability is embedded in everything we do and this presentation will bring that to life.



Our Purpose, of growing a safer, cleaner, healthier future for everyone, every day, sits at the heart of our Sustainable Growth Model.

It defines our culture and ensures that we focus on providing solutions to challenges that are essential to people and the planet.

- conserving scarce natural resources in the face of climate change and growing populations
- meeting the increasing healthcare demands of a growing and ageing populations.
- keeping people safe in increasing urban populations

We describe our culture through our Halma DNA, which provides an inclusive, motivating and stretching ambition for everyone at Halma to play their part.

There are four other core elements of our Sustainable Growth Model, all interlinked with each other and with our Purpose and DNA:

Our Growth Strategy, which is to focus on niches in global markets, which have resilient, long-term growth drivers. We sustain and expand our growth opportunities through continued investment in organic growth and acquisitions.

Our Business Model which enables us to be agile and responsive to changes in technology and markets. In the longer-term this gives Halma agility to evolve our portfolio by buying and selling businesses, and in the shorter term allows our companies the freedom and their own resources to be innovative, agile, and responsive to their market changes, supported by the expertise of our Halma Growth Enablers.

For this to work, we need to constantly ensure that we have the best Leaders and People for the future. Great examples this past year have shown how effectively we manage leadership succession as we grow - including a new Chair, Sector CEOs, Divisional CEOs and company MDs and we continue to build a highly inclusive and diverse culture by setting ambitious targets at all levels.

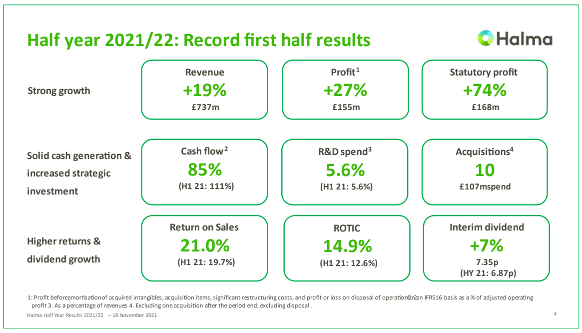
Finally, we have a Sustainability Framework which prioritises the areas of sustainability which are most material for Halma and supports our companies to achieve them – more on how this works later.

We have been really disciplined over a long period to evolve and align all these elements collectively, and this has enabled our companies to create value through many different circumstances.

For example, like our peers, we are currently experiencing on one hand, substantially higher demand, and an accelerated pace of change in our markets and on the other, increased macro-economic uncertainty, and supply chain, logistical and labour market disruption.

Through our Sustainable Growth Model, Halma companies are empowered and able to meet these challenges in a variety of ways, by finding alternative suppliers because they have their own procurement function, by designing-in alternative components because they have their own R&D capability, by increasing contingency stock of key components because they have their own manufacturing operation and a strong balance sheet and by selectively increasing pricing because they have their own channel to market and strong market positions.

I will give more examples of how we are sustaining success later, but for now let's look at we achieved financially in the first half.



We delivered strong growth with record revenue and profit.

There was strong growth across all sectors and major regions, high rates of organic growth and a good contribution from recent acquisitions.

Revenue was up 19%, supported by continued good order momentum and Adjusted Profit increased by 27%.

It is also worth noting that revenue was 13% higher and profit 20% higher than in the same period two years ago.

There was an impressive 74% increase in Statutory profit which included the gain on disposal of Texecom in the second quarter.

Even with these very high levels of growth and the consequent demand on working capital, we have continued to deliver solid cash generation and increase investment.

Cash conversion was 85%. We maintained a strong balance sheet, with gearing unchanged from the year end.

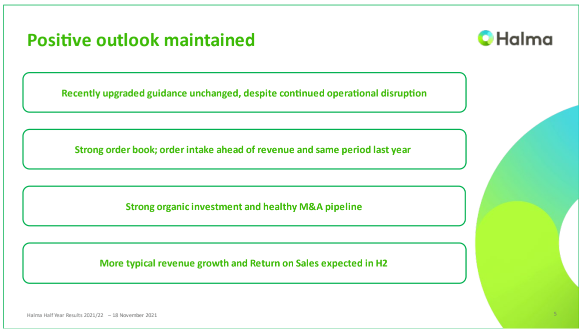
R&D spend increased in line with our growth and was maintained at 5.6% of revenue.

We completed 10 acquisitions with a spend totalling £107m in the first half. As a result of our strong growth, stable Gross Margin and the slower than expected return of variable overhead costs reductions, we delivered higher returns.

Return on Sales increased to 21.0%, towards the higher end of our 18-22% target range.
ROTIC was up more than 2 percentage points to 14.9%, reflecting the benefit of the strong constant currency growth.

This strong performance, our financial strength, and confidence in the future, support an increase in the interim dividend of 7%, maintaining our long-term progressive dividend policy.

Looking ahead to the full year our positive outlook is maintained.



We recently upgraded our FY guidance in September and we are maintaining this guidance today.

Our companies are not immune to the macro-economic challenges and continue to see operational disruption, however, to date, we haven't experienced any material impact on the group's performance.

As I mentioned earlier, our companies are quick to adapt to address these challenges as they arise and also remember that the Group benefits from having a very diversified operational footprint which limits our exposure to any single operational risk.

There are other factors which support this positive outlook.

We have a strong order book, and order intake has continued to be ahead of revenue and the same period last year.

And we are continuing to invest both in the organic growth of our existing businesses and we have a healthy M&A pipeline.

So in the second half, we expect to continue to make progress with more typical rates of revenue growth and Return on Sales, against a stronger comparative and more in line with historic levels.

I'll now hand over to Marc for more details on our financial performance.

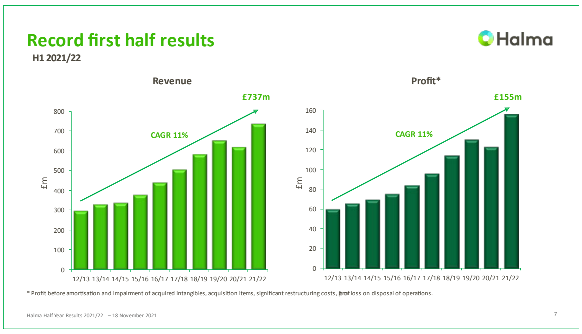
Marc Ronchetti, Chief Financial Officer, reviewed the half year financial performance.

Thank you, Andrew, and good morning, everyone.

As you have heard from Andrew, we've delivered a strong performance in the first half, with a particularly pleasing financial performance, given the ongoing volatility faced by our operating companies, including the continued effects of supply chain, logistics and labour market disruptions.

The last 6 months have represented another test and further reinforced the value of our Sustainable Growth Model, the benefits of our clear purpose and strong culture, our positioning in global niche markets with strong, long-term growth drivers, and the flexibility of our business model which allows our companies to be agile and responsive in fast-changing markets.

