



**Halma**

# Halma plc Full Year Results 2023

Summary of analysts' presentation by:  
**Marc Ronchetti, Group Chief Executive**  
**Steve Gunning, Chief Financial Officer**

15 June 2023

# Record profit for the 20<sup>th</sup> consecutive year

Marc Ronchetti, Halma's Group Chief Executive, introduced the presentation of the full year results.



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

I am pleased to be here to report a strong set of results, my first as Chief Executive.

As you'll hear, once again, they show the strength of our Sustainable Growth Model and the value of having exceptional talent and teams across our organisation.

I'd like to start by thanking everyone at Halma for their hard work and dedication, and their contributions to our significant progress over the last twelve months.

I'd also like to welcome Steve Gunning, who joined as Halma's fourth ever Chief Financial Officer in January.

Steve was most recently CFO at IAG and I am delighted that he is here with me today, as a member of my leadership team.

In a few moments, Steve will give you more insight into our financial performance.



But first, I wanted to share a few reflections on what is driving Halma's success, and the substantial opportunities I see ahead of us.

If I go back to 2016, when I was first introduced to Halma, I remember being really impressed by so many things: the purpose-driven nature of the Group, the positive impact on the World, the clarity and success of our Sustainable Growth Model, our culture and the diversity of the talented people I met.

I knew then that this was a special company and that I wanted to be a part of its future.

This feeling has grown stronger over the past seven years since joining Halma, and has deepened further over the past 6 months as I have had the opportunity to spend more time with many of our companies.

I am inspired by our fantastic people, the quality of our companies and technologies, the scale of the problems we solve for our customers and through that the lives and environments we protect and enhance.

As you will see, innovation and creativity remain core to the Group, with every individual playing their part in our success.

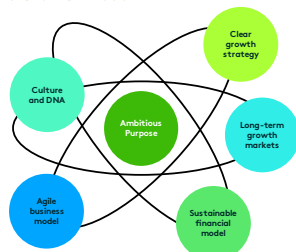
I am immensely privileged to be leading an organisation with such a strong purpose and inclusive culture, and I'm excited about the opportunities ahead of us.

As I think about our future....It's often the case that a new CEO has been appointed to make fundamental shifts in strategy or significant portfolio changes ... in fact when we last changed our CEO 18 years ago, that was exactly Andrew's brief and many significant changes happened in his first couple of years ...

Today, I believe we're in a very different position... in terms of our portfolio, our capabilities, our people, and the momentum we have in growth, investment and returns.

In short, I believe we're in a position of strength, with our Sustainable Growth Model as its foundation.

Our Sustainable Growth Model



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It is a dynamic system and its strength lies in the way each of its elements are interlinked and reinforce each other.

At its heart is our unifying and ambitious purpose which drives us to have a positive impact on people and the planet.

Our purpose directs us to niches within markets that are addressing long term needs. Halma has always focused on long term growth drivers which underpin both organic and inorganic growth.

All of this gives us confidence in delivering our sustainable financial model. Our strong organic growth, returns and high levels of cash generation allow us to constantly reinvest in growth opportunities, both organically and through acquisition, and deliver increasing dividends to shareholders.

Our ability to capture these opportunities over decades is underpinned by the agility of our business model. This puts strong talent close to those niche markets, who can leverage our entrepreneurial and collaborative culture to innovate and solve high value problems.

I believe that this agility is especially critical now, given the challenges facing our customers, whether from climate change, or ensuring our health and safety, or indeed facing up to economic and social volatility.

Therefore, as we have done consistently since our foundation over 50 years ago, we must continue to evolve and enhance this model to capture the significant opportunities for growth and positive impact.

Our Sustainable Growth Model: priorities



Organic growth

Inorganic growth

Maintaining the agility of our business model

Optimising returns on investments

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In this context, there are four areas which I see as key priorities for Halma as I start my first year:

First, Organic growth

It is critical that we have clarity on the customer problems we are solving, the value we are creating and our ability to capture this value.

Organic growth is the cornerstone of our financial model – and therefore is our top priority.

To do this, we will keep our talent close to our customers, and maintain our high levels of continuous investment in our products and services and continue to seek a strong return on that investment.

Secondly, inorganic growth – the other half of our growth model. Again, in a fast changing world with many emerging trends, we must remain disciplined in our approach to acquisitions with a relentless focus on purpose alignment, and only those market niches which offer long-term growth, returns and cashflows

It is this same lens through which we will continue to review our existing portfolio and investments, acting decisively where required – I don't believe there are any fundamental outliers today, however this must be a continuous process.

My third area of focus is that of ensuring we maintain the agility of our business model... through our decentralised organisation model, our entrepreneurial and collaborative culture, and ensuring that we have the very best talent in our leadership teams across the Group.

Allocating our capital in the right markets provides a great foundation, however in a world of increasing opportunity, increasing pace of change and volatility ... it's our agility and talent that will ensure delivery of our ambitious growth targets.

Put simply, talented teams, close to customers, making great decisions, supported by being a part of a global

group, will deliver sustainable growth and impact aligned to our purpose

I'll come back to this in the second part of my presentation.

My final priority alongside growth is maintaining a disciplined approach to optimise the returns on the substantial investments we make. Whilst I am not signalling a change to our current return KPIs, I do believe that it is critical that we maintain them as we continue to grow – an area that Steve will take the lead.

As I say, I will cover strategy in more detail later, so before I hand over to him, let me summarise our progress over the last 12 months...

#### Record results, strong growth and high returns

<ul style="list-style-type: none"> <li>Continued strong growth</li> <li>Substantial investment</li> <li>Improved cash generation</li> <li>High returns</li> </ul>	Record revenue <b>+21%</b>	Record profit <sup>1</sup> for 20 <sup>th</sup> year <b>+14%</b>
	Record investment <b>&gt;£0.5bn</b>	Cash conversion H2 FY23 <b>90%</b>
	Return on Total Invested Capital <b>14.8%</b>	Dividend growth $\approx$ 5% for 44 <sup>th</sup> year <b>+7%</b>
	Well positioned for further progress	

<sup>1</sup>: Profit before amortisation and impairment of acquired intangibles, acquisition items, significant restructuring costs, and profit or loss on disposal of operations.

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We've reported another set of record results, with continued strong growth, high returns and substantial investment, aligned with both our Sustainable Growth Model and the priorities I have just described.

We've delivered record revenue and our 20th consecutive year of record profit.

Great to see our ambition, reflected in record levels of investment, of over half a billion pounds... this also reflecting the scale of the opportunities we see in our markets.

This investment strengthened our capabilities both organically, and through acquisition.....

Organically... We've continued to build strength and diversity in our teams, to foster our entrepreneurial spirit by building on the power of the Halma network.

