

Engine Capital LP  
1345 Avenue of the Americas, 33<sup>rd</sup> Floor  
New York, NY 10105  
(212) 321-0048

17 January 2025

Smiths Group plc  
Arbor, Bankside Yards Level 10  
255 Blackfriars Road, London SE1 9AX  
Attention: Board of Directors

Chairman Steve Williams and Members of the Board of Directors (the “Board”):

Engine Capital LP (together with its affiliates, “Engine” or “we”) is a meaningful shareholder of Smiths Group plc (“Smiths” or the “Company”), with an economic ownership close to 2% of the Company’s outstanding shares. We invested in Smiths due to the strength of its businesses and appreciate the time we’ve spent with you and CEO Roland Carter thus far to share our views on the value opportunity facing the Board today. As an experienced investor in the industrial space, we were attracted to the size of John Crane’s service network and the annuity-like earnings stream from its large installed base, the strong competitive positioning of Flex-Tek, the opportunities at Smiths Detection due to increased airport security needs, the Company’s attractive financial prospects and ability to generate strong free cash flow due to its capital-light model, and our belief that Smiths’ shares are deeply undervalued.

Through constructive engagement, Engine has placed more than 42 directors on the boards of 26 public companies since inception. Engine’s principals have significant experience investing in engineering-driven organizations and companies that share Smiths’ end-markets, including Flowserve Corporation (“Flowserve”), Ferguson Enterprises Inc. (“Ferguson”), IMI plc (“IMI”), and Leidos Holdings (“Leidos”).<sup>1</sup> We therefore have a sound understanding of Smiths’ products, customers, and end-markets.

**We believe that Smiths has significant value that is currently unrealized due to its conglomerate structure, and that it is time for the Board to announce a strategic alternatives process to maximize value for shareholders.** Smiths’ undervaluation is not a new phenomenon. For years, the Company has traded at a significant discount to its sum of the parts (“SOTP”) valuation. Management and the Board have been unable to close this gap to Smiths’ intrinsic value and its segment-level peers despite producing strong financials and operating performance – leading us to conclude that structural issues have held the Company back from being fairly valued in the public market. With several recent breakups that have created tremendous value for investors in the industrial sector, we see a significant and timely opportunity for the Board to unlock meaningful value for shareholders by optimizing Smiths’ corporate structure.

### **Smiths’ Improved Operating Performance Has Not Closed its Valuation Gap**

During the 2021 Analyst Day, the Company was asked whether it would ever achieve fair value for the quality of its businesses without a breakup. More recently, a Goldman Sachs analyst wrote the following after the Company’s 2024 results: *“We note, however, that the group’s reaffirmed commitment to its existing four-segment portfolio has resulted in a number of investors reappraising the scope for crystallization of the SOTP value.”*<sup>2</sup> In both instances, the pushback from the current and prior

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<sup>1</sup> Flowserve is a leading pump, seal, and valve manufacturer, Ferguson is the world’s leading value-added distributor of plumbing and heating products, IMI is a leading industrial automation, precision control, and hydronic engineering firm, and Leidos is a government services provider that, among others, provides security solutions that compete with Smiths Detection.

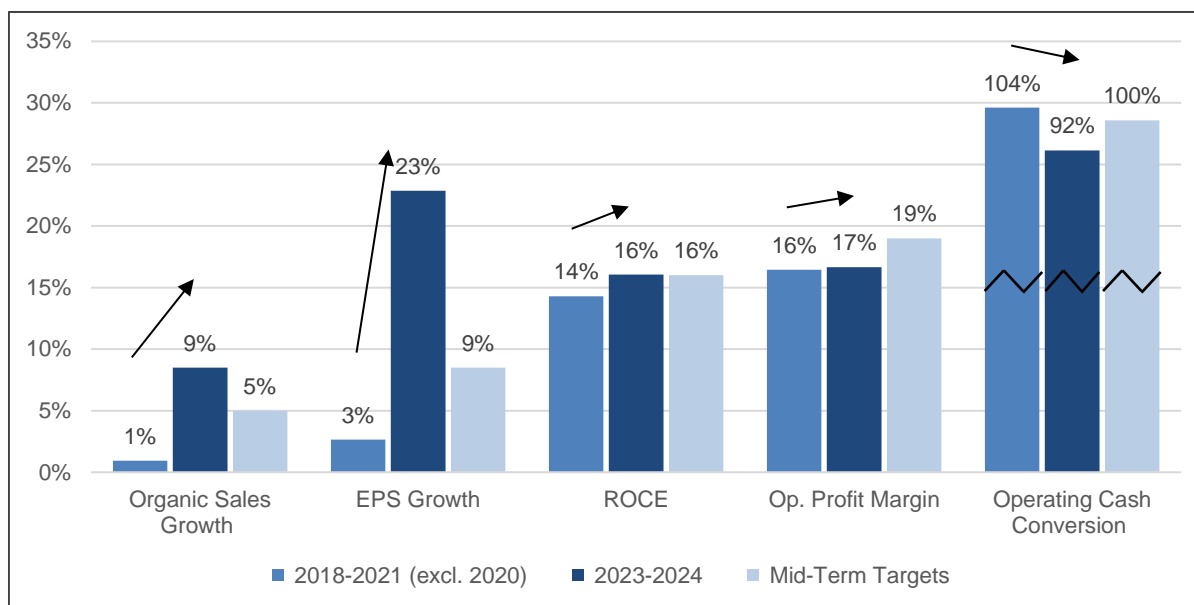
<sup>2</sup> Goldman Sachs research report dated 1 November 2024.