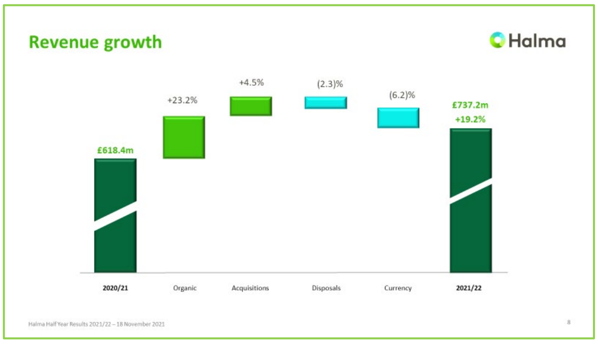
If we start with the headline performance…



We delivered record half year revenue and Adjusted profit, with revenue up 19% and profit up 27%.
This performance was against a weaker period in the first half of last year when we saw the largest impacts of COVID. That said if we compare to the previous half year in 2019/20, revenue was 13% ahead, and profit 20% ahead.

If we look over the longer term, it is great to see the Compound Average growth rates of both revenue and profit in excess of our KPI at 11%.

Let's look now at the drivers behind this performance, starting with Group revenue growth.



As you can see on the right hand side, revenue grew 19.2% compared to the first half of last year.

This represented an improvement of £119m, and a further sequential improvement, of around £40m, from the second half of last year.

There is clearly lots going on in both the prior year comparator and in the current year growth trends…

Whilst I cannot be explicit about the split between re-stocking post the pandemic, stocking up activity to mitigate disruption and underlying growth, I am confident that the underlying demand drivers in our markets remain strong.

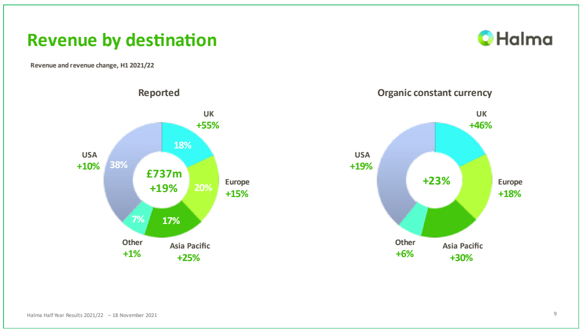
So, working from left to right on the slide……

It's great to see the strong levels of organic constant currency revenue growth at 23%, with growth across all three sectors and all major regions.
It is also great to report the contribution of 4.5% from acquisitions, as we continued our activity across all three sectors, which was partly offset by the disposals of Fiberguide Industries in the second half of last year and Texecom in August, both part of our ongoing portfolio management.

And finally , with Sterling strengthening substantially, there was a negative effect of 6.2% from currency.

This completes the bridge to our reported revenue increase of 19.2%.

Looking at our revenue performance by destination.



The chart on the left shows the reported revenue split by destination and reported growth by region, while the chart on the right shows the organic constant currency growth by region.

It is pleasing to see strong performances across all major regions on a reported basis.

As we saw at the full year, this mainly reflects the mix of businesses in each region and their end market dynamics, including their relative strength in the first half of last year, as opposed to purely geographic specific drivers.

On that basis I will pull out more detail as part of the Sector reviews.

The reported revenue also includes the contribution from acquisitions, notably Static Systems in the UK and PeriGen in the USA, and the effects from this year's disposal of the UK-based Texecom and last year's sale of Fiberguide Industries in the USA.

Currency translation had a negative impact in regions outside the United Kingdom and in particular in the USA.

Given the relative scale of the acquisition and currency impacts, the organic constant currency trends in the right hand chart, give us a better feel for the underlying growth rates.

It is always pleasing to report strong growth in all major regions, which was also broadly based across all three sectors reflecting the strength of the end market drivers.

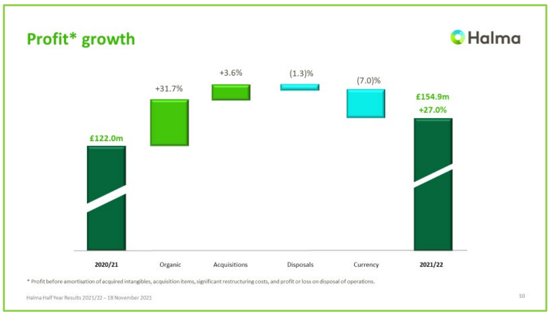
Highlighting some of the bigger movements and starting with our largest market, the USA, where we saw the combination of very strong growth in Environmental & Analysis, driven by the Optical Analysis and Gas Detection sub-sectors, good growth in the Safety sector and whilst still positive, slower growth in Medical ….

This largely as a result of the reverse of the dynamics we saw in the prior year, with an increase in elective healthcare procedures partly offset by a decline in the demand for COVID related products and services, from the exceptionally high levels in the first half of last year.

Looking now at the UK where we delivered exceptionally strong growth of 46%, acknowledging the weaker comparative in the first half of last year. This UK performance was driven by the Safety sector, which saw a strong recovery in Fire Detection and a benefit from a significant road safety contract in People & Vehicle Flow.

Asia Pacific also stands out with 30% growth, benefitting from the post pandemic recovery across all sectors, with very strong growth in China (32% on an organic constant currency basis).

Switching to adjusted profit...



We delivered a record profit, with profit growing very strongly on both a reported and organic constant currency basis.

Looking at the detail and again working from left to right ...

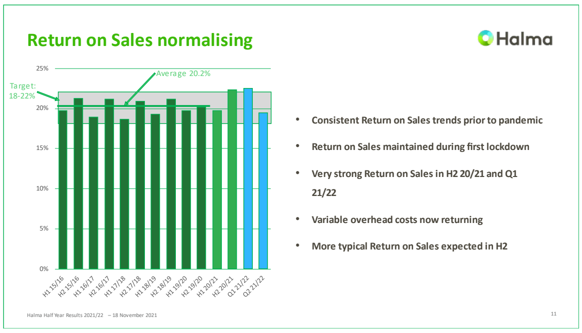
Organic constant currency profit was up 31.7%, reflecting an exceptionally high Return on Sales, a result of a slower-than-expected return of variable overhead costs following our actions last year coupled with the leverage effect of our strong revenue growth.

I'll look in more detail at Return on Sales trends in a moment.

M&A and currency effects on profit were similar to those on revenue, with acquisitions (net of disposals) contributing 2.3% to profit, and a negative effect from currency translation of 7%.

This completes the bridge to the headline profit growth of 27.0%.

Let me now give some more detail on Return on Sales trends.



The chart on the left shows Return on Sales for the five years prior to the pandemic, split by half year (the dark green bars) , the FY20/21 half years (light green bars) and then the first and second quarter of this year (the blue bars).... A fair bit of detail but worth bearing with me regarding the trends...

If we look at the dark green bars ... despite the changing portfolio and variability at the individual operating companies, there has been a very high level of consistency at the Group position over the five years before the pandemic, with an average Return on Sales of 20.2%, in the middle of our target range of 18-22% (shown by the grey shading)....you can also see the typically lower (albeit consistent) ROS% in the first half of each year.

If we now focus on last year (represented by the light green bars) we see that in the first half, in reaction to the declines in revenue as a result of the initial lockdown, our agility enabled us to make material discretionary cost reductions ensuring we maintained Return on Sales.