For acquisitions we had a record year for both spend and acquired revenue and profit.

As always investment is supported by our strong financial position, and high levels of cash generation – pleasing to see cash conversion back to targeted levels in the second half.

And our growth has been delivered with continued high returns.... While Return on Sales was below last year's unusually high level, it was well within our target range, as was ROTIC which also remained substantially above our cost of capital.

All of this is supporting a proposed 7% increase in the dividend, representing our 44th year of annual dividend increases of 5% or more – another strong signal of our confidence in the future.

This performance, together with a good start to the new financial year means we are well positioned for further progress in 2024 and beyond.

So with that, let me hand over to Steve for more details on our financial performance in the year.

**Steve Gunning, Chief Financial Officer, reviewed the full year financial performance.**



Thanks Marc.

Good morning – it's a pleasure to be presenting my first set of results as the Halma CFO.

Before I launch into the results, I thought it would be useful to make a few opening remarks.

Halma is a company I have admired and followed for a long time.

In the mid-90s, whilst working for Price Waterhouse, I spent several summers in Amersham auditing the Group.

Once you've met the founders and been exposed to the business model, you don't forget it.

So when the opportunity came along to be the CFO and work with Marc and the rest of the team, I jumped at it.

In my first 5 months I have received a great welcome and I have been out to nearly 20 operating companies

Overall, I have been impressed with how the Sustainable Growth Model drives the culture and decision making of the Group, the focus being to create value over the long term. At the same time the Group is determined to deliver every year – which they did again this year!

So let's take a look at the FY23 Results.

#### Full year 2023: Record results



<b>Strong growth and high returns</b>	<b>Revenue</b> <b>£1,853m</b> (FY22: £1,525m)	<b>Profit<sup>1</sup></b> <b>£361m</b> (FY22: £316m)	<b>Return on Sales<sup>1,2</sup></b> <b>19.5%</b> (FY22: 20.7%)
<b>Record strategic investment</b>	<b>7 acquisitions<sup>3</sup></b> <b>£397m</b> (FY22: £164m)	<b>R&amp;D spend</b> <b>£103m</b> (FY22: £85m)	<b>Infrastructure spend</b> <b>£48m</b> (FY22: £38m)
<b>Cash and balance sheet strength</b>	<b>Net debt to EBITDA</b> <b>1.38x</b> (FY22: 0.74x)	<b>Cash conversion</b> <b>78%</b> (H2 FY23: 90%) (FY22: 84%)	<b>Dividend for the year</b> <b>+7%</b> 20.20p (FY22: 18.88p)

1: Profit before amortisation and impairment of acquired intangibles, acquisition items, significant restructuring costs, and profit or loss on disposal of operations. 2: As a percentage of revenues. 3: Maximum total consideration on a cash- and debt-free basis, and excluding other adjustments to consideration.

As Marc has already stated, these are a strong set of results with record revenue and profit: - Revenue of £1.85bn is up 21.5% and profit of £361m is up 14.2%. All this with continued high returns of 19.5% Return on Sales, well within our 18-22% target range.

In the year the Group has made record strategic investments:

In terms of M&A it has made 7 acquisitions (4 standalones & 3 bolt-ons) and invested nearly £400m. It is great to see the strong pipeline converting into strong acquisitions.

R&D spend has exceeded £100m for the first time. Such investment is fundamental to maintaining and improving our market positions.

Finally, we have also continued to invest in our Infrastructure which includes capital expenditure and investment in Group IT programmes.

This investment is only possible because of the Group's strong cash generation and strong balance sheet. So let's look at some of the metrics behind this.

Net Debt/EBITDA at 1.38x is at a comfortable level despite the heavy level of investment.

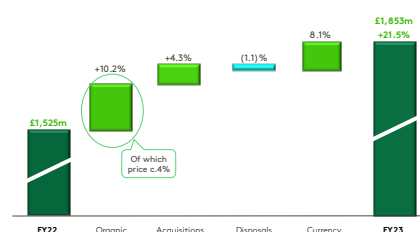
It was good to see cash conversion in H2 at 90%, our target level. In H1, cash

conversion was 63% due to the decision by some companies to invest in inventory to mitigate supply chain issues. These issues are easing and we expect cash conversion to be ahead of 90% in FY24!

Finally, we are proposing to increase the dividend by 7%. This will be the 44th consecutive year we have increased it 5% or more. Once again signalling our confidence in the future.

Now let's look at revenue in more detail.

#### Strong organic revenue growth



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This slide provides a bridge of year on year revenue growth of over £300m or 21.5%.

Organic revenue growth was 10.2%. Which follows on from 17.5% in the prior year.

Price increases provided 4% of the growth which was consistent across all 3 sectors and above the historic average of 1-2%.

Volume increases at 6% were also at the high end of the historic range.

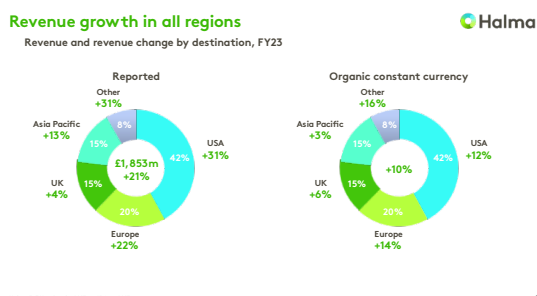
Our growth was driven by continued underlying demand.

Next we see acquisitions made a good contribution of 4.3%.

Finally, there was a substantial FX benefit of 8% driven by the strong \$ compared to the £. It is worth noting that we would expect an FX headwind of

about 2% in FY24 based on latest FX rates.

If we now look at revenue through a different lens...



This slide analyses the revenue growth by regional destination. On the left hand side you have reported revenue growth and on the right hand side you have organic constant currency growth by region.

If we focus on the chart on the right that analyses organic constant currency growth.

We see strong growth in our two largest regions, US & Europe.

In the US it was pleasing to see growth spread evenly across all 3 sectors.

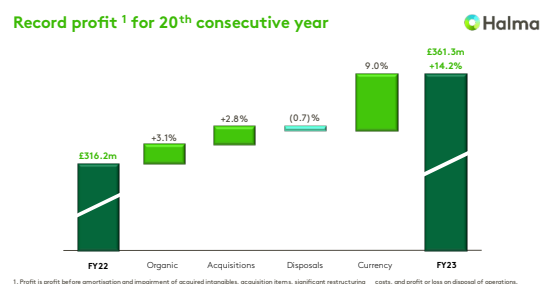
In Europe, we saw strong growth in Safety and Healthcare.

UK growth at 6% was in line with our longer term expectations and pleasing given the 25% organic constant currency growth in the previous year.

