



Halma plc

Site Visit to Fortress Safety

7 April 2022

Presentation Summary



Welcome

Andrew Williams
Group Chief Executive

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Following a welcome from Andrew Williams, Halma's Group Chief Executive, Wendy McMillan, Sector Chief Executive for the Safety sector, introduced the sector and Fortress.

Introduction

Wendy McMillan
Safety Sector Chief Executive

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Good morning everyone.

The operating companies are the heroes within Halma and today is meant to be all about giving the Fortress team a fantastic chance to share many of the great things that they are doing to drive long term growth of their business.

But before handing over to Jo and her team, I'll give some high level context to the safety sector and how they fit into it.

Safety Sector Snapshot

We protect people and the places they work
to grow a safer, cleaner, healthier future for everyone, every day

~45% of Group
Revenues

16 Companies

Strong Gross Margin
and ROS

R&D 5.6% of revenue

>50% Digital/connected
revenues

Low Capital Intensity

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Within the safety sector, everything that we do is aligned behind protecting people and the places that they work to grow a safer, cleaner, healthier future for everyone everyday.

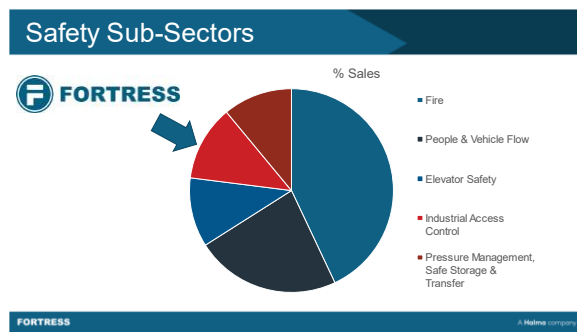
We generate around 45% of the group's revenues, with ROS in line with the group and a strong ROCE. The 16 businesses which make up the sector today operate in many different markets but share several common characteristics.

They are operating in niche markets, with specialist technologies that are highly valued by their customers.

They invest a significant percentage of revenues in R&D to ensure that they remain at the forefront of innovation in their markets.

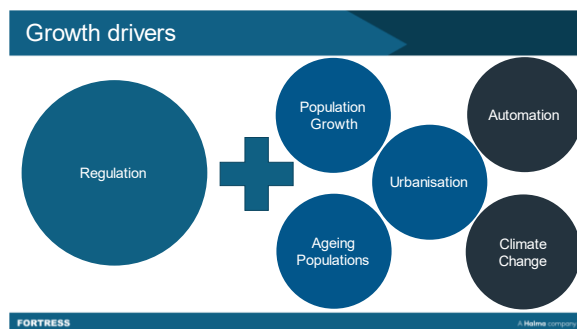
Their financial profiles are characterised by strong gross margins, and low capital intensity.

Although we know that there are many opportunities for further digital growth in the future, we are in a good position today with >50% of sector revenues coming from connected devices, IOT or software.



Our end-market exposure is quite diverse. We have many businesses within the fire safety space but more broadly, the safety operating companies are solving for a wide range of hazards, typically in either urban or industrial environments, and it is in these environments that we continue to look for both inorganic and organic growth.

Within this, the Industrial Access Control sector is about 12% of sector revenue.



One of the features of the Halma model is the constant focus on both short-term results and long-term investment for growth. It's a very powerful part of the Halma DNA. The ability to really understand the drivers of growth over the long term and manage the short term/long term tradeoff is one of the key differentiators of our best companies and our best talent at all levels in the organisation.

When we look at growth over the long term, we are really focused on understanding the drivers which generate tailwinds for us, and minimise cyclicity.

Regulation is a key long term driver underpinning most of the safety sector

companies and Fortress is a great example of a company using regulation to inform and drive its strategy. In most cases, it's not regulation alone that drives growth though. Population growth, urbanisation and the ageing population have supported growth for a long time and continue to do so. And in more recent times, as the Fortress story will highlight, the move towards automation, and the focus on climate change have acted as further accelerants to growth which we expect to continue.



Our job within the safety sector team is to support the success of Fortress and the other companies. When I joined Halma four years ago I was a divisional CEO and Fortress was one of five companies that I chaired.

It has been brilliant to see them going from strength to strength over this time. It is always a choice for our companies whether they want to embrace the growth enabler support that we offer to them. What Fortress have consistently done is work to both build out their own capabilities within the team and make full use of Halma to support their growth.

