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Tomkins Focuses On Engineering

The Board of Tomkins announces that after good progress in the development of its Industrial & Automotive division it has taken the opportunity to review the future strategy and shape of the group.

Following the acquisition of The Gates Corporation in July 1996, Tomkins bought Stant in May 1997, Schrader-Bridgeport in April 1998 and most recently ACD Tridon in June 1999. This combination of businesses provides Tomkins with a strong platform from which to build a global Industrial & Automotive components business. The Board has determined that the opportunities presented by industrial consolidation, the shift in design and engineering responsibility to the component manufacturer and the requirement for a global presence in product areas, require a tighter focus from the group. Tomkins intends to concentrate its energies and resources on its automotive, construction and industrial activities.

The Board has set in train the process for a demerger of Tomkins European food manufacturing activities, which would take place, subject to the resolution of technical issues and regulatory and shareholder approvals, in the early part of the year 2000.

The strategy is designed to permit the engineering and food business to focus their separate financial, management and other resources on their respective businesses.

The European food businesses are now of a scale and stage in their development where they can have an exciting future outside Tomkins as an independent publicly listed group. Tomkins has created a formidable Food Manufacturing division which generated operating profit of £165.4 million in the year to 1 May 1999 on sales of £1,965.1 million. The European food businesses have a strong portfolio of well known brands in the UK including Hovis, Sharwood's Bisto, Mr Kipling, McDougalls and Robertson's. The food manufacturing businesses have exploited the growth opportunities presented by the changes in consumer lifestyle through investment in resources, processes, technology, new product development and marketing.

The European food businesses have a strong management team led by Paul Wilkinson who has headed their successful development for the last three years. This team will be strengthened by the appointment of Ian Duncan as Chairman. In order to avoid a conflict of interest during the separation of the food manufacturing operations, Ian has left the Board of Tomkins, with effect from today, but will continue at Tomkins during the demerger process. Ian has made a huge contribution to the development of Tomkins since he first joined as Financial Director. A demerger of the food interests presents an excellent opportunity for him to utilise his leadership skills to the full.

Having regard to the cash generation and investment requirements of the food manufacturing activities, the Board would expect that the major part of the group's debt would be included within these businesses, thus strengthening financial capacity for the development of Tomkins' non-food activities.

Tomkins has received approaches in the past for parts or all of its food manufacturing activities. It will place itself in a position to respond appropriately if such approaches are received going forward, and to test them in the light of the Board's wish to maximise shareholder value.

Tomkins will in any event be selling Red Wing, its US food business which is managed separately from the European food manufacturing activities. It will also continue to progress the disposal of the Murray and Hayter businesses, which make up the majority of Tomkins' Professional, Garden & Leisure Products division.

In addition to the Industrial & Automotive division, Tomkins will also develop its presence in Construction Components which are high return niche businesses, operating predominantly in the US.

This evolved structure will allow Tomkins to build leading national and international

component businesses capable of achieving above average growth in automotive, construction and industrial markets based on Tomkins' existing market positions and its core competencies in:

- the design and manufacture of components, modules, sub-systems and systems for global OEM customers
- the manufacture and distribution of components and product packages for leading aftermarket distributors
- the ability and strength to capitalise on industry consolidation through organic growth and acquisitions
- the know-how to pursue a lean enterprise philosophy geared to continuous productivity improvements through customer driven investment and development

In the year to 1 May 1999, the Industrial & Automotive Engineering and Construction Components divisions generated operating profit of £307.0 million on turnover of £2,803.6 million.

In order to expand its core businesses, Tomkins intends to pursue growth opportunities through capital investment and targeted acquisitions.

Commenting on Tomkins' strategy, Gregory Hutchings, Chairman, said: "This is the appropriate stage in Tomkins' development to accelerate its evolution. The changes, which we have announced today, will enable us to take full advantage of the exciting opportunities we see for growth and development of our core businesses for the benefit of our shareholders."

Automotive, Construction and Industrial

Strategy

Systems and Engineering Design

In the automotive market, Tomkins has already developed a strong systems capability, particularly in power transmission and wiper systems, and is in a good position to build on other areas of its product range to similar effect. These areas include fuel caps, pneumatic fluid control valves and fuel and vapour recovery. Tomkins also has considerable potential to increase profitability and market share through the increased development of modules and sub-systems from its existing product range.

The industrial market, while more diverse, is undergoing a similar transformation to system based design, although the concept is less well advanced at this stage. Tomkins believes that its experience in system development gained in the automotive industry will transfer effectively to industrial opportunities. Hydraulic hose and connector assemblies and power transmission drives are two areas offering considerable potential.