Asia Pacific saw strong growth in Australia and India, partly offset by 6% decline in China primarily due to lockdowns.

If we move from revenue to Adjusted profit...

As Marc outlined, we delivered record profit whilst making substantial



investments to support our future growth.

Profit was up 14.2% at a reported level and up 3.1% on an organic constant currency basis.

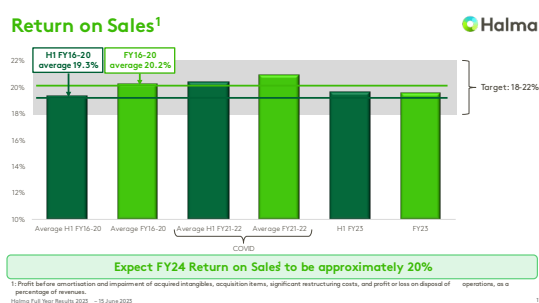
The organic constant currency growth was held back to some degree by Return on Sales performance in H2 and I will come back to that in a moment.

There was a good contribution from acquisitions of 2.8% which includes the typical early investment we made in recently acquired businesses and higher interest costs.

As with revenue, there was a strong currency benefit from the strong US dollar compared Sterling.

Now let's come back to Return on Sales performance.





This chart shows the H1 and Full Year Return on Sales performance for 3 periods:

- The 5 year average pre-COVID;
- The 2 years of COVID;
- FY23.

The grey shaded area shows the 18-22% range.

Key observations, especially in relation to FY23 performance, are:

- In all periods the Group stayed within 18-22% range.
- Return on Sales during COVID increased due to cut backs in non-mandatory spend.
- In H1 FY23 – Return on Sales was above the pre-COVID average but was normalising towards average of 19.3%

However, the full year result was 19.5% which is below the historic average by about 70 basis points. This is because the H2 Return on Sales came in at 19.4%.

The H2 Return on Sales was lower than historic average for two reasons:

- 1) The Safety sector was impacted from supply chain disruptions.
- 2) Interest Expense was up due to the record level of investment and higher interest rates.

So what was the issue in the Safety Sector? Some of the semi-conductor components used in our products have been de-prioritised by the

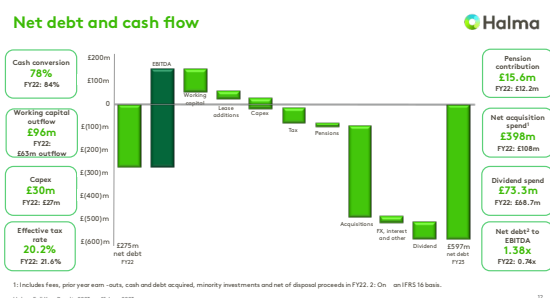
manufacturers. This has affected a number of our companies in two ways:

- The cost of the components has increased substantially due their scarcity.
- The affected companies have had to invest in re-certifying their products with the newer and cheaper components.

The good news is the impacted companies are making good progress through this challenge and we are starting to see the Sector's Return on Sales recover.

So if we consider the main drivers behind the FY24 Return on Sales for the Group; we have the operating leverage of the business, the recovery in Safety's Return on Sales and the highly profitable acquisitions made in the year being partially offset by the higher interest expense.

As a consequence, we are guiding that the full year 2024 Return on Sales will be approximately 20% and in a typical historic H1:H2 split where H2 is higher than H1.



If we now turn to the company's cash flow performance.

This chart effectively summarises the Group's cash flows for FY23.

I'll just pick out four key items.



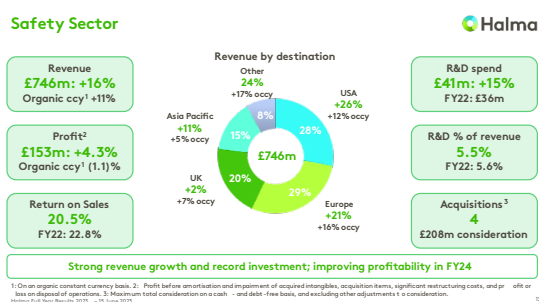
EBITDA and acquisition spend are clearly two largest items.

The strong EBITDA generation is typical for the Group and testimony to the growth model.

The acquisition spend reflects the seven acquisitions made in the year. These companies will be a source of incremental EBITDA in future years!

Working capital outflow was higher than normal due to the strategic investment in inventory in the year to mitigate supply chain issues. We expect these issues to ease in FY24, hence we expect a lower working capital outflow in FY24 and cash conversion to be strong and ahead of the 90% level.

Finally, pension contributions in FY24 will be lower by £11.4m. It has been agreed with the Halma pension trustees to defer contributions to April 2025 to allow the next triennial valuation to be completed. The scheme is very well funded and de-risked, hence we are keen to avoid making contributions that are not required.



Before we consider the Safety sector, it is worth noting that because of the currency and acquisitions creating a significant difference between the reported and organic growth figures, we have provided detailed sector bridges in the Appendices to the slide deck.

The Safety sector achieved strong revenue growth and record investment in FY23.

This strong revenue growth of 11% on an organic constant currency basis was broadly spread across the regions and reflected good underlying demand.

In terms of profitability, Return on Sales was lower at 20.5%. This was primarily due to the supply chain challenges in a number of companies as I've already mentioned. We are beginning to see these disruptions ease and expecting an improved profitability in FY24.

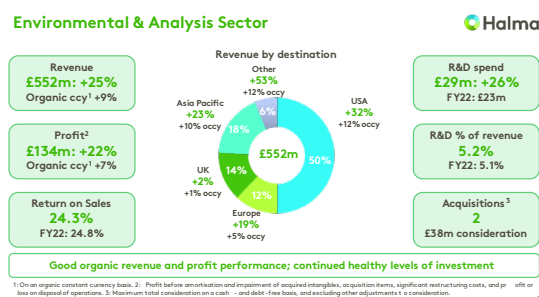
Safety had a very good year in terms of M&A with 4 acquisitions in the year:

In fire safety, it purchased Thermocable and FirePro.

In power safety, it purchased WEETECH and a bolt-on for Sentric, Zone Green.

It was also great to see our companies continue to invest in R&D to support their future top line growth.

Turning to the Environmental & Analysis sector.



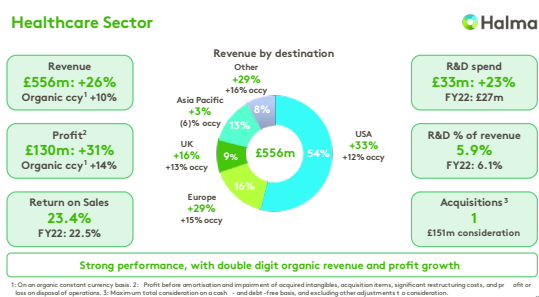
The Environmental & Analysis sector saw good organic revenue and profit growth and healthy levels of investment.