management team blamed Smiths' undervaluation on lagging operating performance – not the corporate structure.<sup>3</sup>

However, the facts don't seem to give credence to this theory. Over the past few years, management has strengthened the Company's financial profile, including the acceleration of organic growth for over three years, the implementation of the Smiths Excellence System that has driven material operating margin improvement, the sale of Smiths Medical to improve the Company's organic growth potential, and the completion of accretive tuck-in M&A transactions.

These efforts have yielded financial performance largely in line with the mid-term targets unveiled at the Company's November 2022 Capital Markets event. Organic growth and EPS growth exceeded targets in 2023 and 2024, ROCE has performed in line with financial targets, and operating profit margin has improved and is progressing towards the medium-term targets.<sup>4</sup> Notably, the Company just increased its organic revenue growth target to 6-8% for 2025, continuing its outperformance on this metric relative to the mid-term targets.

*Smiths' Financial Profile: 2018-2021 (Excl. 2020) vs. 2023-2024 vs. Mid-Term Targets*



Despite these operating improvements, Smiths continues to trade at a significant “conglomerate discount.” We believe this undervaluation is further exacerbated by the following key facts, which make it challenging for Smiths to ever be properly valued in the public market in its current structure:

- 1.) The Company's four businesses have few relevant “pure play” public peers; and
- 2.) These businesses are tied to different business cycles.

Smiths is currently trading at an EV to 2025E EBITDA of approximately 9.5x, considerably below where its divisional peers trade or have transacted in M&A, highlighting the significant value creation opportunity

<sup>3</sup> At the 2021 Analyst Day, then-CEO Paul Keel said, “Underperforming multi-segment players trade at a lower value, underperforming pure play companies trade at a lower value. The common denominator between the two groups is not structure, it's performance. So, in our case, if we perform better, there will be no conglomerate discount.”

<sup>4</sup> Medium-term targets were given in ranges. Midpoint of ranges are displayed in the chart. Figures are averages over performance periods.

in front of the Board. John Crane’s peers trade at a median multiple of approximately 13.7x NTM EBITDA while transaction multiples are considerably higher, as evidenced by the sale of SPX Flow to Lone Star in April 2022 for 16.8x EBITDA.<sup>5</sup> Smiths Interconnect’s peers trade at a median multiple of approximately 12.2x NTM EBITDA, and transaction multiples further reinforce this valuation, as demonstrated by the sale of privately held kSARIA to ITT for approximately 13x EBITDA.<sup>6</sup> The Company’s other divisions have even fewer obvious publicly traded pure play peers, but OSI Systems, Inc. (“OSI Systems”) – which could be considered a peer to Smiths Detection – trades at approximately 11.8x 2025 EBITDA and Omega Flex, Inc. (“Omega”) – a smaller peer for Flex-Tek – trades at approximately 15x LTM EBITDA. **While there are differences between Smiths’ businesses and these companies, the fact that Smiths trades at a meaningful discount to its pure play peers in each of its divisions is a powerful attestation that the entire Company trades at a sizable discount to its SOTP valuation.**

We also note that Smiths’ EV to NTM EBIT multiple is trading near 10-year lows (excluding COVID) despite the considerable progress made towards the medium-term financial targets, in contradiction to management’s claim that improving performance would close the discount.<sup>7</sup> We suspect this multiple compression partially reflects investors’ growing preference for pure plays, as seen in the tremendous value created by a number of recent breakups in the industrial space (including General Electric Company, DowDuPont Inc., and United Technologies Corporation). Just a few weeks ago, for similar reasons, Honeywell International Inc. announced it is considering separating its aerospace division because the division’s value was not adequately reflected in the company’s conglomerate structure.