In the second half (the second light green bar) we saw stronger revenue dynamics, but a slower return of variable overhead costs, resulting in an exceptionally strong ROS% above the upper end of our target range and any previous H2 result.

We then see this effect persisting into the first quarter of this year (the first blue bar) where not only do we see an exceptionally high ROS% compared to our range, but a level significantly ahead of any previous H1 level – a combination of the exceptional strong growth, our ability to maintain gross margins and a slow return of variable overheads.

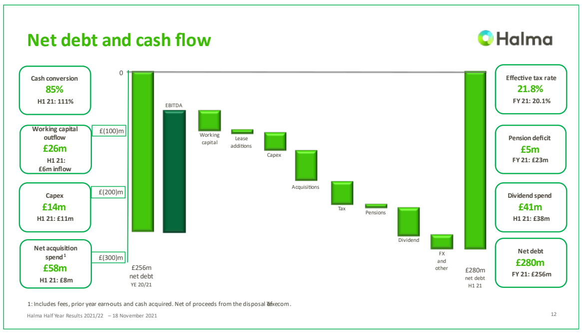
With variable costs now rightly returning, and stronger revenue comparatives, Return on Sales returned to more normal levels in the second quarter – in fact, pretty much back in line with what we would have expected to see in a typical H1 result.

So what does all this mean... well, put simply and aligned to the statement from Andrew, I expect us to deliver Return on Sales more in line with historic levels in the second half of the year.

It is also worth noting that the second half will include the vast majority of our IT upgrade spend for the year, which we expect to amount to around £10m in the second half.

Taking a step back and thinking more widely with regard variable overheads, whilst we will no doubt see some changes to the way we work, including a reduction in travel, overall, I do not expect these to have a material structural impact on our cost base moving forward.

Looking now at cash flow and net debt....



I was really pleased with our Cash conversion at 85%, a solid performance given the strong growth in the period.

As expected, this strong growth resulted in a higher than usual working capital outflow of £26m....

That said, It was great to see that our underlying working capital performance remained strong and this discipline enabled us, where appropriate, to make some investment in component stock holdings in order to mitigate potential supply chain disruption.

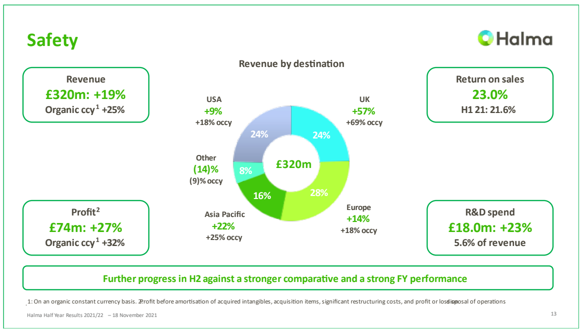
Given the outlook for more typical rates of revenue growth in the second half, I expect cash conversion for the year as a whole to be in line with our 90% KPI.

Moving on to net acquisition spend this was £58m, reflecting the 10 acquisitions completed in the period, earn out payments for past acquisitions, net of the £65m received following the Texecom disposal.

With other elements such as capex, tax and dividend payments in line with expectations, net debt was £280m, representing a net debt to EBITDA ratio of 0.76 times, which is unchanged since the year end, and well within our typical operating range of up to 2 times gearing, and importantly giving us substantial liquidity and capacity for future growth investment.

Turning now to the sectors, where for the first time we are reporting on a 3 sector basis, this aligned with our purpose and our focus on the safety, environmental and health markets.

First Safety….



..where I am pleased to report a strong performance across all major regions and major segments, despite the continued challenges from supply chain, logistics and labour markets.

Revenue growth was 19%, and included a positive contribution from acquisitions of 1%, with negative effects from the disposal of Texecom and from currency translation of 3% and 4% respectively.

There was a very strong organic revenue performance of 25% which was driven by a substantial recovery in our Fire Detection businesses, which had been most affected by the lockdown restrictions in the first half of last year – this also being a key driver of the UK performance, given the impact of the UK furlough scheme on site access last year.

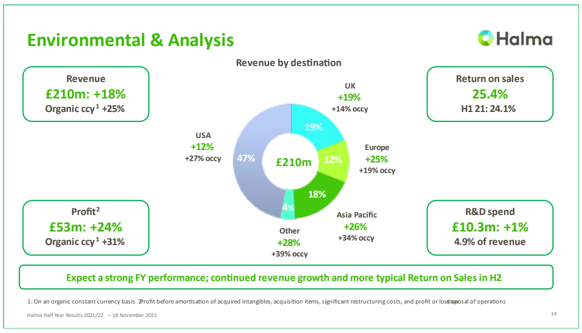
People & Vehicle Flow also performed strongly, driven by significant road safety contracts in the UK and China at Navtech, and continued strong growth at BEA, supported by a strong order book for its touchless and automated entry products.

In line with the Group trend, Return on Sales increased to 23%, with a stable gross margin and the benefit from the slower-than-expected return of variable overhead costs in the first quarter.

Finally, it was great to see the continued investment, with R&D spend increasing to £18.0m, broadly in line with revenue.

Looking ahead, I expect the sector to make further progress in the second half against a stronger comparative, and deliver a strong full year performance.

Moving onto Environmental & Analysis …



Which delivered strong revenue growth across all segments and regions.

Reported revenue grew 18%, which included a 7% negative effect from currency translation, a 4% contribution from acquisitions, including Sensitron, Orca and Dancutter, offset by a negative effect of 4% from last year's disposal of Fiberguide Industries.

It is great to see the contribution from acquisitions, no doubt a direct consequence of our investment in a dedicated sector team at the beginning of the year

The underlying strong organic revenue growth of 25% reflects higher industrial activity as COVID restrictions eased and the wider benefits of increasing focus on protecting the environment and conserving scarce natural resources.

These trends supported a strong recovery in Gas Detection and a strong performance in Water Analysis and Treatment.

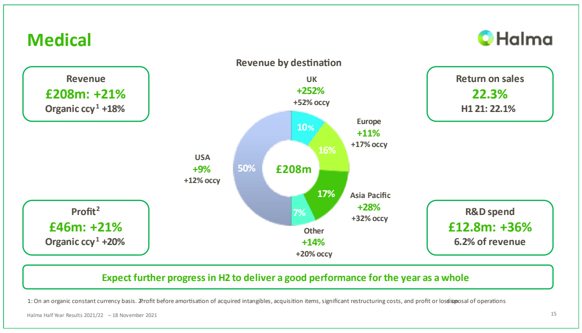
Photonics also performed strongly, continuing to benefit from demand for technologies that support the building of digital and data capabilities.

Looking at profitability, the sector delivered a very strong profit performance with an increase in Return on Sales to 25.4%, this, despite a small decline in gross margin driven by business mix, reflecting the ongoing proactive overhead management across the sector.

Investment was maintained at a good level given the business mix, with R&D expenditure of £10.3m representing 4.9% of sales.

In FY 22, I expect Environmental & Analysis to deliver a strong full year performance, with continued revenue growth albeit with a more typical level of Return on Sales in the second half.