The revenue growth included strong increases in US, Asia Pacific and the "other" regions.

In terms of profitability; the gross margin improved slightly due to good management of pricing and business mix, but Return on Sales declined 50 basis points to 24.3%. This reflected variable overhead spend returning back to pre-pandemic levels.

It is fantastic to see building momentum in M&A with two acquisitions during the year, Deep Trekker and a bolt-on for Ocean Insight, then subsequent to the year end, Sewertronics and a bolt-on for Minicam.

Turning to Healthcare which was the star performer in the year.



Healthcare delivered a strong performance in the year with double digit organic revenue and profit growth.

Organic revenue grew 10%; this included a recovery in patient case loads in the second year post-COVID.

By geography, all regions except Asia Pacific reported double-digit revenue growth. Asia Pacific declined on an organic basis due to the lockdowns in China.

In terms of profitability, the sector achieved a slightly higher gross margin and Return on Sales increased 90 basis points to 23.4%, which does represent an element of recovery closer to pre-pandemic levels.

It was good to see continued high levels of investment.

Organically in terms of new product development, R&D spend was at 5.9% of revenue.

And the sector made a larger acquisition in IZI at maximum total consideration of £151m.

Now let's turn to our financial KPIs.

#### Performance against financial KPIs



Organic revenue*	Organic profit*	Acquisition profit **	EPS growth
+10.2%	+3.1%	+5.5%	+17%
Threshold 5%	Threshold 5%	Threshold 5%	Threshold 10%
R&D investment (% of revenue)	Cash conversion	Return on Total Invested Capital	Return on Sales
5.5%	78%	14.8%	19.5%
Threshold 4%	Threshold 90%	Range 12-17%	Range 18-22%

\* At constant currency. \*\* Annualised profit at the date of acquisition of acquisitions made in the year (net of finance cost) as a percentage of prior year adjusted profit.

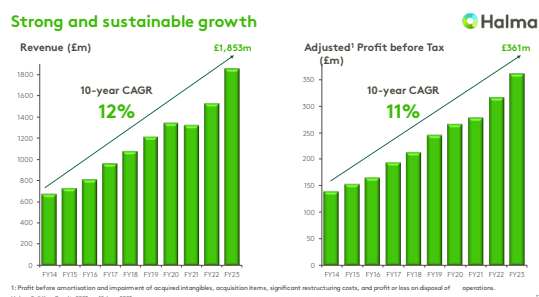
It has been another record year and I have covered most of these KPIs already, so let me just highlight a few of them.

A strong acquisition profit contribution of 5.5% especially as this metric is on a post-interest basis. On a pre-interest basis it would have been over 9%. The pre-interest basis has validity given the self-sustaining funding model.

Earnings per share up 17% driven by the strong reported profit growth in the year.

ROTIC at 14.8% remained strong and well above our weighted average cost of capital of 8.9%. This was delivered at a time of record investment which is supported by our strong cash generation and strong balance sheet.

It's fantastic to see strong returns from our past investments – which will be an area of continued focus for me.



These slides show the 10-year performance of the Group at the Reported Revenue and Adjusted Profit level.

It's excellent to see the 10-year compound annual growth rate above 10% for both metrics.

It demonstrates the effectiveness of the Sustainable Growth Model which is at the centre of the business.

The Group invests to achieve sustained value creation over the longer term.

A key focus of my role will be working with Marc to see those returns continue to come through from the substantial organic and inorganic investments that the Group has made and is making.

I will now hand you back to Marc to provide a further update on the business and our priorities.

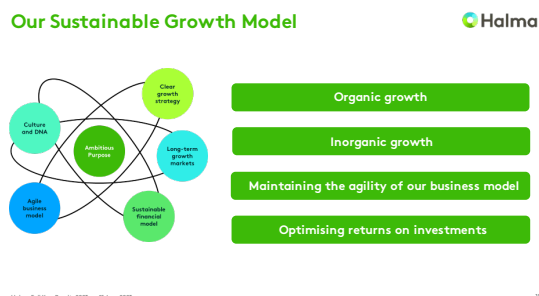
Over to you Marc.

Marc Ronchetti, Group Chief Executive, then gave an update on strategy.



Thanks Steve

To start this second half of my presentation, let me remind you of the four priority areas that I highlighted in the introduction.



Organic growth, our top priority.

Inorganic growth, remaining disciplined in our approach to purpose-aligned acquisitions in the right end-markets.

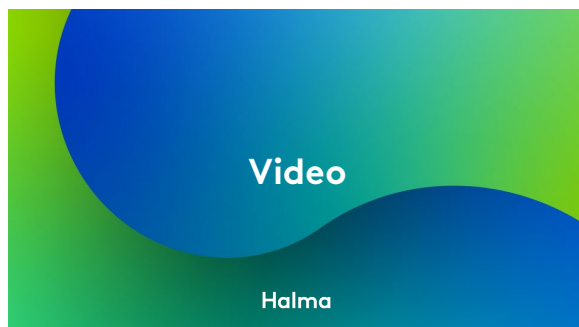
Maintaining the agility of our business model - ensuring that we have the very best talent, close to our customers and empowered to capitalise on opportunities.

Optimising the returns on the investments we are making.

I like to keep things simple ... At the most basic level, we acquire great companies aligned to our Purpose and culture and expand their growth and positive impact over decades, this at a rate over and

above what they could achieve on their own.

Don't take it from me .... Let's hear from some of our companies, both ones that are new to the Group and others that are more established, about how being part of Halma has helped them achieve their strategic ambitions.



Fantastic examples there of our strategy in action, and it is always great to hear how our companies can retain their existing culture yet be aligned to Halma's overall purpose and DNA

You also heard the words "network" and "collaboration", an area of significant value for our companies, always a key theme during any company visits and I am always amazed to hear just how many examples there are of support, insights, and knowledge sharing across our network, covering a wide range of topics, including:

- solutions to complex R&D challenges,
- access to the latest technologies
- recommendations for partners,
- entering new geographies and
- accessing market knowledge to name a few.

And finally, it was fantastic to hear the comments in relation to the ability to take a longer-term view, without the time constraints that other owners may have.

So thinking about those opportunities over the long term and the current environment.