Supply Base and Distribution Consolidation

Consolidation in the automotive component industry is well under way internationally in response to OEM and distributor concentration. Tomkins believes that it is well placed, given its strengths in power transmission, hose and connectors, wiper systems and pneumatic and fluid control products to take advantage of the pressure that this consolidation is bringing to bear on component manufacturers. The ability to build additional system capabilities through acquisition and organic growth, will further enhance Tomkins' ability to gain market share.

The consolidation trend is gaining momentum in other industrial equipment markets served by Tomkins. These markets are likely to enter a period of rapid concentration and Tomkins is determined to be at the forefront of this consolidation process.

A number of Tomkins' businesses are experiencing increased demand from consolidating distributors who are seeking a more complete package of products. Tomkins is well placed to capitalise on this aftermarket need with its broad range of products, sales and marketing support and strong distribution networks.

Lean Enterprise Philosophy

The integration of the Stant, Trico and Schrader-Bridgeport operations into Gates has progressed well, although scope still remains for continuing reductions in their cost bases. The recent acquisition of ACD Tridon offers increased opportunity for integration and rationalisation as well as introducing an integrated wiper systems capability.

Tomkins' record of margin improvement in its construction components businesses vividly demonstrates its ability to cut costs whilst maintaining growth. Tomkins' management will maintain an aggressive view on costs in both its existing and any acquired businesses.

Growth Drivers

Capital and Acquisition Investment

Tomkins' capital and acquisition investment will be focused on:

- the international expansion of businesses already commanding significant national and international positions
- the expansion and increased penetration, as the OEM supply base consolidates, of existing system technology
- the securing of further system capability based on existing strong positions in module design and manufacture

Continued New Product Development

Tomkins has advanced technology centres in North America, Europe and Asia strategically positioned to serve the global OEM customers. In addition, there is a global network of product specialised technology centres integrated with manufacturing facilities.

Low Cost Manufacturing

Tomkins invested a record £166.2 million in its Automotive & Industrial Engineering and Construction Components divisions, almost 30% more than last year and well ahead of depreciation of £80.9 million. This increase is a consequence of Tomkins' commitment to improving the efficiency of its businesses and in response to the market's dynamics.

Automotive and Industrial Components

Tomkins' Automotive & Industrial businesses, in the year to 1 May 1999, contributed £165.3 million in operating profit on £1,700.9 million of turnover. The business is divided into a number of product areas: power transmission products, which make up approximately 40% of the division's turnover; hydraulics, wiper systems; hose, clamps and thermostats; and valves and precision engineered products.

Power Transmission

Tomkins' power transmission business has strong positions in the OEM and aftermarkets of the industrial and automotive sectors. Tomkins believes it has a global market share of 30% in power transmission with an increasing proportion of its sales to the automotive market in system form. In the market place systems are a growing proportion of sales and are an important factor in driving market share. Tomkins' market share in Power Transmission and its status as the leading global supplier, clearly place it in a strong position as consolidation amongst the component manufacturers continues. The group's after market position is similarly strong, with a market share of approximately 45% in North America and good positions in Europe.

Tomkins believes that its strong product range will enable it to increase further its market share, particularly in Europe and Asia, as well as providing the template for the industrial market's inevitable shift to system design.

Hydraulics

Tomkins believes that its significant hose and connector business puts it in a strong position to build a system capability through acquisition to match the anticipated demand from the industrial OEMs in hydraulics. Plans by mobile equipment OEMs are reinforcing the trend to transfer hydraulic system design to fully integrated hydraulic suppliers.

Wiper Systems

The recent acquisition of ACD Tridon, combined with Trico, bought in 1997, gives Tomkins the ability to design and manufacture the complete wiper system and meet the integrated design and system requirements of the OEMs. At present Tomkins has a good market share in North America and a presence in Europe. It also has a joint venture with a Japanese wiper system supplier. Further benefits will derive from the combination of ACD Tridon's electronic expertise and Trico's heavily invested technical resources. Tomkins believes it is well placed to compete successfully as a full system supplier.

Valves and Precision Engineering

These products are likely to increase Tomkins' system capability in the medium term. In particular products such as Onboard Vapour Recovery (OVR) valves, fuel caps and fuel supply valves offer a route into systems. Remote Tyre Pressure Monitoring Systems (RTPMS) are another indication of how Tomkins is able to leverage its technical resources and close relationship with customers to generate a flow of new products.

Hose, Clamps and Thermostats

These products strengthen Tomkins' position with both OEMs and aftermarket distributors. In addition there is potential to translate significant market shares in North America into global positions through acquisition or strategic alliance.