Turning to Medical



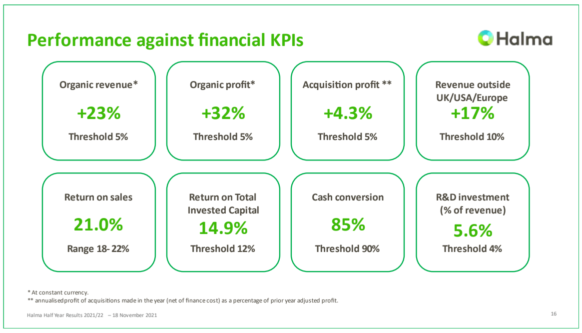
...where organic revenue growth of 18% largely reflected the opposite headline trends to those seen in the prior year.

We saw an improvement in patient demand for elective and discretionary procedures as the effects of the pandemic moderated, offsetting a reduction to more normal levels of demand for products and services related to the treatment of COVID-19 from the very high levels experienced in the first half of last year.

It was fantastic to see the positive contribution of 11% from acquisitions, including PeriGen in the US and Static Systems in the UK, and there was an 8% negative effect on revenue from currency translation driven by the sector's US exposure.

Turning to profit, good to see a small increase in Return on Sales, reflecting a benefit to gross margin from favourable product mix, offset by an increase in R&D spend to 6.2% of revenue as a result of changes in business mix, and investment by recently acquired companies.

Looking ahead, I expect Medical to make further progress in the second half, to deliver a good performance for the year as a whole.
Looking now at our performance against our Financial KPI's.



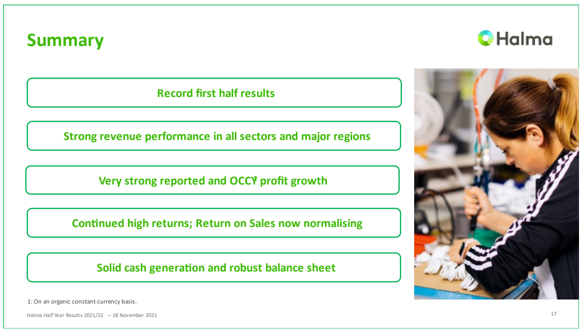
Overall, a really pleasing and excellent performance in the first half, with record revenue and profit growth substantially ahead of our KPIs.

A solid cash performance especially given the working capital required to support the exceptional level of growth.

This growth delivered alongside high returns, with ROTIC benefiting from the strong levels of constant currency growth, and Return on Sales at above average levels.

As ever this short term performance was delivered whilst maintaining high levels of investment, both organically and through acquisition.

In summary…



These were record results, with strong growth on both a reported and organic constant currency basis.

We delivered a strong revenue performance across all sectors and major regions.

Profit increased substantially, both on a reported and organic constant currency basis.

This growth delivered with continued high returns and driven by a very strong ROS% during the period.

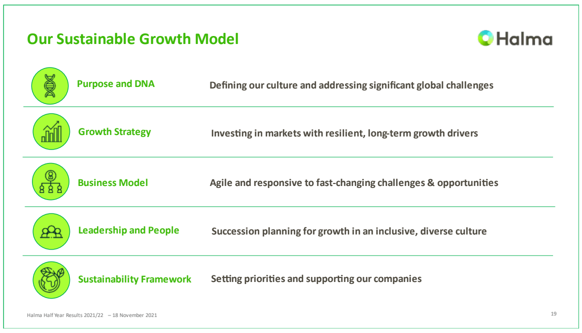
We delivered a solid cash performance, which together with a robust balance sheet supports our continued investment in future growth.

I will now hand you back to Andrew for a Strategy update.

Andrew Williams, Group Chief Executive, then gave an update on strategy.

Thank you, Marc.

Now an update on our strategic progress and current priorities.

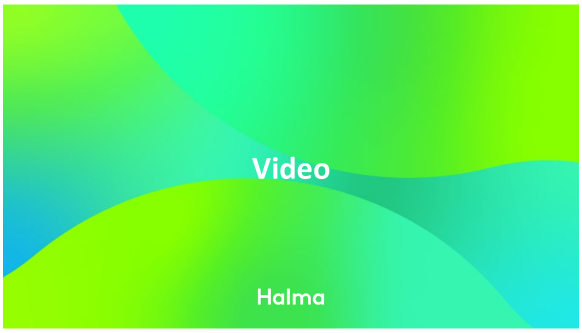


I have already highlighted how the core elements of our Sustainable Growth Model determine our actions and investments, both as a Group and in our individual companies.

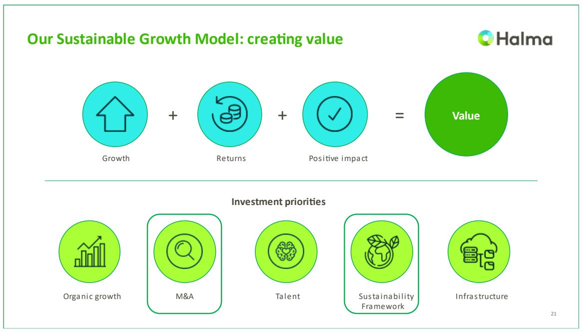
For the next few minutes I want to give you some real-world examples to bring this to life and to set the right tone, I want show a short film which we used our Accelerate Halma event a few weeks ago.

As a reminder, Accelerate Halma is an annual event which brings together our senior leaders and this year was focussed on our Sustainability Framework and how it fits within our overall Sustainability Growth Model.

I think this film does a great job of doing that.



Each of the voices on that film were Halma people and I think that adds to the powerful message of how our companies bring our Purpose to life and, at the same time, how they create value.



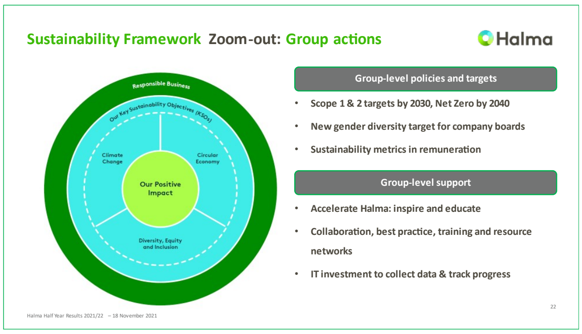
Our Sustainable Growth Model creates value for our stakeholders over the long-term through delivering the combination of growth, returns and the positive impact we have on the world through how we operate and the solutions we provide.

There are five key areas which are the focus for our investment and resources: organic growth, M&A; talent; sustainability; and our infrastructure.

It is critical that for each of these, we have an overall top-level group strategy which translates into real actions within our business.

To explain this further I will use two examples: our Sustainability Framework and M&A.

First our Sustainability Framework.



I will start by zooming-out and look at what we are doing at the group level.

The graphic shows that we are prioritising our efforts to amplify our positive impact through three Key Sustainability Objectives. These are Climate Change, Diversity, equity, and inclusion and Circular Economy.