#### Growing opportunities

Halma

##### Our long-term growth drivers



Increasing demand for healthcare



Protecting life-critical resources



Climate change, waste and pollution



Improving safety and efficiency

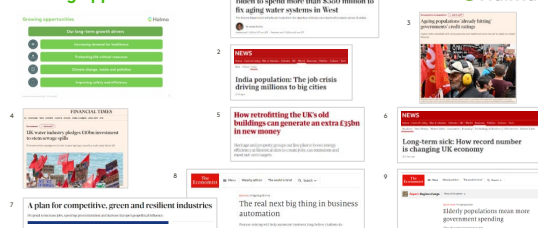
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While the long-term drivers that underpin our growth have not changed, it is clear that sustainability challenges are intensifying rapidly, and are now front page news.

#### Growing opportunities

Halma



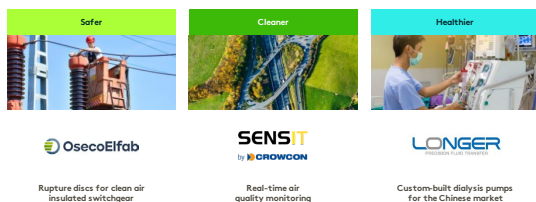
Sources: 1: Washington Post, Joshua Perlman, 5 April 2023 2: BBC News, Barbara Platt Usher, 19 April 2023 3: Financial Times, Mary McDougall, 17 May 2023 4: Financial Times, Gail Pinner, 18 May 2023 5: The Guardian, John Kellner, 16 March 2023 6: BBC News, Valsheh 50 - Potters, 31 May 2023 7: Politico, Rianne Evers Group, 23 January 2023 8: The Economist, 23 March 2023 9: The Economist, 5 October 2022  
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These challenges are driving billions of pounds of new investment, into renewable energy, electrification, clean technologies, healthcare systems, and into automation and digitalisation – representing huge opportunities.

Let's bring this to life by looking at some examples of how we are evolving our portfolio to capture these opportunities, aligned to key themes within our safer, cleaner, healthier purpose.

### Evolving our portfolio through organic opportunities



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First a great example of a company historically focused on the oil and gas and chemical processing industries, now using their safety solutions to solve a new challenge ..... in this case arising both from climate change and the energy transition.

Oseco Elfab has now customised its technology to support the rapid evolution of electricity distribution networks as part of the green energy transition.

Specifically, its solution enables the elimination of SF<sub>6</sub> [sulphur hexafluoride] as an insulating gas used in electrical switchgear, replacing it with clean air.

This is critical given that SF<sub>6</sub> is a very potent greenhouse gas, with around 24,000 times the warming potential of CO<sub>2</sub> – so Oseco's solution enables a much greener transition to new forms of energy.

Next, a great example of companies collaborating to respond to new opportunities.

Sensit and Crowcon, two of our gas detection companies, joined forces to respond to the rapid growth in demand for air quality monitoring products in Europe... growth which is being driven by countries developing clean air strategies and introducing tighter regulations to protect people's health.

This collaboration resulted in a new series of air quality monitors sold into the

European market that provide real-time insights into the air we breathe.

And finally on this slide, an example of one of our Healthcare companies responding with agility to the increased incidence of disease in ageing populations, while ensuring that their customers can meet ever more stringent regulatory requirements.

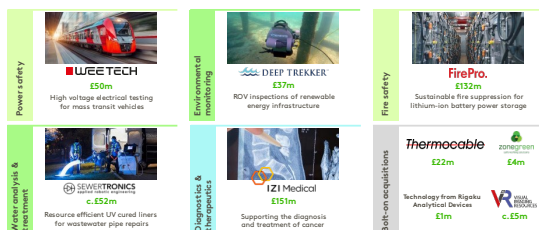
Longer Pump, based in China, was challenged by a long-standing Chinese medical equipment customer to develop a custom-built pump for its new dialysis machine.

The team were able to adapt their existing technology to provide a high quality solution, at speed, to the customer to help them meet this fast-growing healthcare need.

Just a few of many great examples across the Group, which hopefully give a flavour of the fantastic work we are seeing in our companies ensuring that we "do more good" and "less harm".

Turning now to how we are evolving our portfolio through M&A...

### Evolving our portfolio through purpose -aligned M&A



Financial data indicates the maximum total consideration on a cash - and debt - free basis, and excluding other adjustments to consideration.

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...where you can see many of the same themes in the nearly £400m of acquisitions we made in the year.

For example, a number of companies are enablers of the green energy transition – WEETECH's high voltage testing, Deep Trekker's ROVs inspecting offshore

renewable energy infrastructure, and through FirePro's suppression products protecting lithium battery power storage facilities.

In Healthcare, our focus is on areas where we see increasing incidence of disease, often correlated with age, like diabetes in the Longer Pump example or IZI's products which support the diagnosis and treatment of cancers.

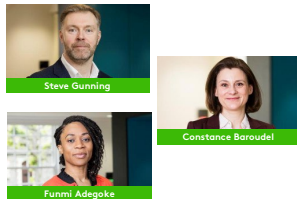
All fantastic additions to the Group, that I have no doubt will form the basis of our organic growth moving forward.

Turning now to my final topic – talent.

#### Experienced and diverse leadership team



- Steve Gunning joined as Chief Financial Officer
- Digital growth support for companies to be provided by Technology team
- Funmi Adegoke appointed Safety Sector Chief Executive
- Constance Barouel to add Chief Sustainability Officer role



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People are at the heart of the Group's and our individual companies' growth strategies. We are committed to supporting their development and ensuring that our culture is highly inclusive.

Starting with the senior leadership team and changes to the executive board, as I stated earlier, Steve joined as CFO in January, and Andrew's retirement from the CEO role at the end of March marked the completion of the CEO succession process.

This feels like an appropriate time to thank Andrew Williams for his leadership, the success he has created and for his investment in me personally as part of the Group Chief Executive transition. .... I wish him all the best after retiring from Halma.

There have been two further changes to my leadership team since the year end.

Firstly, in relation to our Innovation and Digital team, which has been a huge success over the past 6 years, ultimately achieving its aim of embedding significant capabilities in our companies.

As we look forward our companies now need a different form of support, that which is focussed on the technological requirements in relation to commercialising their digital solutions, for example, advice on the best technology platforms to use.

This support will be led by the Halma Technology team.

As a result, Inken Braunschmidt will leave Halma at the end of June.

We also announced, that after five years with Halma, Wendy McMillan, Safety sector Chief Executive, has decided to leave Halma to pursue leadership opportunities elsewhere.

I would like to thank Inken and Wendy for their significant contribution to Halma and wish them every success in the future.

I am delighted to share that she will be succeeded in early July by Funmi Adegoke, who is currently Group General Counsel and Chief Sustainability Officer.

Funmi brings strong strategic, commercial and business acumen with considerable experience across multiple industries.

As I have worked closely with Funmi over the past 3 years, she has consistently displayed a deep understanding of our Model and the core traits we look for in a Halma Leader ... fantastic to see our ongoing succession planning in action.