Fortress is a wonderful company which has been very successful. We won't let them rest on their laurels though – our challenge to this team is always to think even bigger, be even more ambitious, develop even better talent and whilst doing so, always remain such a down to earth, passionate, and collaborative team.

So with that, I'm going to hand over to Jo Smith, the MD of Fortress, to tell their story.

Jo Smith, Managing Director of Fortress Safety, then outlined Fortress' story.

Welcome to Wolverhampton



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Good morning everyone and welcome to Wolverhampton.

First, a little bit about our heritage.....

We're very proud of our successful premiership football club, currently ranked at 7 in the league – affectionately known to the locals as The Wolves...

For all local football fans an important part of local heritage because the club was one of the founding members of the Football League in 1888.

Welcome to Wolverhampton



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We're also famous across the Black Country for our local delicacy... battered chips. People come for miles to enjoy our battered chips as they are uniquely served in Wolverhampton and the surrounding villages..... and not wanting to disappoint any of you we have these on the menu for you to try over lunch today

Welcome to Wolverhampton



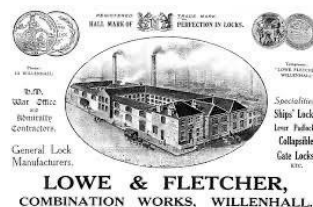
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Moving onto something more relevant to Fortress – a major part of our heritage which we're really proud of is that Wolverhampton was the birthplace of industrial lock making – you may have seen the iconic Chubb building as you arrived into Wolverhampton today....

In the 1770's there were more than 280 lock makers in the region. By the year 2000 there were only 23 still trading and we are incredibly proud to be one of those successful companies still representing that tradition of lock making in the region....

Fortress heritage



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Fortress was originally part of the Lowe & Fletcher group so we get to share in that heritage dating back to Victorian times.

Here's a great photo of their factory based just around the corner (and I love their strap line at the time – the hall mark of perfection in locks).

On the right there's a great photo inside their factory and what's interesting to me is the number of women assembling locks – this actually isn't too dissimilar to our own shop floor which you'll see later today

Innovation Timeline



Fortress interlocks were developed by Lowe & Fletcher in response to the change in Health and Safety legislation and the first applications were for power plants to support the safe distribution of electricity.

The first products were the mechanical ones you see here in the first photo – essentially switching off electricity before an access key can be released.

Trapped key interlocking is a fairly simple concept - there are two keys – one is to isolate the power making it safe to enter a dangerous area – this then releases the access key which the operator takes with them. The power or machine can then only be restarted by reinserting the access key.

In 1987 Halma acquired Fortress and quickly seized on the market opportunity for electromechanical interlocking being led by the use of industrial IT systems to control processes - especially within the heavy industry and automotive sector - here you can see our products being used in paper manufacturing.

A key strength for Fortress is the expansion of our product range to keep pace with market requirements and safety regulations.

From 2017 Fortress was one of two interlock specialists who invested in the expertise to develop digital / connected products. We did this by working closely with BMW and were delighted to be awarded a £2m contract in preference to our German competitor. The introduction of connected solutions has been game changer with regards to our brand, market position and growth potential.

Why interlocks?



Why do our customers need Interlocks?

[VIDEO]

That's why – pretty scary – thank goodness it's not a real person and this is what happens when you allow people into dangerous spaces to work alongside dangerous machinery.

Unfortunately, human nature is such that people will often put their urgency to fix a problem – especially when it's holding up expensive production processes - ahead of their own safety.

Our products protect those employees working in dangerous environments

What We Do

Saving lives by providing the best safety solutions



Our purpose is saving lives by providing the best safety solutions

And we do this in a number of ways...

We design safe access solutions that ensure employees can only enter a dangerous area when it's safe to do so.

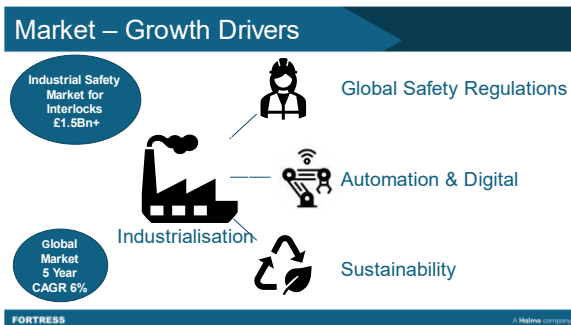
We can control machinery from safely behind the gate to put it into a safe state before allowing access.

And our machine permissions allow us to make sure only the appropriate trained employees can enter that area.