These objectives are supported by groupwide policies and targets including a commitment for carbon emissions reduction by 2030 and a Net Zero target by 2040, a strong Diversity, Equity and Inclusion ambition - you'll see that we've announced a new target to achieve gender balance on our company boards by end of FY24 – and an intention to incorporate Sustainability metrics within remuneration plans.

In setting these targets as a FTSE100 company, we are mindful that we are still group of small companies.

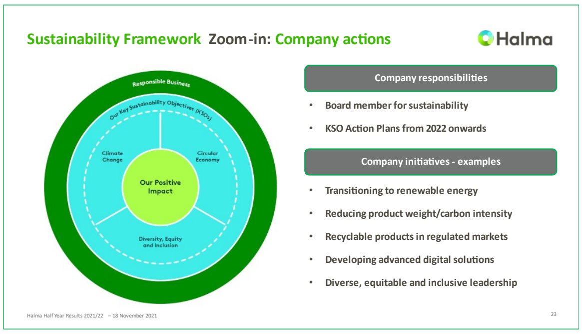
Therefore, we have to provide practical support so that they can continue to focus on making a positive impact through the solutions they provide, and not be swamped by the demands of the ever-increasing corporate reporting burden. Here are some examples,

At our recent Accelerate Halma leadership conference we invited speakers from inside and outside Halma to reinforce the message that this isn't just the right thing to do, it is vital for our commercial success too.

We have organised a variety of training programmes, collaboration events, virtual resources to share best practice – especially valuable for Climate Change and DEI.
Finally, a part of the IT investment we announced in June is focused on collecting data from our opcos to benchmark progress and help them to support our corporate reporting obligations.

So now let's Zoom-in to see how the companies are approaching things.

I am hugely encouraged with the response from our companies, and not least the sustainability initiatives which are already underway.



Firstly, a simple step is that every company has a board member who is explicitly responsible for incorporating sustainability into strategic growth plans and daily activities – just as we have at the group level with Marc.

Our companies are also developing individual KSO action plans, including how they will contribute to Halma's overall targets such as Carbon Emissions and DEI.

This bottom-up approach is critical since Halma can only make progress towards Net Zero, TCFD reporting and measuring our Scope 3 emissions through the actions of each of our 45-50 companies.

Here are some examples of what they are doing,

Climate Change:
At Fortress Interlocks, ~40% of their electricity consumption in the 2021 calendar year will be supplied through their on-site solar facility. They're also reducing the shipping costs and carbon emissions associated with their products, by investigating the use of alternative, lighter metals for mechanical interlocks.

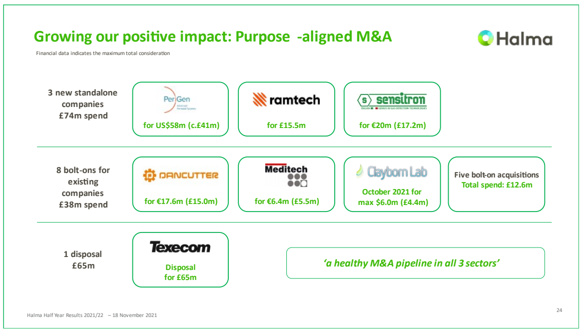
Circular Economy:

Again at Fortress Interlocks, these alternative metals also more recyclable. At Apollo Fire Detectors, they are exploring solutions for incorporating more recyclable plastics into their fire detection products – which still need to meet highly demanding product regulations.

And across the group companies are continuing to increase their positive sustainability impact by engaging with our digital growth enabler programmes, and DEI training/educational programmes too.

So although there's a huge task ahead and I am seeing some very encouraging signs and I look forward to sharing stories about our progress in the years ahead.

Finally, a brief look at how our M&A activity is critical to our sustainability both in terms of the characteristics of the businesses in our portfolio and our ability to keep evolving it as markets change.



M&A helps to expand our future growth opportunities, extend our geographical reach and add new capabilities, which are all valuable ways in which we can increase our positive impact aligned with our Purpose.

We acquired 10 companies in H1 and 1 in H2 so far across three sectors, seven countries and for a total maximum spend of £112m.

Three companies which will be stand-alone within Halma include some great examples of what we mean by 'positive impact aligned with our purpose':

- Perigen – digital AI solution to keep mother and baby safe during labour;
- Ramtech – wireless fire detection systems for temporary facilities like construction sites;
- Sensitron – gas monitoring systems including for refrigerant gases which are harmful to the environment.

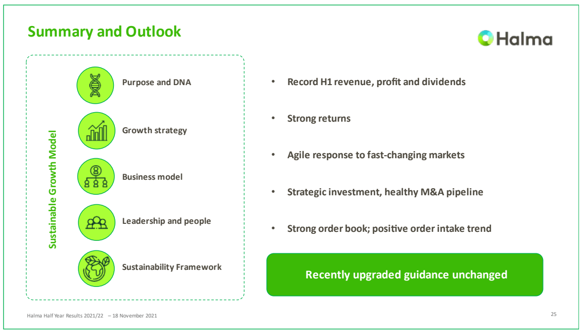
We also acquired eight bolt-ons to existing companies, to enhance their technological capabilities and market presence, including:

- Dancutter – a Danish company with technology for wastewater pipeline rehabilitation added to Minicam;
- Meditech – a Hungarian company with advanced blood pressure measurement technology which strengthened Suntech;
- And Clayborn Lab – the most recent addition for Perma Pure's environmental monitoring systems business.

I expect bolt-ons to become a more important part of our M&A strategy, as more of our companies now have the critical mass and leadership talent to source and integrate these acquisitions successfully.

We also made one disposal in the period, of Texecom. This is in line with our strategy of actively managing our portfolio of to be aligned with the Group's purpose and financial goals over the long-term

I am very pleased with the benefits we are seeing of the increased resources and focus within our M&A teams in each of our three sectors, which is also reflected in the healthy pipeline of acquisition opportunities for the future.



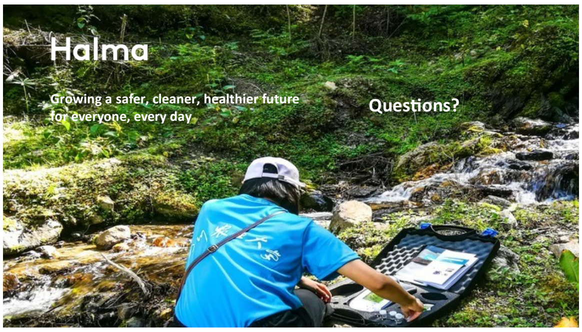
So in summary the core elements of Halma's Sustainable Growth Model continue to enable us to make substantial progress in the short, medium and longer term.

We have delivered record first half revenue, profit, and dividends, and continued strong returns, supported by the agility of our companies in what remain fast-changing markets.

We have further increased our strategic investment to sustain our growth, returns and a positive impact over the long-term and have a healthy M&A pipeline covering all three sectors.

Our shorter-term trading remains positive. We have a strong order book, and order intake remains ahead of revenue and the same period last year.

Taking all these factors into account, we expect to continue to make progress in the second half of the year and our recently upgraded full year outlook remains unchanged.