Given these dynamics, it is unsurprising that Smiths has underperformed its peers on a total shareholder return (“TSR”) basis over all relevant time periods.<sup>8</sup> This underperformance is striking considering the Company’s operational improvements during these periods.

	Total Shareholder Return		
	1-Year	3-Year	5-Year
Smiths Peers (Engine)	24%	28%	61%
Smiths Peers (Company Annual Report)	43%	75%	119%
STOXX Europe 600 Industrial G&S Index	19%	23%	57%
<b>Smiths Group</b>	<b>6%</b>	<b>18%</b>	<b>14%</b>
<b>Relative Performance to Peers (Engine)</b>	<b>-18%</b>	<b>-11%</b>	<b>-46%</b>
<b>Relative Performance to Peers (Smiths Annual Report)</b>	<b>-37%</b>	<b>-58%</b>	<b>-104%</b>
<b>Relative Performance to Index</b>	<b>-12%</b>	<b>-5%</b>	<b>-43%</b>

While we understand newly appointed CEO Carter believes he can further improve operations, doing so won’t change the structural dynamics discussed above. **The clock doesn’t reset with the appointment of a new CEO or a new Chairman for long-suffering shareholders who have seen this film play out before.**

It is also worth noting that with the recent announcement of CFO Clare Scherrer’s departure, and the prior departure of former CEO Keel, the Company has now lost the two most senior executives who led the Company during a time of significant operational improvement. Both executives were hopeful that an

<sup>5</sup> Peer group comprised of Rotork plc (“Rotork”), Flowserve, ITT Inc. (“ITT”), and Dover Corporation (“Dover”).

<sup>6</sup> Peer group comprised of TE Connectivity PLC (“TE Connectivity”) and CTS Corporation.

<sup>7</sup> Per Capital IQ

<sup>8</sup> Returns data as of 15 January 2025. Engine’s Smiths peers include Flowserve, Rotork, ITT, Dover, OSI Systems, TE Connectivity, CTS Corporation, and Omega Flex. Annual report peers include all publicly traded companies listed as competitors in Smiths’ 2024 annual report. Peer returns reflect median performance.

improvement in performance would lead to a re-rating of the stock, which would have allowed Smiths to become a platform for future large M&A. Both executives are now gone, perhaps an admission that the current corporate structure is not working.

### **Acquiring a Medium or Large-Sized Business Is Not a Viable Option for Smiths**

During our recent conversation, Chairman Williams was keen to emphasize that the Board is looking at every option to create value. Yet, recent announcements from the Company lead us to suspect that the Board and Mr. Carter are prioritizing acquisitions. On 13 November 2025, the Company disclosed it was resuming its share buyback program after deciding not to pursue a medium-sized acquisition it had been evaluating, but it also noted that Smiths' acquisition pipeline remained active.

To acquire a high-quality company of scale in any of Smiths' end markets will likely require Smiths to pay a multiple well in excess of where it currently trades, which adds significant risk and will most likely result in value destruction as Smiths' higher cost of capital within the conglomerate structure is applied to the target's assets after the acquisition. Two recent examples of this dynamic in Smiths' end markets are kSARIA (acquired by ITT) and CIT (acquired by Amphenol Corporation). Both target companies transacted at EBITDA multiples in the 12x-14x EBITDA range and are representative of what Smiths would likely have to pay for high quality at scale businesses. Paying such multiples when Smiths trades for a sub-10x multiple would be a disaster for shareholders, and will not help re-rate the Company's shares (even if management tries to justify paying the higher multiple by touting the quality of the target or the potential synergies). While we have no issues with the Board approving small tuck-in transactions at low multiples, as it has done recently, we strongly caution the Board against pursuing medium or large transactions that will most likely require paying a higher multiple.

Smiths' undervaluation is putting the Company in a strategic quandary. It simply doesn't have the appropriate cost of capital to compete in any sizable M&A. The Board should prioritize share repurchases (the Company's balance sheet is in great shape and it could increase its leverage to more aggressively repurchase shares) instead of only "resuming" a share buyback after a potential deal fell apart. The priorities seem misplaced. A conglomerate trading at a large discount should not get distracted pursuing meaningful acquisitions and making matters worse. Instead, it should buy back its stock while exploring how to sell its disparate businesses at higher multiples.