With that move, Constance Baroude, our Environmental & Analysis sector CEO, will also take on the Group's Chief Sustainability Officer role.

#### Talent development and support



- New leadership development initiatives
- Continued success of Halma Future Leaders programme
- Reconnecting our people
- Supporting employee wellbeing
- Offering competitive, flexible and inclusive benefits



MD leadership programme



Accelerate Halma



Halma Future Leaders



New Shanghai office

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As I have mentioned, the combination of our culture and our agile organisational model is one of our unique strategic assets.

With our highly decentralised model, we need exceptional people who are empowered and accountable for making decisions close to their customers without the need for complex reporting lines.

Our agile model enables our people to respond quickly to their customers' needs to capture new growth opportunities.

It is therefore critical that we find the right talent, and then support and invest in their development.

During the year, we therefore increased investment in the development of our leaders to enable their success.

We introduced three new leadership development programmes, with over 200 leaders participating in face-to-face learning events and 750 participating online, formalised our internal mentoring network and launched a new coaching programme.

Our Halma Future Leaders programme, the aim of which is to see our graduates on one of our company boards within

seven years, continues to deliver, with 12 alumni now promoted to that level.

We invested in the power of the Halma network running events to reconnect our people following the pandemic, including our global senior leadership conference, Accelerate Halma, which we held in October last year, and which brought together over 300 of our senior leaders.

We have also opened new offices in India and China, designed for collaboration, with more spaces for working together, and finally our ongoing technology upgrades are greatly enhancing our ability to connect and collaborate across the Group.

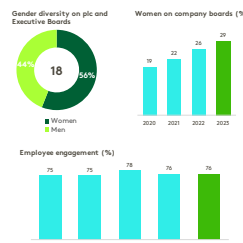
We also recognise that having an inclusive culture and supporting healthy lifestyles leads to a more energised and productive workforce.

We have supported this in a variety of ways: for example through extending our employee assistance programme so that it now covers the UK, US, Europe and China; through enhanced healthcare and retirement savings plans in the US; and through a wide range of individual company initiatives, appropriate for their local markets.

#### Diversity, equity and inclusion



- Gender balance:
  - Board and senior roles in 40-60% range
  - Further progress on company boards
- Strong diversity in Halma Future Leaders programme
- Building greater ethnic diversity
- Fostering inclusion: gender-neutral parental leave policy



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I am proud of the progress we have made in our drive to build diverse and inclusive teams and businesses, however at the same time, recognise that there is still more to do.



This can be seen by looking at one measure of diversity... that of gender.

While we have made fantastic progress and have a good gender balance across our senior roles, and in our Future Leaders programme, despite great progress, we have more opportunity at our company board level.

Another notable achievement has been the success of our global gender-neutral parental leave policy, with nearly 500 employees now having benefited.

Whilst I have used gender as an example, it remains important that we continue to challenge ourselves on other aspects of diversity such as race and ethnicity.

Finally, it was great to see that our seventh global employee engagement survey reflected the continued high levels of engagement among our people.

Once again, we had a strong response rate of 85%, and our overall engagement score remained strong at 76%.

Ahead of the outlook, let me summarise.

#### Summary: a position of strength



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Strong momentum and well invested

Focused on attractive opportunities

Positive culture and strong teams

Proven strategy and growth model

Clear priorities within our Sustainable Growth Model

We are starting 2024 from a position of strength.

We have great momentum in the business, a positive culture and strong teams, well invested and focused on attractive niche markets aligned to some of the greatest challenges of our time.

We have a proven strategy and growth model that we continue to evolve as required.

We have clear priorities within that model: to maximise our opportunities for organic and inorganic growth; to maintain the agility of our business model; and to ensure that we are optimising the returns from the substantial investments we are making.

Looking forward ...

#### Outlook



A successful year in FY23

A positive start to FY24

Expect good OCCY revenue growth in FY24

Expect FY24 ROS to increase to approximately 20%

Well positioned for further progress this year and in the longer term

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2023 was another successful year for Halma, reflecting the benefits we derive from our Sustainable Growth Model and the contributions of everyone in the Group.

We have made a positive start to the new financial year.

We have a strong order book, and order intake in the year to date is broadly in line with revenue and ahead of the comparable period last year.

Based on current market conditions, we expect to deliver good organic constant currency revenue growth in the year ahead, and Return on Sales to increase to approximately 20%.

We are well positioned to make further good progress this year and in the longer term.

That is the end of the presentation and now, we have time for some questions.



### Jonathan Hurn, Barclays

It's first on how we see that Safety margin in 24. Will it get back to the to the 23% level? Or is it just sort of edge up in the 23 level? And also Environmental & Analysis. Obviously 24.3% margin for this year. Obviously it's down. Does it come down from here, what is the trajectory of that margin going forward?

### Marc Ronchetti

I'll just make an overview comment in terms of margins. I do think it's important that we recognise that the prior year was particularly strong given that we didn't have that fast recovery or spend coming back in from the discretionary overhead. So a little bit of context there. And as Steve talked to actually going back to those pre covid levels, but I'll let Steve just dig into a bit more detail on Safety.

### Steve Gunning

On Safety, as you heard from the presentation, clearly they've had challenges to work through in FY 23. I think one of the things I'd highlight in the midst of that was actually the Safety sector had the strongest organic revenue growth of all of our sectors. So there was no issue with underlying demand. It was just a case we had a challenge to work through with componentry. In terms of our confidence as to why we think the Safety return on sales will recover during the course of FY 24, when we look at the

2 months a year to date, we are already ahead of the same time last year, and we are also ahead of the level that we had in the half, too. So we are already seeing improvements. So that's data input to us when we were giving the guidance of the 20%.

So, will it get all the way back in the first half second half? Difficult to say. Do we think there's good reason and confidence and evidence to it recovering: absolutely because we're seeing that already, at the moment.

In terms of Environmental & Analysis, I do think it is more a case of it's been normalising back to the pre Covid level.

And I think there's some potential upside in Healthcare. So when we look at it overall, there's movements in in all 3 of our sectors, but that's one of the beauties of having a portfolio. Some have good day, some bad days, but when we look at it overall, we think the 20% guidance looks sound. It's getting us back to pretty much where we were pre Covid, and, as we said in the presentation as well, we think that the profile will be similar to what we've seen pre Covid, half one lower than the second half, low 19s for half one, and then mid twenties for half two.

### George Featherstone, Bank of America

You guided for good organic growth last year and delivered 10%. How should we think about "good" growth for FY24, given your comment suggests orders are ahead year on year and backlogs remain elevated?