Now, we have time for some questions.

Q&A

Will Turner, Goldman Sachs: At the full year results your guidance included an accounting treatment and was referring to, I think at the time, some R&D treatment? I don't see any mention of this accounting treatment. Have you reached a conclusion on whether that's going to be in the adjusted earnings this year and what was the conclusion from that treatment?

Marc Ronchetti, Chief Financial Officer: So, Will, I think you're talking about IAS38 and software as a service cost? From an IFRS16 perspective, we've already adjusted for that and that's already in our numbers from FY20. But from an IAS38 perspective, we talk to the £12m of expected investment in IT and Software as a Service related spend. We do still expect that spend to come through in the year, albeit the phasing of that spend is just over one million in the first half and just over ten million in the second half. So, it's definitely something to take account of in our second-half forecast and that's included within the guidance.

Will Turner, Goldman Sachs: That's clear, thanks. And then, looking more broadly, obviously a lot of your products require electronic components, sensors, and I assume microchips. You've obviously been able to manage the supply chain disruptions and shortages pretty well so far. But has there been any areas of particular stress, and how have you been able to manage this obviously challenging sourcing environment?

Andrew Williams, Group Chief Executive: I think it was pretty clear in the presentation in terms of how we're managing it. We have the benefit of a very broad operational footprint where we've got forty-five dedicated teams working on the particular challenges they have in their business. And the ability to find alternative components, design those components in, find alternative sources, build up contingency stock of critical components, has been an essential part of how we've managed our way through the challenges that we've faced and that's going to continue for a good period of time. So, I think it's clear from the presentation. There's nothing else to add to that. The actual individual challenges are very specific to each individual company.

Mike Tyndall, HSBC: How should we think about your appetite for R&D investment versus M&A? Is there a point where organic opportunities might be such that you prefer to spend on R&D ahead of M&A?

Andrew Williams: I think that's a good question. I think the start point for me is that, from a top-level point of view, we're not resource-constrained in terms of our ability to invest. Certainly, since I've been CEO over the last sixteen or seventeen years, we've never had to make that trade-off. And as we look to the future, we've certainly got the balance sheet strength to be able to continue to do both. At another level, there's no doubt that the best return on investment we get is from investing in the organic growth of our businesses. So, we are constantly challenging the businesses to invest more, organically, with R&D part of that, at the same time recognising that there is risk attached to R&D investment so quite often there is a natural constraint within each of the individual operating companies in terms of their ability to handle significant R&D investment across multiple projects. So, I think there's some trade-offs to be made there in terms of how we operate. But overall, for the moment and certainly for the foreseeable future, it's more a case of encouraging the companies and sectors to move forward on both fronts.

Mark Davies-Jones, Stifel: If we can go back to the supply chain issues. You're clearly doing a very good job of handling things but are you seeing any second order affects because some of your customer industries seem to be struggling a bit more with this particularly as we go into year end? So, are there any end markets where you're seeing those knock-on effects?

Andrew Williams: Yes, as you know, there are small parts of our portfolio where we're selling into larger projects albeit not a great part of the business. So, within some of our safety markets we are selling into larger projects and there's no doubt that, first of all, we haven't seen a strong recovery coming out of COVID for those projects that were delayed and now, as we look forward, we're seeing a small number of those projects delayed even further. But it is a very small part of the portfolio and quite clearly isn't having that broader impact on our business. I think, then, as we look longer-term, there's no doubt again that with the agility we have with the businesses we have that are a part of the larger projects are still going to the ones that are going to drive the growth of the Group going forward.

Mark Davies-Jones, Stifel: Your Asia-Pacific growth is very strong again. We keep hearing grim macro news and slowing trends and particularly real estate issues in China. Are you seeing any of that?

Mark Ronchetti: I think the headline to say is that we've continued to see strong growth. 32% in China for the first half of the year, albeit against a weaker comparative last year. I do think, then, you take a step back and think about the markets we're focused on with regard to health, safety and the environment. They continue to have strong demand drivers and I certainly see over the next five years a line to the China five-year plan towards a greener China that that would continue. That said, as ever, underneath that Group number across the portfolio you'll see a range of performances across many of those different end markets. But certainly, at a Group level, those strong end drivers of health, safety and the environment are driving good growth.

Mark Davies-Jones, Stifel: As you're adding back these costs, are you being able to find the people you need? Is there an issue about how quickly in terms of availability of labour?

Marc Ronchetti: Again, just coming back to Andrew's point. It's the agility in the market that plays out here. There's no doubt that we're not immune to the challenges that others are seeing and a part of that is labour shortages and identifying the appropriate labour. But what we do have is that agility with each of the companies being able to make those decisions and being able to access their local market and find ways of working through.

Andre Kukhnin, Credit Suisse: Thank you for the opportunity to ask questions and for the presentation. Can I start with a broader one, please on the balance of your end-markets? You seem to be firing on almost all cylinders but I think there are still some segments that are lagging so I just wondered if you could talk about what's still under-recovered and hence maybe has got opportunity for a sequential recovery as we go forward. And, at the same time, on the other hand, is there anything that you feel has become a bit toppy and maybe over-recovered in your portfolio?

Andrew Williams: I think the obvious place where we're seeing still variable rates of recovery would be in the Medical sector and, in particular, the elective procedures coming out of COVID. There's certainly been a faster recovery in areas such as cataract surgery where people are able to go to clinics and get the procedures done. Anything that's taking place in larger hospitals or healthcare facilities in specific areas of the world where COVID has continued to peak or further ways of come through, then that has been far more sporadic. So, for example in areas such as some of the spinal orthopaedic surgery products that we've got. We've certainly seen that being more patchy across the U.S. depending on what's going on with COVID. So, that would be the obvious place where I think we've seen that change. I think maybe that's the question behind your saying over-recovered. I think Marc picked up on that during the presentation where we've clearly seen very strong revenue growth and there is clearly strong underlying growth in there. Having said that, we know that there will be an element of restocking of customer distribution channels, an element of certain customers wanting to buy ahead because they are concerned about supply chain issues further down the line. But I think we'll see that impact come through in the second half of the year and beyond. But the important point is, I think, that will probably be balanced out by those markets that still haven't recovered yet. So looking forward we think we're in a strong position going into 2022.

Andre Kukhnin, Credit Suisse: Thank you. If I may follow up, I'm clear on Medical but I thought in the Safety segment as well. Where are we on the Process side for example, versus 2019 at the moment?

Andrew Williams: Yes, well that plays back into the previous question we had which was on two or three companies in the Safety sector which sell products that are part of larger projects. So, in areas such as corrosion monitoring and some of the valve interlocks. Then clearly as we discussed earlier, those larger projects are still not coming through at the same rate. But they're a much smaller part of the portfolio and less material than some of those medical businesses I mentioned.

Andre Kukhnin, Credit Suisse: That's very helpful, thank you. And the second question I had was on the IT spend and really the greater purpose behind it. Could you just share with us in a bit more detail about what this extra spend is on and how think about the return on that investment? How should we think about it, kind of in 2023 and onwards? Will it be higher functionality or maybe a reduction of ongoing IT spend with what you're doing there with IT and SaaS?