We are experts in machine safety and able to offer training and advice to our customers (you'll hear more about this in one of our breakouts later).

Thanks to an acquisition in 2021 we are able to offer enhanced safety solutions for fluid power applications such as the control of hydraulic and pneumatic energy.

This was a strategic acquisition to position Fortress to benefit from an upcoming increase in safety regulations around fluid power.



A conservative estimate of the global industrial safety market for interlocks is in excess of £1.5bn with a CAGR of 6% so there is huge potential in this growing niche market.

As you've already heard, Fortress operate in the industrial sector so industrial globalization continues to be a major growth driver for us – it's interesting that even in highly regulated environments such the USA we still find significant opportunities to improve on guarding and safety.

Global safety regulations are incredibly important because they often recommend or even enforce the use of our products. We have representatives on all of the safety standards committees around the world – this has multiple benefits – not only does it allow us to

influence new regulations but it gives us advance warning of future risks and opportunities which may also influence our product roadmap. Not to mention it's a great source of intel around competitor product developments.

Industrial automation and the move towards industry 4.0 drives even more growth opportunities for Fortress. Fortress is still one of only two interlock providers with connected solutions. Digital solutions offer our customers the opportunity to reduce installation costs, flexibility to reconfigure a production line and data insights to make their processes more efficient.

This links us to sustainability where we are already seeing traditionally heavy industry, such as steel, investing in ethernet products to improve their processes to meet decarbonization targets. In addition to this opportunity there is also growth through the introduction of new green energy solutions where our products are perfectly placed to control and distribute the energy safely.



In 2017, I was promoted to MD and one of my first major strategic initiatives was to better understand the industrial safety market. Halma supported us in a six month market segmentation exercise which resulted in the selection of six target verticals with the biggest potential for growth opportunities based on applications for our products.

The sweet spot for Fortress is a dangerous process which still requires regular human intervention and as such we chose the following verticals.

The first four verticals clearly meet the sweet spot with large heavy-duty machinery and dangerous processes.

Warehouse Automation is an interesting vertical and had we not done this work to understand the safety applications, it may not have been on our radar. High numbers of high speed robots make this a perfect application - not to mention low skilled workers and the use of temporary employees for peak periods mean that the access to high tech equipment needs to be restricted to those who are trained.

Finally automotive - It's interesting to note that previously our main focus had been on the automotive sector but it is a highly cost competitive market. We retained this as they also tend to be the innovation leaders for industry. A great example is the connected products developed with BMW from earlier.

Our Customers & Why Fortress?



Here are our key customers within the core markets that we are focused on. I'll let you digest some of the well known names on there as it's something we're especially proud of.

These are key customers where we have worked with them to develop a customized design for their specific processes and they have standardized on that solution in all of their facilities globally.

Based on customer feedback the reason they choose Fortress is very clear.

Our niche and unique offering is that we offer our customer a fully customized solution. Most of our competitors offer a range of catalogue products to choose from but we have a modular

design which means that our customers can always configure the best possible safety solution to keep their employees as safe as possible.

Those customers then stay with Fortress because our products are incredibly robust and reliable and independently safety certified. We are also very responsive both in terms of delivery and offer timely support when needed.

One of the testimonials I'm most proud to hear is when an Operations leader says he enjoys full peace of mind by using Fortress solutions - knowing his team are protected and safe from harm at all times.

Market – Our Customers



We've already mentioned the massive potential of our niche market – whilst there is still huge growth potential with the key customers listed in the inner circle, these are just some of the other customers (in the outer circle) who already buy our products and where we see future growth opportunities.

Global Reach



As you've seen - many of our key customers are large global businesses who expect us to offer the same high levels of support around the world – we do this by working with valued

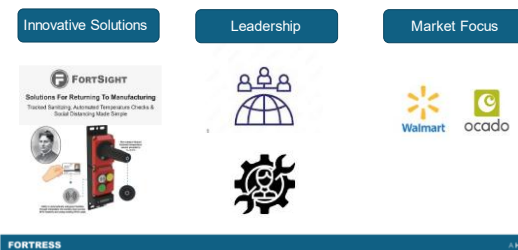
distributors who are experts in industrial safety offering the full range of safety products from the PLC, guarding to our interlock solutions.

Our main production facility is here in the UK but we also have production facilities in the USA, Australia and thanks to the Halma Hub we also manufacture in China.