### Steve Gunning

So the KPI we set ourselves internally is 5% growth and the aspirational target we set ourselves is 7.5%.

Our view at the moment is we're going to make good progress, which probably means something in the region of the 5% to 6% range.

What underpins this is primarily the state of the order positioned. The order book is strong, it's at about 16 weeks. Typically, it would be at about 8 to 10 weeks. The order intake is ahead of last year, and the book-to-bill is just under one. So when we look at the situation and the underlying sort of fresh demand for our business, we are comfortable with the 5% to 6% range in terms of organic growth.

**Marc Ronchetti**

Thanks, Steve. And Jonathan, I realise we just built on your first question. So accepting that you said that you had a couple of questions, back to your good self.

**Jonathan Hurn, Barclays**

Just going back to that growth of 5% to 6% you're talking about. How much of that is going to price within that mix? So is it going to go back to 1% to 2% price or can we get a little more?

**Marc Ronchetti**

That's a good question Jonathan and absolutely to your point historically we've been around 1% to 2%. We've seen 4% this year and the prior year we were 3% to 4%. So we are absolutely trying to find that balance in terms of the value that we are giving to our customer, maintaining relationships with them. And the general view across the group is that we should be back around that 1% to 2% moving forward, which will find a nice balance in terms of value creation and maintaining the relationship.

**Jonathan Hurn, Barclays**

And maybe just the final one, just in terms of that pick-up in central [costs] of £5 million into this fiscal year, are we going to see that kind of increment going forward every year? And just in terms of the payback on that investment, do you feel that you're already getting the payback on investment now or is that still [inaudible]?

**Marc Ronchetti**

Apologies Jonathan, you're breaking up. I didn't catch that question. Can you just try again?

**Jonathan Hurn, Barclays**

So it's just in terms of that central cost function, obviously it steps up probably around about £5 million this fiscal year versus last. Are we going to see those kind of increments going forward? Is that going to be the annual rise we see every year in terms of central cost function? And just to align with that, are you starting to see a payback on that investment or is that really still to come through?

**Steve Gunning**

It's a great question. Two thoughts on that. In terms of explaining the £5 million movement, frankly it's somewhat distorted by what we've been doing in technology. We did re-phase a couple of the IT programs that we were doing. We took stock and looked at where we were with the programmes. That resulted in about £2 million of spend coming out of FY23 and going into FY24.

So if you recall at the half year, we guided a much higher central cost figure for FY23. So if you strip out that £2 million movement from FY23 to FY24,

we're broadly flat on central costs and that's roughly what we'll be aspiring to achieve going forward.

And in terms of returns on central costs, I think it's a really good question and I think what's happened with I&D [Innovation & Digital] is a really good example of that. We've built and we've invested in a growth enabler. We think we've taken that – and it's been hugely successful – to its conclusion and now we've dismantled and re-phased and reshaped the way we're doing that activity going forward.

So we're constantly looking at the growth enablers and the central functions to ensure that they are giving us a return for our investment. And as Marc said in the presentation, we're continuing to look right across the business, whether it's investment in growth enablers or investment in the companies or the sectors, to make sure that we are getting a return for that investment.

**Jonathan Hurn, Barclays**

That's very helpful guys. Thank you very much.

**Marc Ronchetti**

Thanks Jonathan. So I can see Andre, you've got your hand up. So we'll switch to you.

**Andre Kukhnin, Credit Suisse**

Yes, hi! Can you hear me?

**Marc Ronchetti**

Yes, all very clear.

**Andre Kukhnin, Credit Suisse**

Great. Good morning everyone. Thank you for taking my questions. I'll just carry

on with one on margin and I wanted to pick up on the operational gearing that you mentioned as one of the drivers of margin expansion or recovery back to 20% in fiscal 2024. That is expected to happen despite the central function moving as you've just explained, higher with IT, but nevertheless we are seeing a £6 million increase.

So I just wanted to ask about this kind of higher reliance in operational gearing. We haven't really talked about that in the past as a factor of margin improvement. And with that central costs now being at least 100 basis points above historic levels and interest costs being also I think around 50 basis points higher. Is there a bit more pressure on the companies to generate higher operating returns to get to the 20% PBT?

**Marc Ronchetti**

So let me pick up on that one, Andre. I think the first thing to say is there isn't any increased focus on operational gearing. All of our central costs Steve picked up there in terms of how we're still operating and focusing on having a lean central function, finding that balance between ever increasing need for governance reporting and regulation, but also in addition to making appropriate investment to support and enable growth in our companies. Historically, those costs have been around 2% of revenue. Often when I've looked at that, it's been split 1% on the regulatory governance reporting, 1% on the enablers. The only real increment here is that bit of technology spend to get us to where we need to be on the back office system. So I think it's much more business as usual, continued good growth with a return on sales at around 20%. So no incremental pressure on anybody. It's about continued momentum in the great businesses that we have.

**Andre Kukhnin, Credit Suisse**

Great, thank you. That's very good to check off. And just a quick follow up on that IT spend. So in fiscal 2025, you don't expect that £2 million to repeat? That these are all one-off items?

**Steve Gunning**

The £2 million was purely a re-phasing. So it's not a case that it's a recurring item. It was a re-phasing from FY23 to FY24, because where we got to with the programmes and we wanted to put our foot on the ball and see whether the plan still made sense and the timescales made sense.

**Marc Ronchetti**

And Andre, to that point in terms of is that continuing? Absolutely. Investment and continuation in technology at the centre and in the Group has to continue. A large proportion of our R&D spend that was great to see up over £100 million this year is focused on technology.

In the centre, we have had as you're aware, what we're calling our DTP projects, which are upgrades of our systems. We've also made investments in cyber security, and all of those investments will continue as we move forward, albeit we had a little bit of a peak last year and that'll flow through into this year. But as I sit here, I absolutely see that as an area that we'll need to continue to invest in as we move forward.

**Andre Kukhnin, Credit Suisse**

Okay, that's very clear. I was asking because I think in the past we discussed there was a SaaS item that you were expensing while originally the plan was to amortise, but I think that's now all

worked through, so we expect that £2 million to continue.

**Steve Gunning**

Excellent. Thank you, Andre.

**Andre Kukhnin, Credit Suisse**

If I may, just a final one on the M&A pipeline. Clearly, very healthy and sounds like you're operating in a target-rich environment at the moment. Is there any colour you could give us on where maybe there's particularly strong opportunities in terms of across the three sectors or regionally?

**Marc Ronchetti**

As you say Andre, really good momentum. It's pleasing to see that record level of spend last year, and then we've made two further acquisitions in this year, so great momentum. The pipeline does look healthy.