Andrew Williams: For a fuller answer, I would point back towards the full year results but I'll give an overview now. And I think the key thing here is that we're making investments both at the Group level and down the operating company level. We're looking to upgrade, on the one hand, around cyber security infrastructure. That would include remote working. And then on the flip side, around operational data analytics. Certainly, at a Group level, upgrading our systems to allow us to give that insight across the Group. And then, of course, it's about building a common core that we talked about previously, of technology to support digital and IoT solutions within the operating company. So, in the short term, that £12m of spend, just to remind you, was £7m in central IT systems and centres of excellence, and £5m in local IT upgrades. In terms of looking forward, ultimately IT investment continues in terms of the world that we're operating in, in digital capability. So, I certainly don't expect our investment in IT to stop. Probably a larger part of our R&D spend going forward will be around IT. But it's certainly not a drive to get efficiency, a drive to get cost savings. This is very much about meeting our customer needs and developing our products moving forward.

Andrew Wilson, JP Morgan: I want to ask about pricing. You mentioned that one of the advantages is the autonomy at the local level meant that the companies could be, I guess, proactive around pricing, and given some of the cost inflation across a number of different areas. I'm just interested practically, how that happens and, I appreciate this might be different, business by business. Is this a case where we can see this cost inflation coming through and then it's relatively easy for you to go to your customers and say that? Or, do you typically price up at the start of every year? Do you have price lists for most of the products? I'm just interested as to whether there are potential hikes in terms of pricing coming through? Maybe benefits still to come? I guess, I'm looking for some idea about how that pricing works.

Andrew Williams: I think you've almost answered the question yourself! It depends on the structure of the markets that the businesses sell into. Is it an OEM relationship? Is it a business where I'm selling a finished product to individual businesses? It's a very different tactic required according to each business. And, indeed, in some businesses, they're not in a position to pass on those price increases in quite the same way. So, we do rely on that agility of the individual operating companies to understand what the opportunity is and secondly, how they're going to approach that with their particular customers. In some cases, those price increases can almost take effect immediately, and in other cases, because of longer-term supplier reins, it may take six months or more, for those price increases to come through. So it is very granular, but because we're typically acquiring businesses that have strong market positions, who are providing really critical solutions to the customer, the opportunity, more often than not, is there. And in many cases, it is a straight forward, honest conversation with a customer which is saying our input costs have gone up by X across these particular areas. We need to share some of that with you. And so, we rely on the companies to work out the best way of dealing with that.

Andrew Wilson, JP Morgan: That's very clear. Secondly, you can clearly see it in the numbers and it's not difficult understanding with the assets that you have, there are clearly some big structural elements in terms of sustainability which are driving some parts of the portfolio. I'm just interested in terms of how much do those sorts of trends play into, or increasingly play into, when you think about capital allocation and what the portfolio should look like. Does it have implication for some of the assets in the Group which may not be quite as well-suited and therefore, essentially recycled capital from those assets, into some of these, I guess faster-growing areas going forward?

Andrew Williams: Yes, and I think you've seen a couple of examples of that over the last twelve months. Two disposals, Fiberguide and Texecom, exactly to your point. I think one of the opportunities we see, in terms of looking forward at trends, is to what extent are the stronger environmental trends that going to provide us with opportunities? It was one of the key reasons we divided up the Medical and Environmental sectors back in the beginning of the financial year, so we could put real focus on our M&A activities in the Environmental sector, separately from the Medical sector. And whilst it will take time for that to come through in terms of the number of deals completed, there's no doubt that our visibility of some of those emerging trends is greater and is becoming greater that it would otherwise have been. So, I don't think anything changes in the sense that we are always reviewing that portfolio. As you know, we are structured in a way that makes it relatively easy for us to sell assets when they no longer fit with those longer-term trends. But we're in markets where you generally have got a little bit of time to reach those decisions and to sell the business because you've got long-term structural growing markets. So, I still think, at this point in time, you're going to see a pretty good balance between acquiring a few more companies than we would typically sell in a year. And looking at the portfolio today, you know, there's nothing there that we think urgently or in the short-term that we need to take action on because it no longer offers us that opportunity or growth on returns.

Andrew Wilson, JP Morgan: That's very helpful. Maybe I can just ask a third one, relating to that last set of comments? You've clearly been very busy this year [on M&A] and the comments to suggest that the pipeline was strong, which I appreciate has been the case for a long time. But you seem to have a greater willingness for these potential vendors to be sellers, considering that you've been through a pandemic, coming out the other side, and things in most markets seem reasonably good and therefore, potentially that might be a trigger for say, a family-run business, to want to look to sell?

Andrew Williams: There's always a lot of factors involved in private businesses wanting to sell, and I think you've picked up on a couple of important ones. You know, as you say, the ability to have got through what has been hugely stressful for private business owners over the last eighteen months. The fact they've got through that, there's a sense of: "I now need to have someone come along side me and support me into the future". You've got businesses that have done extremely well and are now thinking: "Actually now is a good time to sell because my numbers or my growth rates look great". At the same time, as we all know, we talked about in the full year, there's also a lot of competition for assets out there. So, I describe it as, there's a lot more opportunities out there. There's also a lot more competition and so, it continues to be really important that we maintain our discipline in terms of finding the companies that have the alignment with the purpose, the financial characteristics that we're looking for and just keep looking for those opportunities, rather than getting dragged into too many auction processes where you may end up with a good company but you end up paying significantly more than we would typically want to for those types of businesses.

Robert Davies, Morgan Stanley: I was looking to follow up on that M&A point. I would just be interested, across the businesses, where are you seeing the most aggressive selling, what are the multiples you're seeing on some of the businesses? Have you seen sellers putting green premiums on their businesses given all the attention in the environmental sector? On the other side of the coin, coming down for the later cycle process. Do you see much disparity or is that not such an issue for you?

Andrew Williams: I think particularly on some of the larger deals. And clearly anything environmental-related is certainly attracting a premium. There are other areas. If you look at some of the medical fields that we're in. Anything to do with life sciences, with the huge drive in some of the new things going on in Pharma, things relating to that are certainly attracting higher multiples. Yes, there are some real hot spots. I suppose the only thing I would say, take a big step back and go back, over the last thirty/forty years, in the markets we're in, safety, health and environment, you've always got those hot spots. And it's part of the value of having that portfolio where you can continue to find enough opportunities at sensible prices. I'm not overly concerned that because of that, we're going to see a drying up in deals because we can't find those companies or the prices are too high for us to want to be part of it.

Robert Davies, Morgan Stanley: You mentioned your strategic alignment and your strategy picture you've got up there. I would be interested, in terms of aligning yourselves with all these different environmental legislation and targets in the medium term, do you have any idea what cost that's going to be to the business in doing that? I know you've got a very decentralised business model and how much implication there would be from this alignment. Do you get a kind of lack of benefit from not having a kind of centralised model across the Group? I'm just kind of, curious about the ten-year-plus view. Do you have any concept of what kind of cost for your green agenda or green alignment for the overall portfolio is going to be?