Around 85% of our sales are made outside of the UK – hence the recent Queens Award for International Trade. As we continue to grow, our plans are to expand the production capability in America and China – establishing regional hubs to support the local market. This will also have the benefit of reducing our environmental footprint to help achieve our net zero targets (more on that later).

We are also keen to expand geographically especially where there is an increase in safety regulations – a good example of this is India where we have recently leveraged the Halma hub to establish a small sales team and start to penetrate that emerging market.

Competitive Agility – Covid Growth Strategy



As an SME, Fortress remains highly responsive and able to react to changes in the market. We have no doubt this is agility is a significant contributor to our ongoing success - there's no better example of this than how we responded to Covid.

Once we had addressed the most urgent priority around our employee well-being with social distancing and home working measures ...

...the lockdown challenged us to quickly consider our strategic objectives and how we

could weather the unknown. We decided to make changes to our growth strategy –

- Trialling new solutions to address the challenges of manufacturing with Covid restrictions – this example here only allows access if the employees temperature is in the healthy range.
- Changing our leadership team roles and responsibilities to more specific regional support and allow us to be more responsive to the local markets
- Restructuring the sales team to add more technical sales expertise to better support our distribution and our customized solution

From a market strategy perspective we switched to a priority focus on automated warehouse solutions having seen the huge growth in that core market and also decided to accelerate our digital marketing strategy

Competitive Agility – Digital Marketing



As part of our market strategy we also accelerated our plans for digital marketing.

Recognising that everyone would be homeworking we were keen to make the most of that captive audience and decided to trial some webinars to gauge their success. Those initial webinars went really well with great attendance both from our distributors and customers, so we then decided to invest further.

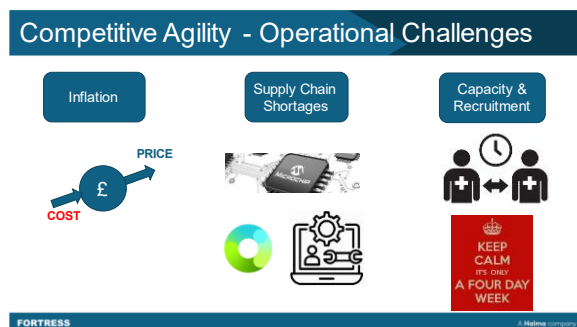
Fortress have had great success in enticing Halma graduates to join our team and currently employ 6 in leadership roles – during the

lockdown we repurposed 4 of them to focus on digital marketing and later 3 members of our engineering team also moved to new product manager roles. The far bigger marketing and product team focused on creating application examples, case studies, product and safety training to be delivered in our webinars which were scheduled three times per day to capture all the time zones.

The success and exceptional feedback for our generic safety training around machine safety gave us the confidence to launch and charge market rate for our own safety training for the US market which we negotiated to be uniquely certified by the writers of the US standards – ANSI B11. (You will hear more about this later in a breakout session).

We have remained convinced by the benefits of our digital marketing so have continued to offer regular webinars. To date we have over delivered over 100 webinars and entertained / educated over 10,000 webinar attendees

Finally we used all of this content to build our fabulous new user friendly website which we launched in 2021.



Unfortunately the disruption didn't end with lockdown and the last 12 months have seen some new challenges, where again it's our business model and agility that has really made the difference.

Inflation has hit the headlines in a big way and we've certainly seen our share of cost increases – thanks to our niche customized solution most of our customers are pretty "sticky" and as such we have been able to increase prices

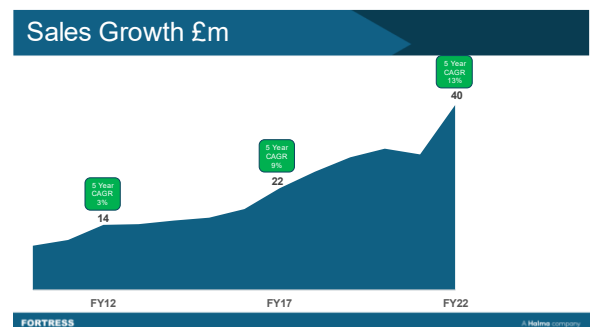
without any negative impact to our relationships in all regions.

Supply Chain shortages have been a challenge this year but again we have weathered the storm far better than our competitors – the global microchip shortage gave us the most concern but thanks to the combined buying power and relationships across Halma we were able to mitigate this risk.

The fact that we have design authority and good relationships with our certifying body TUV, meant to quickly redesign around other component shortages too.

