

OUR BUSINESS MODEL

Our business model leverages our strengths to perform to our potential, deliver our purpose, and generate value for all stakeholders.

OUR STRENGTHS

OUR STRATEGIC PRIORITIES

OUR CULTURE

OUR STAKEHOLDERS



MARKETS AND MEGATRENDS
Read more about our markets and megatrends.
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DIVISIONS
Read about our divisions.
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STRATEGIC PRIORITIES
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PRINCIPAL RISKS AND UNCERTAINTIES
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OUR STRENGTHS

WORLD-CLASS ENGINEERING

We have a long track record of innovating across our multiple markets. R&D investment consistently ahead of competitors ensures a strong pipeline of new products.

LEADING POSITIONS IN CRITICAL MARKETS

Our markets (General Industrial, Safety & Security, Energy and Aerospace) are secularly attractive and growing. We have leading positions in many key segments based on technology and/or service differentiation.

GLOBAL CAPABILITIES

We are present in more than 50 countries and our geographical spread and end market diversification provides stability and growth.

ROBUST FINANCIAL FRAMEWORK

Our robust financial framework derives from accelerating revenue growth;

recurring, higher margin aftermarket revenues; good margins and return on capital; and low asset intensity and strong cash generation.

OUR STRATEGIC PRIORITIES

GROWING FASTER TO UNLOCK VALUE

We will grow faster by using our existing market positions to invest in focused new product development and commercialisation; by building out priority adjacencies; and disciplined M&A to augment strategy implementation.

STRONGER EXECUTION

We are focused on executing with agility, speed and greater consistency to deliver improved results.

INSPIRE AND EMPOWER OUR PEOPLE

Our people are critical to our success. Building an inclusive, high-performing and engaged team, and our commitment to development and talent progression will facilitate our ambitions.

OUR CULTURE

Our culture inspires and empowers our people to deliver. It has enabled Smiths to prosper for more than 170 years.

OUR VALUES

are the things that are important to us.

OUR LEADERSHIP BEHAVIOURS

make us dynamic, inclusive and focused on delivering results.

OUR CODE OF BUSINESS ETHICS

outlines the ethical standards we all commit to.

THE SMITHS EXCELLENCE SYSTEM (SES)

drives stronger execution and continuous improvement across all of our priorities.

OUR STAKEHOLDERS

OUR PEOPLE

Decent, inclusive, safe work, and environments where colleagues can build careers and flourish.

OUR CUSTOMERS

Differentiated technology, engineering and service solutions that make the businesses of our sophisticated global customers work and grow.

OUR SUPPLIERS

Collaborative supplier partnerships with enduring mutually beneficial outcomes.

COMMUNITIES AND SOCIETY

Environmental/social value through our products and direct contributions via taxes, wages and giving.

REGULATORS AND GOVERNMENTS

Openness, transparency and support for global policies that deliver a safe, secure and sustainable world.

OUR INVESTORS

Long-term financial value and returns for investors.

OUR STRATEGY

FY2023 was another strong year of progress in advancing our strategic priorities.

OUR STRATEGIC PRIORITIES

FY2023 PROGRESS

ACCELERATING GROWTH



- Taking full advantage of strong demand in most of our markets
- Improving new product development and commercialisation
- Extending our reach by building out priority adjacencies driven by megatrends of energy transition and sustainability, increasing security needs, and enhanced connectivity
- Supplementing organic growth with disciplined M&A

- Record organic revenue growth; now nine consecutive quarters of growth
- Double digit organic revenue growth in three of four Smiths divisions
- +310bps of growth coming from new products. Gross vitality of 31%
- £113m invested in R&D; capex +14.1%
- Growing John Crane's presence in hydrogen and carbon capture. Now over 70 active projects
- Growing Smiths Detection's penetration in other security systems segment, +34.9% revenue
- Flex-Tek supporting development of the world's first Green Steel production facility
- Smiths Interconnect acquisition of Plastronics
- Continued active acquisition pipeline

STRENGTHENING EXECUTION



- Embedding the Smiths Excellence System across the Group
- Accelerating pace and establishing a more consistent operating rhythm
- Continuously improving to deliver value for customers
- Executing against our environmental commitments

- +20bps headline operating profit margin to 16.5%
- Strong profit growth in John Crane and Smiths Detection. Solid profit growth in Flex-Tek
- 6 Master Black Belts and 31 Black Belts across the Group; 71 SES Black Belt projects underway or completed
- +£14m incremental profit from SES projects
- Reduction in working capital through second half supported by focused SES projects
- Submitted Net Zero trajectory and targets for Scopes 1, 2 and 3 emissions to the Science-Based Target initiative
- (11.8)% reduction in Scope 1 & 2 GHG emissions