### **It Is Time for the Board to Announce a Strategic Alternatives Process Aimed at Maximizing Value for Shareholders**

Given the dynamics described above, it is clear to us – and other large shareholders we have spoken to – that the status quo is untenable, and the Board needs to take aggressive measures to realize the Company's inherent value. During our recent meeting, CEO Carter and Chairman Williams pointed to the Company's strong operating results and posited that more value could be obtained by continuing to operate the businesses. We believe the Company's long-term TSR speaks for itself. We do agree that the operating results are strong and will continue to improve, but this is not a reason to delay a sale process. Just the opposite: those strong prospects will be reflected in strong multiples for Smiths' businesses for the benefit of shareholders. Below are two scenarios that Smiths could explore, though this is obviously a non-exhaustive list of the numerous alternatives the Company should consider during a comprehensive review:

#### ***Option #1: Sell the Company in Whole or in Pieces***

Considering execution risk, time value of money, and the conglomerate discount, a sale in whole or in parts is likely to be far superior to the current situation. This would instantly eliminate the SOTP discount and, depending on the buyers, create significant synergies which could result in additional value for

Smiths' shareholders. Below is a recent analysis by one of the Company's sell-side analysts, which calculates the SOTP value of Smiths at 2,596 pence, an approximately 50% premium to the current share price.<sup>9</sup> We note that this valuation does not include the elimination of corporate costs, which a strategic acquirer could eliminate, and which we believe would result in an additional ~200 pence of value for shareholders and a premium of ~60% to today's share price.<sup>10</sup>

### Goldman Sachs Analysis

Smiths group SOTP (£mn)	EBIT margin 24m Fwd			N3Y Sales CAGR			Premium / discount	EV/EBIT 24m Fwd		EBIT 24m Fwd	EV
	Smiths Group	Peers	% Diff.	Smiths Group	Peers	% Diff.		Peers	Smiths Group	Smiths Group	Smiths Group
Detection	14.3%	13.4%	0.9%	5.5%	3.9%	1.7%	-10%	15.4x	13.9x	138	1917
John Crane	24.1%	19.2%	4.9%	5.2%	4.8%	0.4%	10%	14.2x	15.6x	302	4711
Interconnect	15.7%	20.6%	-4.8%	5.0%	8.4%	-3.4%	-30%	14.3x	10.0x	61	610
Flex Tek	21.0%	20.0%	0.9%	4.2%	4.7%	-0.5%	-15%	16.2x	13.8x	180	2483
Group Costs							0%		14.3x	-51	-730
<b>Total Group</b>									<b>14.3x</b>	<b>630</b>	<b>8,991</b>

EV bridge		SOTP Valuation Peers			
Enterprise value (£ mn)	8,991				
Net Debt	18				
Minorities	23				
EV adj.	41				
Mkt Cap (£ mn)	8,950				
NOSH	345				
Value per share (p)	2,596				
Last closing price (p)	1,556				
Upside / downside	67%				
		<b>Detection</b>	<b>John Crane</b>	<b>Flex Tek</b>	<b>Interconnect</b>
		L3Harris Technologies Inc	Dover Corp	Parker-Hannifin Corp	CommScope Holding Company Inc
		Bruker Corp	Alfa Laval AB	Eaton Corporation PLC	Huber+Suhner AG
		Dormakaba Holding AG	Rotork PLC	Omega Flex Inc	TE Connectivity PLC
		Leidos Holdings Inc	Schlumberger NV	Honeywell International Inc	Amphenol Corp
		OSI Systems Inc	Flowserve Corp	Trane Technologies PLC	Honeywell International Inc
		Chemring Group PLC	Crane Co	Lennox International Inc	Leeno Industrial Inc
				IMI PLC	
				Ariston Holding NV	

We believe Smiths could be an acquisition target for a large U.S. industrial company. Some of those companies currently trade at very high multiples and could find an acquisition of Smiths timely given the recent strengthening of the U.S. dollar.

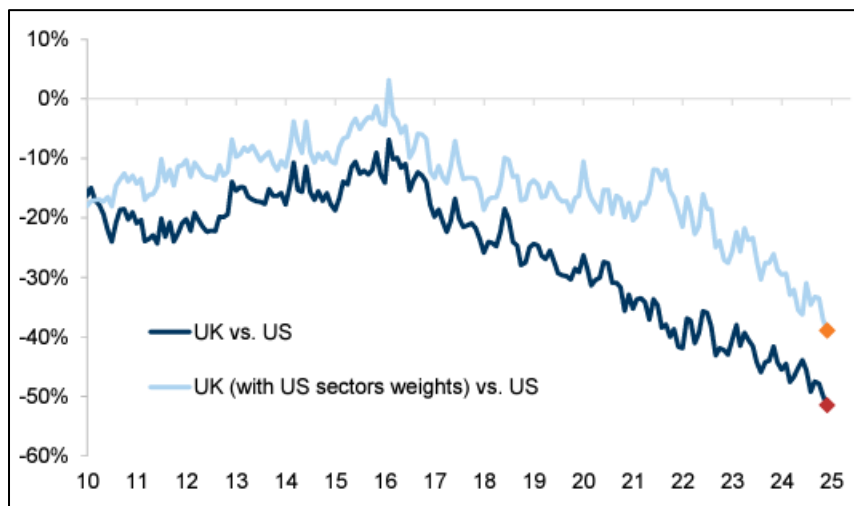
### Option #2: Spin Off John Crane in the U.S., and Sell the Other Businesses