Finally our growth success added new capacity constraints and this was exacerbated by the recruitment challenges – we came up with a great solution by changing our day shift to a compressed 4 day week, utilising the Friday to Sunday to introduce a new shift which I'm delighted to say has been easy to populate and we had recruited 15 really high calibre new team members within 2 weeks of advertising....

So I guess the question is whether this agility and responsiveness to the market changes has paid off for Fortress?



And I'm delighted to say yes it really did – we have accelerated out of Covid at a far faster growth rate and for the first time ever have a pipeline into the next year which gives us confidence that this rate of growth will continue.

I'll now introduce you to Steve Smith who is our Finance Director to talk you through more of the financials.

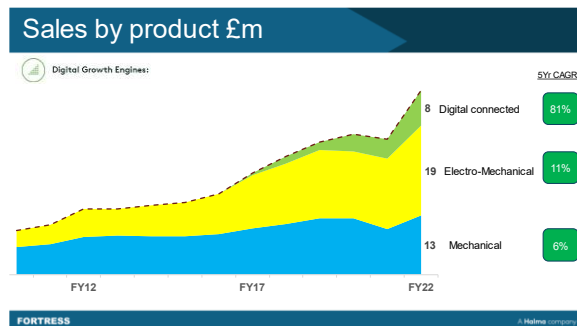
Steve Smith, Fortress Finance Director, then presented the company's headline financial performance.

Great to welcome you all to Fortress and as Jo said I'm the Finance Director here. I have been with the company since 2017 having previously worked in Aerospace, Automotive, Banking and FMCG

What a great slide - you really see that trend pick up in 2017.....

And in terms of how this sales growth translated to returns. I'm incredibly proud to say we outperform the Sector average on both ROS and ROCE.

I'm going to now take you through this sales growth in 3 different ways to highlight how innovation and the market segmentation project combined to really accelerate our growth



This slide shows our sales by product.. And if you look to the blue section you will see our mechanical range of products.. These are our oldest range and are growing at about the rate of the overall market with a 6% 5yr CAGR...

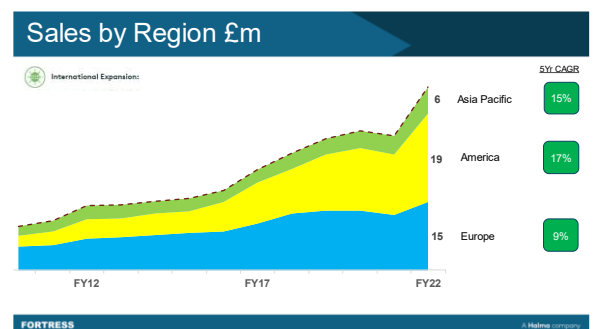
This demonstrates how important it is for us to be innovative as you see most of our growth has come from our more recent innovations on both electro-mechanical and connected products

Halma have helped us take the lead in innovation with the markets first digital product

with data insights to help our customers improve their efficiency - this was developed as part of one of the digital sprints sponsored by Inken's team.

Benefiting from the Halma partnership with Hitachi - the development cost less than £100k and with active enquires from some of our larger customers like Tata we are confident this will give us an edge in future sales growth

Going forward we see the high growth in our digital and connected products continuing and anticipate next year's sales to nearly double to £15m.



The slides that follow remind me of my very first week at Fortress when we kicked off the market segmentation project which Jo talked about earlier, as you can imagine this was heaven for me as it allowed me to get involved in the detailed analysis of our sales, applications and markets...influencing business strategy from day 1.

The yellow section shows our sales into America. The market segmentation project clearly identified America as our biggest geographical opportunity for growth and with this insight we significantly increased our focus on the Americas market and that has delivered significant sales increases from £9m to £19m in 5 years.

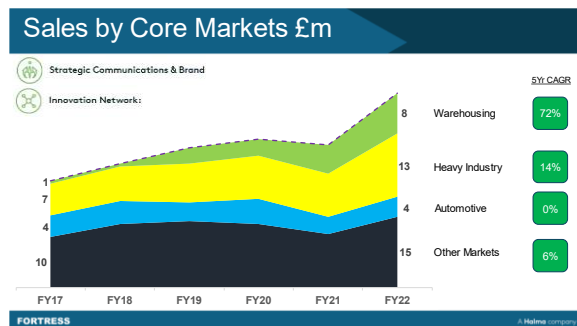
And we expect this trend to continue with next year around the £25m mark.

If you look to the bottom left you can see back in 2010 most of our sales were in Europe and actually most of these were UK.