DOING EVEN MORE TO INSPIRE AND EMPOWER OUR PEOPLE



- Building upon our world-class safety record
- Accelerating talent development through the Smiths Leadership Behaviours
- Creating an ever-more diverse and inclusive environment
- Living Smiths Values each and every day

- Safety Recordable Incident Rate (RIR) down (26)% and record low lost time incident rate (LTIR)
- Continued to embed Smiths Leadership Behaviours and integrated them into our Accelerate leadership development programme (300 trained in FY2023)
- Expansion of diversity, equity and inclusion initiatives, including significant growth in activities to inspire and develop female leaders. 25% of senior leadership positions now held by women
- My Say survey global e-Sat engagement score increased to 73. See page 14
- Launched Smiths Group Foundation and global volunteering policy

FY2023 PROGRESS AGAINST TARGETS

Organic revenue growth



↗ **11.6%**

FY2022: 3.8%

EPS growth



↗ **39.6%**

FY2022: 17.8%

ROCE



↗ **15.7%**

FY2022: 14.2%

Operating profit margin



↗ **16.5%**

FY2022: 16.3%

Operating cash conversion



↗ **86%**

FY2022: 80%

- Target still to achieve
- FY2023 progress vs target

**OUR PURPOSE**

We are united by our purpose to improve our world through smarter engineering. It is what we do, how we think, and how we will continue to use our passion for technology and engineering.

**BOARD OVERSIGHT**

Read more about this and how the Board influences our culture.

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**SMITHS VALUES****INTEGRITY**

We do the right thing

RESPECT

We respect each other

OWNERSHIP

We take responsibility

CUSTOMER FOCUS

We earn our customers' trust

PASSION

We are united in purpose

OUR PEOPLE AND CULTURE

Our culture inspires and empowers our people to deliver our strategy. The four key elements of our cultural framework support the Smiths business model and drive positive outcomes for all our stakeholders. The framework is underpinned by governance processes set and monitored by the Smiths Board, which has ultimate responsibility for ensuring that our culture remains healthy and drives the long-term success of the Group.

1. OUR VALUES

Our Values are the things that are important to us as an organisation. They make us reliable, trustworthy and valued partners for each other, our customers and suppliers, and they make Smiths a place where we are happy and proud to work. We live them every day, in each action and decision that we take.

2. SMITHS LEADERSHIP BEHAVIOURS

The Smiths Leadership Behaviours take our Values to the next level. Grouped under growth, execution and people, they describe the behaviours needed to be displayed by all colleagues for the organisation to be dynamic, inclusive and focused on delivering results that create value and enable our growth strategy. Leadership is a mindset at Smiths. Everyone can be a leader.

SETS VISION TO INSPIRE

Collaborates to uncover future growth opportunities for Smiths. Shares this in a way that inspires and energises colleagues to take action.

INNOVATES FOR IMPACT

Committed to continuous improvement, takes opportunities to the market that differentiate Smiths and deliver sustainable value for all stakeholders.

TAKES ACCOUNTABILITY AND OWNERSHIP

Actively takes accountability, follows through on commitments and empowers others to own their outcomes.

DELIVERS RESULTS AT PACE

Takes an agile, focused and resilient approach that delivers excellent outcomes to meet customer/ stakeholder expectations.

LEADS INCLUSIVELY AND EMPOWERS

Champions inclusion at every opportunity. Creates the environment where others can contribute and thrive, building trust and nurturing empowerment.

DEVELOPS SELF AND OTHERS

Visibly commits to their personal development and encourages the development of others to reach their full potential.

LIVES SMITHS VALUES

Embodies and promotes Smiths Values: integrity, respect, ownership, customer focus and passion, using these to guide all actions.

3. SMITHS CODE OF BUSINESS ETHICS

The Smiths Code is the foundational document that outlines the standards of behaviour to which we all commit at Smiths. It is a practical guide to what 'doing the right thing' looks like when conducting business and forging relationships legally, ethically and with integrity. The Code is supplemented by a suite of policies and procedures relating to specific ethics, compliance and people matters.

4. SMITHS EXCELLENCE SYSTEM

SES is central to how we solve problems and deliver improved results at Smiths. The SES structure, leadership, committed resources, tools and training ensure that we explicitly prioritise and resource projects according to impact and importance, and execute with greater pace, urgency and consistency in support of our Smiths Value Engine priorities.

MONITORING AND MEASURING THE HEALTH OF OUR CULTURE

ENGAGING WITH OUR COLLEAGUES

Our global communications activities are designed to engage colleagues around the world with our purpose, culture and strategy. Key communications materials are translated into our ten core languages.