Construction Components

The construction components division, whilst more diverse in its product range, is made up of a number of high return, niche businesses operating predominantly in the US. The division includes Tomkins' Air Distribution businesses (Air System Components, Lau, Ruskin), its Fibreglass and Plastics businesses (Lasco Bathware and Lasco Fittings), its Housing and Transportation businesses (Dexter Axle, Philips Products and Lasco Composites) and its Material Handling businesses (Dearborn and Mayfran).

Air Distribution

The air distribution businesses are experiencing increased demand from consolidating distributors and manufacturers, who are seeking a more complete package of products. Tomkins is well placed in its component businesses to meet this need and benefit from its leading US market shares in a number of key product areas – Air System Components – grilles, registers and dampers, Ruskin – industrial dampers, louvres and sound control products. The industry consolidation already underway increases the opportunities for adding to Tomkins' existing product range.

Fibreglass and Plastics

Trading profit margins in this product area are amongst the highest in the group and represent the achievement of low cost production in a highly competitive environment. There are opportunities to generate continuing improvement through both acquisition and new product development. Lasco Bathware and Lasco Fittings have strong positions in their respective markets which provide a platform from which to offer a wider range of products as a package.

Housing and Transportation

These businesses include Dexter Axle, Philips Products and Lasco Composites. All three operations have strong niche positions in their main US markets and are generating high returns.

Food Manufacturing

Background

The food business of Tomkins comprises RHM Europe, located predominantly in the UK, together with interests in Continental Europe, and Red Wing in North America. These food businesses generated operating profit of £165.4 million in the year to 1 May 1999 on sales of £1,965.1 million, representing an operating margin of 8.4%. The food businesses are mainly those which comprised the Ranks Hovis McDougall group, acquired in 1992. At the time of the acquisition, the group was generating operating profit of approximately £80.5 million and operating margin of 5.3%.

RHM Europe

In order to meet the challenges of the competitive environment, RHM Europe has recently reorganised its operations into eight business streams. This reorganisation improves the focus and accountability of its management teams into defined areas of the food market, each requiring common skills and competencies, further improves cost effectiveness and enhances the speed of decision-making. These business streams are supported by a small central services team which encompasses essential functions including technology, health and safety and human resources.

Flour Milling

Rank Hovis, the major component of this division, is the largest flour miller in the UK. A process of continuous improvement in the milling operations has ensured reductions in unit costs. The headcount has been reduced significantly since the business was acquired by Tomkins.

Bread Baking

British Bakeries is one of the largest bread bakers in the UK operating 17 bakeries and employing over 7,000 people producing over 16 million loaves each week. Its major brands, which include Hovis, Granary, Mothers Pride and Nimble, have been instrumental in the company's development.

European Frozen Bakery

RHM Europe is the largest supplier to the UK frozen bake off market, which is replacing the traditional methods of scratch baking in local bakeries and the in-store bakeries of major supermarkets. RHM Europe also produces frozen bake off from five plants in France. The benefit of frozen bake off is that it allows retailers to reduce labour costs and offer a much wider range of high quality breads thus stimulating increased demand in an already fast growing market sector.

Cake

Manor Bakeries is the UK market leader in ambient cakes. The company holds the first two brand positions in its market place, with Mr. Kipling and Cadbury's cakes. The business also produces a substantial volume under its third brand Lyons and customers' own-label.

Branded Groceries

Centura Foods has been created to combine the activities of Bisto Foods, J A Sharwood and James Robertson, together with Grocery Logistics, the distribution operation, under a single management team. Centura has a portfolio of well-known, leading ambient grocery brands.

Partnerships

This fast growing core activity comprises those companies which have formed partnerships with major customers, including Marks & Spencer, McDonald's and Pizza Hut. RHM Europe supplies Marks & Spencer with a range of pies, recipe dishes, celebration cakes and seasonal products. A new £41.5 million state-of-the-art plant, dedicated to Marks & Spencer, is nearing completion in South Wales to enable RHM Europe to grow its business with this important partner.

RHM Europe's Golden West business is the major supplier to McDonald's UK restaurants and also their sole distributor of all goods. Golden West's sales growth has mirrored McDonald's success.

RHM Europe now supplies over 1,000 Pizza Hut restaurants across Europe, with manufacturing in the UK and France. The manufacturing process was developed by RHM Europe and is exclusive to Pizza Hut. It gives that company greater flexibility and lower operating costs at its restaurants.

Food Ingredients

This division combines the activities of RHM Europe's operations supplying the food manufacturing industry with specialist food ingredients. The product range extends across coating systems, preserves, colours and bakery ingredients.

Food Products

RHM Europe's food products division also manufactures complementary products for the

foodservice, frozen and Irish markets, leveraging its brand portfolio into these channels.

Warburg Dillon Read is acting as financial adviser to Tomkins.

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