From there we have grown sales in Europe at a steady rate with a current 5 year CAGR of 9%

The top section shows our Asia Pacific sales, we have always had a strong presence in Australia but over recent years we have seen the introduction of safety regulations in China which is now starting to drive our growth and we currently focus on key accounts where we have existing relationships across the Western regions

Finally – and my favourite my slide, let me show you how that project influenced our growth by market.



If you remember we chose 6 core markets which I have split out to talk through in more detail. You can see the black area shows the non-core markets are growing steadily at the market average rate of 6%.

In blue, our Automotive sales are flat over the 5 years and you can see the decline during the Covid crisis. We are now seeing more activity again and expect growth to return due to EV investment.

In yellow - Our heavy duty markets.. Wood Paper and Pulp, Construction, Metals and Food & Beverage have roughly doubled since 2017 and I've deliberately split out the star performer - warehouse automation.

The vast majority (78%) of our growth has directly come from those 6 core markets, so there is no doubt this focus on core markets has been key to our success.

Recognising this we regularly revisit and revise our approach to the ever-changing marketplace. One such example was during the Covid crisis where we modelled how our core markets could be impacted by the pandemic. In doing so we quickly pivoted our strategy to place greater focus on warehousing applications as the industry we believed would grow the fastest....

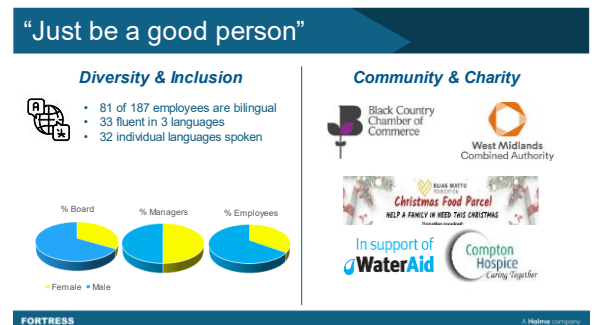
....and you can see this has really paid off as sales have increased to £8m and our pipeline indicates they will be almost doubling again to £15m next year.

I think this really emphasises how the Halma autonomous model delivers organic growth.

Halma provided expertise and guidance but most importantly the autonomy and trust so that we could act quickly and decisively... in the best interest of Fortress... without that autonomy I don't believe we would have seen gains to this scale...

I'll now hand you back to Jo.

Jo Smith, Managing Director of Fortress, then concluded the presentation with a description of the company's sustainability initiatives.



Thanks Steve –I'm so proud of those financial results and possibly they do somewhat steal the show but I have to say that for me it's the people and talent that really make the difference at Fortress. We have a truly diverse team as you can see from some of the metrics around language skills – we have 81 employees who are bilingual and across the team and 32 individual languages are spoken.

We have a family style culture with a focus on providing an environment where everyone can enjoy every day that they spend at work. I'm a real believer that people do their best work when they are happy and feel valued.

As you can see we have been making great progress with our female to male diversity, not to mention we now have three exceptional female engineers in leadership roles at Fortress.

I'm a NED and Audit Chair for the local Chamber of Commerce and also newly appointed a member of the West Midlands Regional Business Council which is chaired by the Mayor Andy Street. Wolverhampton is an impoverished area which has been recognized as needing special support and was especially impacted by Covid.

Both roles allow me to better understand how we can help to support and regenerate our local community. Helping the local community is something that really boosts morale so we do get our team involved in all kinds of community and charity work such as collecting for food parcels, litter clearing at the local nature reserve or even organizing our own British bake off competition to support the local hospice.

"Just be a good person"



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Another area I'm really passionate is the STEM work with local schools – you can see from the photos here we have worked with primary school age pupils to ignite their interest in STEM subjects and we regularly attend career fairs – this one was in March at Wolverhampton Girls High inspiring them with female leaders who are enjoying careers in engineering and manufacturing.

Finally, as a board we are passionate about sustainability and recognize that it's up to us as leaders of a business to make a difference to the environment. We are incredibly proud to be the first Halma company to be officially certified as Carbon Neutral and have plans in place to get to net zero – again hoping to be the first Halma company.

We're keen to tell you more about our initiatives in the breakout as this is one of the four sessions.

Breakouts



Sustainability



Safety Services



Innovation



Factory Tour

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The other 3 breakouts will be on innovation, safety services and a visit to our shop floor.

You will be allocated to specific groups to ensure you get to enjoy all four of the sessions.

That concludes our presentation and it's now over to you for any questions.

Any Questions



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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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