Our Smiths Now app is a platform for colleagues to receive news from around the business and share their views and stories and is always active with grassroots content. There is also a global fortnightly e-newsletter, Signal, which amplifies key company news to the global business and our global virtual Town Halls have an online translation feature. Our intranet web portal acts as an online hub holding links to support, training and resources for many areas including SES, safety, ethics and compliance, and diversity and inclusion.

We undertook a large range of engagement activities in FY2023 including:

- My Say employee engagement survey (see right)
- Site visits by members of the Executive Committee and the Smiths Board
- Global Town Halls in September and March
- Global leadership summits for our extended and senior leadership teams (c.400 colleagues) in November, June and February
- Live broadcasts of 'fireside chats' featuring female members of the Executive Committee and the Smiths Board
- One-to-one meetings of the Chairman and senior leaders
- Live broadcasts and communications around our results announcements, our Capital Markets event in November 2022, and other key CEO and CFO external activities

MY SAY EMPLOYEE ENGAGEMENT SURVEY

We have been tracking engagement on a range of important cultural measures since 2017. We use the results of the survey in a transparent and meticulous way to surface issues and more precisely understand what we are doing well and where we need to do better, both at a high level and at grassroots level in individual teams.

We undertook our latest survey in May 2023, with updated questions to align the survey more closely with our cultural focus areas, testing the following categories:

- Overall happiness working at Smiths (our employee engagement eSat KPI) and excitement about our future
- Awareness and understanding of the Smiths Leadership Behaviours and people living our Values
- Commitment to safety and the environment
- Empowerment, continuous improvement, leadership, collaboration and understanding of individual priorities
- Career, recognition, feedback and opportunities to learn and grow
- Work/life balance, feeling cared about at work, equal opportunities
- Diverse perspectives valued, and ability to express thoughts and ideas/speak out

Strengths:

- Smiths is committed to providing a safe workplace
- I understand how my work contributes to company success
- Smiths is committed to having a positive impact on the environment
- We continually improve the way the work gets done
- People frequently express their thoughts and ideas
- I am able to find the balance I desire between my work life and personal life

Opportunities:

- Everyone has an equal opportunity to succeed
- I feel satisfied with the recognition I receive for my work
- I have good career opportunities at Smiths

Results from the survey and recommendations are reported to, and discussed by, the Executive Committee and the Smiths Board before being incorporated into strategic planning to prioritise action in lower scoring categories. Actions include continuing our efforts to strengthen and upskill our leaders; using the Leadership Behaviours as a driver for people to share their opinions and ideas; building stronger diversity and inclusion programmes; and continuing to improve our talent development processes to make career plans and prospects more visible. Each division and function have also identified improvement opportunities to work on in the coming year.

SPEAKING OUT

Engaging and communicating on ethical matters is vitally important, as is colleague trust in our procedures. Colleagues and business partners are expected to be vigilant and report any activity or behaviour – whether in our business or those of our partners – that they consider may be in breach of our ethics codes and policies or inconsistent with our Values. This can be done through their line manager, HR representative or the Legal team, or by using our confidential Speak Out reporting hotline, which is accessible 24 hours a day, seven days a week to colleagues and third parties. Reports to the hotline can be made anonymously. This is communicated regularly to ensure that awareness remains high.

We also use colleague feedback to build understanding of how we are doing on ethical matters, and to target our activities effectively. Our grassroots Ethics Ambassador network reviews plans and helps us to bring ethics to life, and to the widest possible audience, and our global Ethics Pulse survey delivers rich data on colleague perceptions across Smiths. This data is reported to the Audit & Risk Committee along with Speak Out data.



84%

of Smiths colleagues participated in the My Say survey (May 2022: 82%; industry benchmark 75%).

↑ +2%



12,158

Comments made in the My Say survey.



73

Overall eSat score for the My Say survey was 73 (May 2022: 72; industry benchmark 74).

↑ +1 point



OUR PEOPLE

Read more about our people.

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BUILDING SMITHS CULTURE IN FY2023

We recognise that a healthy culture requires continuous care and attention to support our ambitions. Some of the ways we nurtured our culture in FY2023 are given below.