In terms of timing, as you know, due to our approach, those investments that we made in the teams a couple of years ago are certainly coming to fruition, and the scale of the opportunities in our end markets is certainly there. So I don't sit here today concerned about the pipeline, but I'm also not able to sit here today and predict exactly how much we'll execute in the 12 months ahead.

**Andre Kukhnin, Credit Suisse**

Great. Thank you very much for your time.

**Marc Ronchetti**

Thanks Andre. So, we've got Bruno with your hand up. So if we open the mic to Bruno, please.

**Bruno Gjani, Exane BNP Paribas**

Awesome! Thank you for taking the question. My questions revolve around pricing. So, coming back to it, so 4% does not sound like a great deal in the context of the inflationary environment we find ourselves in, and it sounds as if this was a conscious effort by yourselves to hold off a little on pricing to gain market share or build on some of those relationships with customers. I just wanted to check, one, if this was fair; and was also just interested in how far you could have taken pricing up by, if you so wish to do so this fiscal year.

**Marc Ronchetti**

I'll again just give a couple of headlines and then Steve can build, but I think the key thing is that there's no doubt that there's pricing resilience given that non-discretionary and regulatory nature of our products and services, and they are clearly highly valued given where we are from a gross margin perspective. The key thing that we've got that agility down in our operating companies. So, we've got individual boards of directors with deep market knowledge, deep relationships with their customers, and they have the autonomy to make the appropriate pricing decisions, not only for the short term, but over the medium term.

So I wouldn't like to predict how far we could have pushed it. I think I trust our teams and trust their relationships with their customers that we find the right balance between ensuring that we can cover incremental costs and build on that long-term relationship.

**Steve Gunning**

Not a lot to add to that, other than the fact that, Bruno, I was very encouraged that the gross margin was flat year-on-year. There was significant inflationary pressure coming through. So the

companies did a great job adjusting their prices to recover that position. They didn't go beyond that, but they did recover and maintain the gross margin, which I was encouraged by.

**Bruno Gjani, Exane BNP Paribas**

Understood. And just coming back to order trends in terms of what you've seen in trading year-to-date, could you provide some colour and flesh out some of the drivers of this growth? Is it broad-based across all sectors? Is it driven by pricing and volume growth? Would it be fair to characterise it as strong? Any colour along these lines would be greatly appreciated.

**Marc Ronchetti**

I think the start point with our portfolio, and as I say, the markets that we're in and the types of products and services is that we have got good underlying demand in our end markets.

All of that said, you will have heard from others and other companies that you're speaking to, there's certainly pockets in the short term, whether that be, let's think of some examples, some OEM stock build unwinding over the next couple of months, whether that be in Healthcare, some MDR build up in order books. But actually we're a portfolio of companies and we've got that agility.

So at the headline level, we start in a position of strength with the underlying demand. We're certainly not immune to the challenges that others are seeing in the markets, but we've got great resilience across the portfolio.

**Bruno Gjani, Exane BNP Paribas**

Understood. That's very clear. And just finally just on the backlog. I think he commented that it stood around 16



weeks of revenue coverage. Pre-Covid, that was 8 to weeks? Do you expect it to converge towards 8 to 10 weeks by the end of this fiscal year or is that perhaps an FY25 story?

**Steve Gunning**

I think they will converge. I don't think it will converge within 12 months. I think it will be a longer run off than that, but over the long term, we would expect to see those two converge back to the eight to 10 weeks typical, but I wouldn't expect us to close that during the course of FY24, but clearly it will come down.

**Bruno Gjani, Exane BNP Paribas**

Understood. Thank you.

**Marc Ronchetti**

Thank you, Bruno. So, we've got a couple of further questions come up on the chat. Firstly from Aurelio.

**Aurelio Calderon-Tejedor, Morgan Stanley**

In R&D, Halma has been spending above 5% of sales for some years and ahead of the 4% KPI, while organic growth has also been ahead of the KPI. How should we think about R&D going forward in relation to organic growth?

**Steve Gunning**

Well, I think that's a great question Aurelio. We are very encouraged and I'm pleased to see our companies investing in R&D. The central engine of this business in the organic growth and to maintain our positions and to maintain our return on sales, etc., To invest in new products and processes is absolutely key.

Everything we see at the moment suggests we'll continue to be in that 5% to 6% range in terms of R&D spend. I

think for Marc and I, when we talk about returns, what we're looking to see is, can we see the output of that coming through in the return on sales and the growth and demand in our products? And that's what we are seeing. So I think we should continue to think about it in that sort of 5.5% range going forward.

**Marc Ronchetti**

Thanks, Steve. We have one other question from Rory from UBS in the chat. So, let me just read that out.

**Rory Smith, UBS**

First question, which businesses within Safety are most affected by supply chain issues and when did they become aware of the issues?

Second question, can you remind us of the coupon rate on the private placement debt?

And the third question, across your pipeline of opportunities, what is the tone of discussions around valuation? So Steve, do you want to put a little bit of colour on the first two and I'll pick up number three.

**Steve Gunning**

On when did we become aware of these issues, I think the Safety sector has been addressing and dealing with the challenges throughout FY23. We did see a build-up in inventories in the first half of the year, but that was more about scarce supply and building up the stocks.

In the second half it became clearer that that situation was ongoing and becoming more severe and so we then went into the situation where we were having to recertify our products with new components.



So, it's been something that's been building throughout the year and was certainly more the case in half two and that's as we saw the figures come through.

In terms of the private placement debt, the coupon rate, it's at 2.9%.

#### **Marc Ronchetti**

Thanks, Steve. And then picking up in terms of tone of discussions around valuation, I think the headline there is that pricing is held up. I mean ultimately we're looking to acquire quality assets. We're looking to acquire them in those markets with strong long-term growth drivers. So you often don't see downward pressure on pricing, but they look to be maintained.

The other important piece here is that price isn't often the key driver of the seller's decision when we're talking to owners. Clearly, they're looking for a home for their business. It's absolutely appropriate to get a fair value for their business. So all in all, pricing has held up.

Looking from the outside in, one may argue that given rate rises, does that mean that we've got less competition where we've seen it previously with private equity? I think that's fair to say in the short term. However, the flip side of that is clearly there's a lot of capital out there awaiting to be deployed. So, that's a dynamic that we'll keep an eye on over the next 12 to 18 months.

#### **Marc Ronchetti**

Last request, if there is anyone, could you either raise your hand or open your mic? Okay, excellent. Well with that, a big thank you to all for your questions and have a great day! Thank you.

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#### **Definitions:**

*Adjusted items are adjusted to remove the amortisation and impairment 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 Full Year report published on 15 June 2023 for more details. A webcast of this Full Year results presentation will be available on Halma's website [www.halma.com](http://www.halma.com) from 15 June 2023.

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