John Crane is the crown jewel of the Company, and we believe it would command a significant premium to the Company's trading multiple if it were to be listed as a separate company in the U.S. A U.S. listing would also make sense given John Crane's large presence in the country and the higher valuation that U.S. companies command. Below is an illustration of the large valuation discount that currently exists between U.K. and U.S. markets.

<sup>9</sup> Goldman Sachs research dated 1 November 2024.

<sup>10</sup> Approximately 200 pence of value uses the corporate average multiple of 14.3x EBIT.

U.K. 12-Month Forward P/E Relative to the U.S.<sup>11</sup>



There are a number of U.K.-listed companies that have material market presences in the U.S. and have successfully relisted their shares in the U.S. Two recent examples in the industrials space are Ferguson and CRH plc (“CRH”). Both companies have large end-markets in the U.S. and have seen strong share price appreciation since relisting in the U.S., with Ferguson and CRH achieving TSR of approximately 64% and 71%, respectively, since their listings on the New York Stock Exchange.<sup>12</sup> Both companies have also realized material improvements in average liquidity and trading multiples upon being relisted.<sup>13</sup>

John Crane has a large operating exposure to the U.S. and a number of its peers trade in the U.S. at a significant premium. Flowserve, in particular, highlights Smiths’ valuation disconnect and the likely multiple that John Crane would trade at in the U.S. Much of Flowserve’s identity is as an OEM manufacturer, an asset-intensive business that is prone to market variations due to its exposure to project work. Conversely, John Crane has a materially larger mix of annuity-like aftermarket revenues (71% for John Crane vs. 52% for Flowserve) and the larger aftermarket service network. John Crane also has a leading position in the structurally advantaged and niche gas compression seals market. These positive dynamics manifest themselves in a much stronger margin profile for John Crane compared to Flowserve and lead us to believe that John Crane is a superior business to Flowserve. However, Flowserve trades at approximately 12x 2025 EBITDA, a considerable premium to Smiths. We estimate that John Crane would trade at a premium multiple in a range of 13-14x forward EBITDA if it were separately listed in the U.S.

Outside of John Crane, Smiths’ three other businesses should be sold to realize the SOTP value. They are too small to be separate public companies and would not be good public companies anyway given their lack of relevant pure play public peers. A listing of John Crane in the U.S., in conjunction with a sale of the Company’s three other businesses, would create material value for Smiths’ shareholders.

We encourage the Board to discuss these ideas with the Company’s investors. Based on our discussions with several meaningful shareholders, we believe they too are frustrated and tired of waiting for the directors to finally maximize shareholder value. We believe a strategic review can be managed by the

<sup>11</sup> Goldman Sachs research dated 13 December 2024 – “UK Equities: New York Calling.”

<sup>12</sup> Ferguson first listed in the U.S. on 8 March 2021 at a share price of ~\$120 and CRH listed in the U.S. on 25 September 2023 at a share price of ~\$54.

<sup>13</sup> Since the transition, both companies have realized greater than 2x average daily liquidity and greater than 20% increase in NTM EBITDA trading multiples (pre-COVID period used for Ferguson). Per Capital IQ.

Board and the group's top executives while leaving the four businesses' management teams largely unaffected except for some management presentations. Therefore, such a process should not negatively impact the divisions' operating momentum.

In conclusion, we believe the status quo is no longer tenable. Smiths' corporate structure is antiquated, and its U.K. listing further compounds its valuation disconnect. The value creation opportunity is significant and within the Board's reach. This is why it is imperative that the Board swiftly announces a strategic review to address the Company's undervaluation. On behalf of Engine, we look forward to working with you to increase long-term value for all shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'Arnaud Ajdler', with a stylized, sweeping underline.

Arnaud Ajdler  
Managing Partner

A handwritten signature in black ink, appearing to read 'Brad Favreau', written in a cursive style.

Brad Favreau  
Partner