SMITHS DAY	Our annual Smiths Day global celebration of Smiths culture took place in June 2023. Smiths Day celebrates our Values and the rich connections and relationships we have as colleagues. This year's theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally based activity as a way of giving back to their immediate communities.
EMBEDDING THE SMITHS LEADERSHIP BEHAVIOURS	After their launch at the end of FY2022, embedding the Smiths Leadership Behaviours has been an important focus in FY2023. The Behaviours are intended to become foundational to the colleague experience and are central to development, talent assessment, and progression and reward. Our Accelerate people leadership programme, launched in FY2023, is based around the Leadership Behaviours.
LAUNCH OF SUSTAINABILITY AT SMITHS FRAMEWORK	The Sustainability at Smiths ESG framework was formally launched to colleagues at the beginning of FY2023 with messages from our senior ESG leaders. Sustainability is at the heart of our purpose and the framework helps us to translate our purpose into practical action to create sustainability value.
ESG DOUBLE MATERIALITY ASSESSMENT	Our ESG double materiality assessment undertaken in FY2023 provided a robust analysis of the importance of culture and other ESG topics at Smiths. Safety, ethical behaviour and diversity were all highlighted as either highest-impact topics or critical enablers in the findings. Read more on page 33.
LAUNCH OF SMITHS GROUP FOUNDATION	The Smiths Group Foundation, a charitable giving foundation with a committed initial fund of £10m, was launched on Smiths Day to provide grants to charitable organisations that align with our purpose. At the same time, we launched global colleague volunteering principles which will enable every Smiths colleague to take one day paid volunteering leave each year from FY2024, and formal budgeting opportunities for charitable giving in our divisions, China and Group to support organisations falling outside of the scope of the Foundation.
CELEBRATION AND RECOGNITION EVENTS	Group and team events and communications recognised and celebrated: World Day for Health and Safety at Work; Earth Day; Global Recycling Day; International Women in Engineering Day; International Women's Day; Black History Month; and Pride month.
NEW CODE OF BUSINESS ETHICS	Our new Code of Business Ethics was launched by CEO Paul Keel in July 2023. The new Code is organised under our Values, is shorter and easier to read, and more practical to apply with links to all our policies. The new Code will be embedded through a programme of activity in FY2024.
SPEAK OUT AWARENESS	Speak Out awareness activities have been ongoing throughout FY2023.
SMITHS EXCELLENCE AWARDS	Our annual Smiths Excellence Awards recognise achievement across a range of disciplines and are enthusiastically supported by Smiths colleagues. The Smiths Leadership Behaviours were reflected in this year's award categories to emphasise their importance and impact. This year we had more than 500 submissions to the Awards.



This year's Smiths Day theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally-based activity as way of giving back to their immediate communities.

CEO MESSAGE



PAUL KEEL

Chief Executive Officer



£113m

R&D investment.

+6%

+20%

Growth in energy revenue.

Fellow shareholders,

Smiths had another strong year of progress in fiscal 2023 as we further accelerated our growth, sharpened our execution, and developed and empowered our talented people. Since our financials and strategic progress are covered in good detail in the following report, I will devote the lion's share of this year's message to longer-term trends underway in the markets we serve. In particular, I will comment on a curious disconnect I observe between the macro and the micro.

Most of the macro commentary at present leans towards the cautious, and there is fair reason for this. Inflation, while climbing less steeply, remains at historic highs. Committed to tamping this down, central banks have raised rates at the brisk pace since the 1980s. The expected result is softening demand, as has been visible in most forecasts of late. Similarly concerning, economics and geopolitics are often inversely related, so just as forecasts cool, tensions around the world continue to warm. Speaking of warm, environmental concerns, percolating for years, are reaching a boiling point. Further still, more than a few would argue that things may still get worse before they get better. The macro, in short, is pretty cloudy.

The micro, however, provides grounds for optimism, especially in our industrial technology corner of the world. FY2023 was a record year for Smiths – record topline and EPS growth. We commit to five medium-term financial targets (growth, EPS, ROCE, margins, cash conversion) and all five improved year-over-year. Promisingly, we are not alone in this regard. Over half of our 15 closest peers have delivered double-digit growth across the same period. Still more encouraging, this was not driven by a one-time bounce from COVID lows (although we do benefit from still-unmet demand in several end markets) or inflationary tailwinds that will eventually weaken (roughly half our FY2023 growth came from volume). The trends we see in our business are longer-lived, with growth now extending over nine consecutive quarters. The micro, in short, looks pretty good.

So, how do we reconcile the apparent disconnect of economic forecasts trending down but performance trending up? A few important factors help connect the dots.

INNOVATION

First, innovation is economically insensitive. In the period between the 'Panics' of 1873 and 1893, Bell invented the telephone and Edison patented the lightbulb. During the Great Depression, Carlson introduced the photocopier and Edwin brought us FM radio. Stagflation and a raft of skyjackings in the 1970s led to the introduction of X-ray scanning in airports. Wikipedia, Skype, YouTube and Facebook were all formed shortly after the Nasdaq crash of 2001, and Uber and Airbnb were both launched during the global financial crisis of 2008–09. Necessity helps, but capabilities and capital are the true mothers of invention. Knowing that innovative companies extend their lead when storm clouds form, we increased our R&D investment by 14% in FY2022 and another 6% this year. Returns on our investments are good. Fully three points of our FY2023 growth came from new products introduced just this year alone.