Andrew Williams: Yes, it is a great question and it's a question we don't know the answer to today. We're learning more as we go along. I do think that, as I think we alluded to in the presentation, that a big part of the answer does come from the high number of small steps that the individual operating companies can take, whether it is renewable energy, whether it is the way they design their products. So, you know, there's both that reducing our operational footprint, and I think a lot of that has to be driven through the operating company through those small steps. We've obviously then got the broader piece which is that the bigger positive impact that we have as a Group through the solutions that we provide which, clearly, the more we grow and the more we're deploying those solutions, the better the net impact we have on the planet. So, I think there is going to be some costs but I think it's going to be far outweighed by the benefit we gain from helping other businesses solve their own ESG challenges.

Michael Boyd, GuardCap: You started work on assessing your scope three emissions. How long do you expect this process to last and are these likely to dwarf your scope one and two emissions and make it likely that you will have to push out your net zero target to 2050 or well beyond?

Marc Ronchetti: Let me try and pick up on a few items in that question. So, in terms of scope three emissions, absolutely, we're working towards getting a net zero for our entire supply chain. Over the next twelve months. We're hoping to have an estimate by the year end in terms of those scope three emissions within the supply chain. Clearly, we've got a decentralised Group and a very fragmented supply chain so we're working through the best way to do that. Coming back to the very question which was just asked, without paralysing our business in terms of asking for lots and lots of supply data from every business. So, we're looking for ways to estimate that, certainly by the year end. And linked to that, will it likely dwarf scope one and two? I'm sure that will be the case. In our supply chain we've got very low scope one and two emissions and a large supply chain. So, it is likely to dwarf. In terms then of net zero targets, we've clearly got out there a target on our net zero target. That doesn't change. And then, as and when, in the next six to twelve months we understand our scope three, we'll make appropriate commitments around scope three net zero. But I certainly don't see it as a case of being out beyond what is achievable for other companies. And I guess the key bit in there is really thinking about, okay, how can we impact and influence our scope three emissions as relatively for a group of forty-five small companies? And that's why we've identified the circular economy as our third Key Sustainability Objective because as a big opportunity for us with our supply chain to buy more or less from the supply chain in terms of recycling our products and material. There are many good examples of that across the Group.

Michael Boyd, GuardCap: What acquisition multiple has Halma paid across eleven acquisitions and secondly, how many weeks of ability does the order book provide?

Andrew Williams: We're typically as a Group, certainly over the last two or three years, paying somewhere on average between ten and twelve times EBIT for the businesses we acquire. Quite clearly, we're buying businesses for a very long-term hold, if you like, so for us it's really critical to understand what the long-term growth of those businesses are likely to be and the cash that gets generated through that growth. And so, I'd say, there has been an elevation in price expectations but certainly on a level that still are very lucrative for Halma for the kind of businesses we acquire. Now, on the order book side of it, if you look over the last couple of years, right the way through all the challenges we've seen, through COVID and supply chain, typically our order book has flexed somewhere between eight weeks' worth of revenue and twelve weeks' worth of revenue. It's towards the higher end of that range at the moment. So, nothing out of the ordinary, and certainly within the realms of what we've seen previously.

Jonathan Hurn, Barclays: The first question is on Environmental & Analysis. I think your previous guidance was that margin was going to normalise for the fiscal year 2022. How do we think about that margin in the second half? How much do you think that will come back in H2?

Marc Ronchetti: Yes, I think very much in line with the rest of the Group. Those trends that I shared across the Group are pretty consistent across the sectors. What you're seeing is that part leverage from the revenue growth that we saw will be up against a more normalised comparators so you won't see that same level of leverage. But more importantly, it's those variable overheads that are rightly coming back into the business. We saw that in quarter 2 and within each of the sectors the return on sales was at levels that would be more appropriately in line with what we've seen directly. So, I think you're better to look at historical H2 and I don't think that will be a million miles off where we'll end up.

Jonathan Hurn, Barclays: Thinking about that £5m bad debt provision. Is that still being held centrally?

Marc Ronchetti: It is. Yes. We haven't released the bad debt provision. Rightly so, it's part of our audit and our half year interim review. We review the risk of bad debt in the business. It represents in total just under 2% of our debt balance which feels an appropriate level to be carrying in what is a pretty uncertain environment. We will review that at the full year. It isn't including any of our forecasts or guidance in terms of any change to that level of provision.

Jonathan Hurn, Barclays: And the final question, just on digital strategy. I think last time we heard that digital accounts for about 40% revenue. Can you just give us a little more detail in terms of the developments of that? What rate is it growing at? What's the outlook going forward?

Andrew Williams: Yes, the latest figure shows that it's growing in line with our revenue so it's still just above 40% of revenue derived from those digital products. We are seeing the companies really engaging again with the digital projects we've got. Some recent examples of that, and again these are more exemplars rather that saying they've made a material impact on the financial performance. We've got our business Labsphere that launched a high accuracy satellite calibration service solution, in other words, that satellite providers can recalibrate their satellite cameras. On a frequent basis, they can do relative and comparative imaging. And then, we've got our One Third business which is the business we spun off earlier in the year as one of our development digital projects. It's now its own start-up and doing really well. Just to remind you, that's a business that's focused on reducing food waste in supermarkets by being able to measure and estimate the shelf life of fresh produce. We've got more than 200 of our leaders joining our digital development programme. I think we've got 28 new digital projects underway across the Group through our internal innovation network. And obviously we've got, if you look at some of the M&A additions. The likes of Perigen which is using AI for early warning systems for mother and baby during labour. We've got Navtech. They've got a partnership with Oxbotica combining radar technology with AI software for autonomous vehicles. And then some of our medical businesses are looking at using developing AI platforms to diagnose common eye health problems. So, I think it's happening across the Group. At the moment, it's keeping pace with the growth of the Group. And it will be one of those things to track further as we go through the next couple of years.

Thank you to everyone for attending today and for your questions and I look forward to catching up with you soon. Thank you.

Definitions:

Adjusted items are adjusted to remove the amortisation of acquired intangible assets, acquisition items, and profit or loss on disposal of operations.

Return on Sales is defined as Adjusted Profit before Taxation from continuing operations expressed as a percentage of revenue from continuing operations.

Organic growth measures the change in revenue and profit from continuing Group operations. This measure equalises the effect of acquisitions by removing from the year of acquisition their entire revenue and profit before taxation, in the following year, removing the revenue and profit for the number of months equivalent to the pre-acquisition period in the prior year and removing from the year prior to acquisition any revenue generated by sales to the acquired company which would have been eliminated on consolidation had the acquired company been owned for that *period. The results of disposals are removed from the prior period reported revenue and profit before taxation.*

Constant currency measures the change in revenue and profit excluding the effects of currency movements. The measure restates the current year's revenue and profit at last year's exchange rates.

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 Total Equity, adding back net retirement benefit obligations, cumulative amortisation of acquired intangible assets and historic goodwill.

See the Half Year report published on 18 November 2021 for more details. A webcast of this Half Year results presentation will be available on Halma's website www.halma.com from 18 November 2021.

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.

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