MARKET SELECTION

A second factor bridging the gap is market selection. All markets have cycles, but the most attractive ones cycle upward, in a northeast direction. Energy and aerospace are good examples. Energy demand has a 5- to 10-year cycle, with global growth peaking in 1984, 1988, 1996, 2004, 2010 and 2021. Growth in energy demand may soften in any given year, but it rarely turns negative. In fact, global energy demand has only contracted three times in the past 50 years (the early '80s recession, the global financial crisis and COVID) leading to a near-quadrupling of underlying demand across this time. Over 20% of Smiths revenue comes from energy markets, where we grew 20% in FY2023. Consistent with other upward-cycling markets, continued energy growth will be driven by secular long-term forces such as decarbonisation. Our world will invest around



+24%

Market investment in clean energy over two years.

+9%

Growth in aviation detection revenue.



FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide.

US\$100 trillion over the next 30 years to evolve from mostly fossil-based to low- and no-carbon energy sources. Global investment in energy will be about US\$2.8 trillion in 2023, and investment in clean technologies such as low-emission fuels, carbon capture and heat pumps will represent more than 60% of the total. Clean energy investment is up 24% in just two years and participants in this market are seeing surging demand. Our pipeline of hydrogen and carbon capture opportunities, for example, more than doubled over the past 12 months.

Aviation markets behave similarly. While the cycle is a bit shorter, closer to five years, the trajectory is also steadily positive over time. Airline passenger volume has only dipped twice in the past three decades (9/11 and COVID), with volume up threefold across the period. As with energy markets, we are in the early days of an upcycle following airport closures around the globe in 2020–21. Powerful long-term forces are also at work here, such as the world's ever-rising need for better security and faster screening times. You would have experienced an example of this if you weren't required to remove your laptop the last time you went through an airport checkpoint. This safer and more efficient experience is made possible by technologies like computed tomography, automated tray returns and machine learning. Smiths is at the forefront of each, and propelled by this, our aviation detection business grew 9% in FY2023.

Not all of our end markets grew last year. As our Chairman notes in his letter, semiconductors are an example. Smiths has some exposure here – less than 3% of Group sales. On the one hand, the semiconductor market shares several similarities with energy and aviation. It's large (>US\$500bn). It's global. It consistently grows over time (+10 times in 40 years). And it is cyclical. However, unlike energy and aviation, which are both cycling up, the global semiconductor market is coming off a record peak in 2022. Smiths makes test equipment used to measure chip performance and durability. As expected, this business contracted for us in FY2023, particularly during the second half. We expect these challenges to continue

through the first part of FY2024, but we remain confident in the coming upcycle that we have seen so many times before. So much so, in fact, that we acquired a synergistic testing business in Q2, positioning us to extend our leadership position once recovery begins.

Further to our Chairman's letter, North American construction is another example of a market that contracted last year. Smiths also has exposure here – around 15% of Group sales. In this case, despite a market downturn, our business grew 9% in FY2023, marking our 14th straight year of expansion. The two effects mentioned earlier – innovation and market selection – have helped our business consistently grow even as the market naturally cycles. With respect to innovation, we have a technology platform that addresses specific customer needs by applying different resin layers to metallic tubing systems. We introduced a new product in this family at the start of the fiscal year and it is beginning to scale. In terms of market selection, our penetration is highest in parts of the US where population growth is strongest, such as the southeast, south central and the midwest. In support of this, we opened a new manufacturing facility in Texas in FY2023 and completed a synergistic acquisition in Ohio at the start of FY2024. Consistent with macro forecasts, we expect the US construction downcycle to continue for a few more quarters. Consistent with past performance, however, we expect our business to post another year of growth in FY2024.

PORTFOLIO BALANCE

The many benefits of portfolio balance are a third factor enabling industrial technology companies to shine, even against a cloudy macro. Balance takes many forms. The highest-performing industrials typically serve multiple end markets (we serve four major ones). They often balance one-time equipment sales with recurring aftermarket service revenues (our business is roughly half and half). They earn more price than they absorb, especially important in high inflation environments (our delta was +£40m in FY2023). And they are well balanced geographically. Worldwide reach is a prerequisite for serving global customers, and

upswings in one part of the world offset downturns in others. Smiths has people and resources in more than 50 countries and, aside from the US, no country accounts for more than 5% of revenues. Our business outpaced GDP growth in all major regions of the world in FY2023.

LOOKING FORWARD

Looking forward to FY2024, the macro and micro should converge. After a period of serial downgrades, macro forecasts have recently started to improve. The most recent data published by the OECD, IMF, and World Bank all expect global GDP growth in 2024 to be modestly above 2023. Specific to Smiths, we've guided to 4–6% organic revenue growth, in line with the medium-term financial commitments we made at our November 2021 Capital Markets Day.

FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide. I applaud my 15,000 colleagues around the world who live this purpose each and every day. I thank Sir George Buckley for his many contributions to Smiths over the last ten years and welcome Steve Williams, who takes over as Chair at our Annual General Meeting in November.

In closing, we're encouraged by our progress and proud of our accomplishments in FY2023. Energised by this momentum, we are even more excited by all we see ahead for Smiths.

Thank you for your trust and support,

PAUL KEEL
Chief Executive Officer

REVIEW OF THE YEAR



£3,037m

Revenue

+11.6%

Organic growth.

Smiths delivered record organic revenue growth of +11.6%, ahead of guidance. We generated £501m of operating profit, up +20.0% on FY2022 as we continue to make progress on our strategy.



GROWTH

Accelerating growth is the primary driver of unlocking enhanced value creation for the Group. We grew in every quarter of FY2023 and raised our guidance three times during the year, delivering record organic revenue growth of +11.6%. We have now delivered nine consecutive quarters of organic revenue growth.

Strong growth continued in the second half for our two largest businesses; with both John Crane and Smiths Detection delivering double digit growth throughout the year. Flex-Tek continued to grow into the second half, with growth moderating to +3.6% reflecting the anticipated softness in the US construction market. Smiths Interconnect declined (8.4)% in the second half, as anticipated, impacted by a weakening semiconductor test market as well as delays in some large defence and aerospace programmes.

Revenue grew +18.3% on a reported basis, to £3,037m (FY2022: £2,566m). This included +£146m of favourable foreign exchange translation, and +£8m from the acquisition of Plastronics in January 2023.

Strong execution to access end market opportunity is the first of the four actionable levers for accelerating growth.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace. Our strong market positions, coupled

with the balanced market exposure we have across our businesses, are distinctive long-term advantages for Smiths.

Smiths organic revenue in our largest end market, General Industrial, grew +7.8% in FY2023, supported by strong demand for John Crane's industrial products in chemical processing, water treatment and life sciences. Slower H2 growth of +1.0% reflects a strong prior year performance, and a softening in demand for Flex-Tek's heating, ventilation and air conditioning ("HVAC") products and Smiths Interconnect semiconductor test solutions. Organic revenue growth in Safety & Security was +11.9%, accelerating in the second half due to Smiths Detection's strong delivery against its orderbook, partially offset by a decline in Smiths Interconnect from the timing of defence programmes. The +19.5% growth in Energy reflected strong demand in John Crane. Growth in Aerospace of +10.5% continued throughout the year driven by aircraft build demand benefiting Flex-Tek; and helping to offset the impact of delays in aerospace programmes in Smiths Interconnect.

Our second lever for faster growth is **improved new product development and commercialisation**. During FY2023, +310bps of growth was delivered from high impact new products including John Crane's next-generation diamond coating product offering for high-speed and high-heat applications, Smiths Detection's next-generation CTIX scanners installed with threat recognition software, and Flex-Tek's ducting in the energy efficient Rheia air management systems. Gross vitality, which measures the proportion of

ORGANIC REVENUE GROWTH (BY BUSINESS)

	H1 2023	H2 2023	FY2023
John Crane	+14.6%	+15.8%	+15.2%
Smiths Detection	+14.0%	+18.8%	+16.4%
Flex-Tek	+17.0%	+3.6%	+10.1%
Smiths Interconnect	+3.3%	(8.4)%	(2.8)%
Smiths Group	+13.5%	+9.9%	+11.6%

SMITHS ORGANIC REVENUE GROWTH IN OUR END MARKETS

	% of Smiths revenue	H1 2023	H2 2023	FY2023
General Industrial	40%	+15.4%	+1.0%	+7.8%
Safety & Security	31%	+9.4%	+14.4%	+11.9%
Energy	22%	+17.1%	+21.8%	+19.5%
Aerospace	7%	+10.1%	+10.8%	+10.5%
Smiths Group	100%	+13.5%	+9.9%	+11.6%

£m	FY2022	Foreign exchange	Acquisitions	Organic movement	FY2023
Revenue	2,566	146	8	317	3,037
Headline operating profit	417	27	0	57	501
Headline operating profit margin	16.3%				16.5%



READ MORE

Our divisions.

→ PG 24

revenues coming from products launched in the last five years, was 31% (FY2022: 31%), supported by our successful new product commercialisation.

As an industrial technology leader, continuing to invest in R&D ensures we capitalise on the wealth of opportunities in our pipeline, with increasing demand for our sustainability-related products. During FY2023, we invested £113m in R&D (FY2022: £107m), of which £73m (FY2022: £80m) was an income statement charge, £21m was capitalised (FY2022: £12m) and £19m (FY2022: £15m) was funded by customers.

To support new product launches, and the strong demand for our existing solutions, we increased capex +14.1% in FY2023 to £81m (FY2022: £71m). This represents 1.6x depreciation and amortisation (FY2022: 1.5x).

Our third growth lever is **building out priority adjacencies**. Each of our four businesses are executing strategies to expand beyond their existing core markets and ensure we capitalise on the long-term megatrends of energy transition and sustainability, increasing security needs and enhanced connectivity. Examples in FY2023 include Flex-Tek's high temperature heating solution for the world's first green steel production facility; and Smiths Detection's +34.9% revenue growth in the other security systems segment, supported by key wins in ports and borders and parcel delivery markets.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. In January 2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts, extending our reach into an attractive market adjacency. We will benefit from Plastronics' attractive position in artificial intelligence, data centres and automotive end markets, and expanding Plastronics' sales globally by leveraging Smiths Interconnect's strong presence in Asia.

Following the year end, in August 2023 we acquired Heating & Cooling Products ("HCP") in our Flex-Tek business. This further expands the Group's presence in

the North American HVAC market, enabling Smiths to serve more customers with an even broader product range. Acquired for \$82m (approximately £65m), at less than 7x estimated 2023 EBITDA, this acquisition further demonstrates our disciplined and targeted approach to M&A.



EXECUTION

Stronger execution is our second key priority.

In FY2023, headline operating profit grew +12.7% (+£57m) on an organic basis, and +20.0% (+£84m) on a reported basis to £501m (FY2022: £417m). Headline operating profit benefited from strong profit growth in John Crane and Smiths Detection, and a solid contribution in Flex-Tek, partially offset by a decline in Smiths Interconnect.

Headline operating profit margin was 16.5%, up +20bps on a reported basis supported by volume growth, pricing more than offsetting inflation and the benefits of SES and savings actions, all of which offset the impact of product mix and investment in growth. By division, strong operating leverage in John Crane reflected improved execution and supply chain conditions. Smiths Detection also improved its margin despite higher Original Equipment ("OE") sales mix. Flex-Tek and Smiths Interconnect contracted from their record prior year highs, with Flex-Tek continuing to invest in new product development and commercialisation, and Smiths Interconnect seeing lower volumes.

Headline EPS grew +39.6%, driven by headline operating profit growth which contributed over a third of the growth, the share buyback programme which

contributed a third, with the remainder of the growth coming from FX and a reduction in both the effective headline tax rate and interest expense. The headline tax charge for FY2023 of £121m (FY2022: £104m) represents an effective rate of 26.0% (FY2022: 27.6%).

ROCE increased +150bps to 15.7% (FY2022: 14.2%) reflecting the higher profitability of the Group. For further detail, please refer to note 29 of the financial statements.

Headline operating cash conversion for FY2023 was 86% (FY2022: 80%), with stronger conversion in the second half supported by improvement in working capital. This was delivered through targeted and disciplined working capital management helped by focused SES projects. Headline operating cash-flow* was £433m (FY2022: £332m). In FY2023, free cash-flow* generation was £178m (FY2022: £130m) or 35% of headline operating profit (FY2022: 31%).

During FY2023 we continued to make good progress on SES. There are currently 71 Black Belt projects completed or underway, being driven by our 6 Master Black Belt and 31 Black Belt employees across the Group. Projects completed in the year contributed £14m of profit, ahead of our plan of £12m. For FY2024, we expect a contribution of £20m from SES as our hopper of new projects continues to scale.

We implemented some targeted savings projects across the Group through FY2023. These projects were focused on simplification and improving efficiency. Costs amounting to £36m in respect of these projects have been charged to non-headline in the year, with no further charges anticipated. In line with our previous communications, £11m of benefit was realised in FY2023 from these projects, with the annualised benefits expected to be £25m.

£m	FY2022	Foreign exchange	Acquisitions	Organic movement	FY2023
Headline operating profit	417	27	0	57	501
Headline operating profit margin	16.3%	+10bps		+10bps	16.5%



PEOPLE

Inspiring and empowering our people is our third key priority and our people plan is focused around four key areas of safety, leadership development, diversity, equity and inclusion, and engagement.

The first area, safety, is at the forefront of everything we do. Our Recordable Incident Rate ("RIR") for FY2023 improved to 0.41 (FY2022:0.56), and we delivered a record low lost time injury rate of 0.14. This improvement in safety has been achieved through continuous reinforcement of our safety culture with over 13,000 Safety Leadership Tours and Safety Observations undertaken in the year. Of particular focus was our Royal Metal site, acquired in 2021, which delivered an 80% reduction in the number of incidents through changes to manufacturing, new risk management processes and leveraging technology to make safety easier.

Our biggest people initiative this year was the continued rollout of our Smiths Leadership Behaviours to define our expectations for an inclusive and high-performance culture. We continued the rollout of these seven behaviours to fully embed them throughout the organisation. We completed 94 workshops, attended by over 1,600 leaders and the behaviours are now used in our annual performance assessment process.

Alongside Smiths Leadership Behaviours, talent development is a key priority within our People plan. We are focused on growing and promoting talent from within and in FY2023, 70% of open roles for manager level and above were filled internally, versus 39% in the past. To support our talent development, we have relaunched the Accelerate Leadership Development programme having trained our first 300 leaders in FY2023, introduced mentoring programmes with the Executive Committee for our high potential leaders and continued to develop our Early Careers Programme, which includes several engineering apprenticeship programmes.

Promoting diversity, equity and inclusion is another key part of our people strategy. We are specifically focused on increasing gender diversity at all levels of the organisation and we have ramped up our initiatives this year, including introducing women's support networks and flexible working arrangements. As at 31 July 2023, 25% of our senior leaders, 25% of our Executive Committee and 40% of our Board of directors are women. With the help of the multiple initiatives throughout the organisation, we expect to continue to drive improvement in these metrics.

Overall, through our focus on inspiring and empowering our people we have seen a year-on-year improvement in our voluntary attrition, down 310bps to 12% for our global employees and down 410bps for our engineering employees

OUR ESG APPROACH

Environment, Social and Governance (ESG) performance is at the very centre of our purpose, and fundamental to each of our three key priorities.

Growth

ESG at Smiths is approached with a growth mindset. Our R&D is focused on commercialising high-value green technology. Our progress is evident through John Crane's growing presence in hydrogen and carbon capture markets with over 70 active projects and in Flex-Tek supporting the development of the world's first

Execution

Environmental metrics	FY2022	FY2023
Absolute Scope 1 & 2 GHG emissions reductions	0.9% reduction	11.8% reduction
Energy efficiency ⁶	n/a	7.9% improvement
Proportion of electricity from renewable sources	63%	70%
Non-recyclable waste ⁷	11.5% reduction	9.8% reduction
Water use in stressed areas ⁷	4.5% reduction	13.3% reduction

⁶ Normalised to local currency revenue, excluding growth from price.

⁷ Normalised to reported revenue.

green steel production facility. Our proven ability to serve these customers positions us well today and in the future as the world increasingly relies upon smart engineering to achieve Net Zero.

We are executing well against our ESG strategy, with significant progress against our sustainability metrics, which are now fully incorporated into both our annual and long-term incentives. In the year, we launched our first Sustainability report, submitted our Science Based Targets for review and validated our framework through completion of our first-ever ESG double materiality assessment in accordance with applicable guidance under the Corporate Sustainability Reporting Directive ("CSRD"). We also extended the scope of the limited assurance work carried out by KPMG to follow the more rigorous ISAE3000/3410 standard for FY2022 and FY2023 data.

People

Engagement with our communities has long been a strength of Smiths. This year we have gone one step further with the launch of our new charitable foundation, "The Smiths Group Foundation". The foundation committed an initial £10m of funding linked to engineering-related good causes. The mission of the foundation is central to Smiths purpose of "Improving our world through smarter engineering." We also launched our global volunteering policy, amplifying the multitude of grass-roots efforts already in place across the organisation.

OUTLOOK

In FY2024, we expect organic revenue growth within our medium-term target range of 4-6%, with growth weighted towards the second half of the year. Our strong orderbooks in John Crane and Smiths Detection, along with our new product pipeline, give us confidence in delivering this growth despite a record comparator, moderating pricing environment, and the challenging market conditions facing parts of Flex-Tek and Smiths Interconnect. We also expect continued margin expansion in FY2024, as we continue to scale the Smiths Excellence System and reinvest to support future sustainable growth.



ESG performance is at the very centre of our purpose, and fundamental to each of our three key priorities.

[Read more about sustainability in our Sustainability at Smiths report](#)
www.smiths.com



SMITHS LEADERSHIP BEHAVIOURS

Read more about our Leadership Behaviours.

[→ PG 13](#)