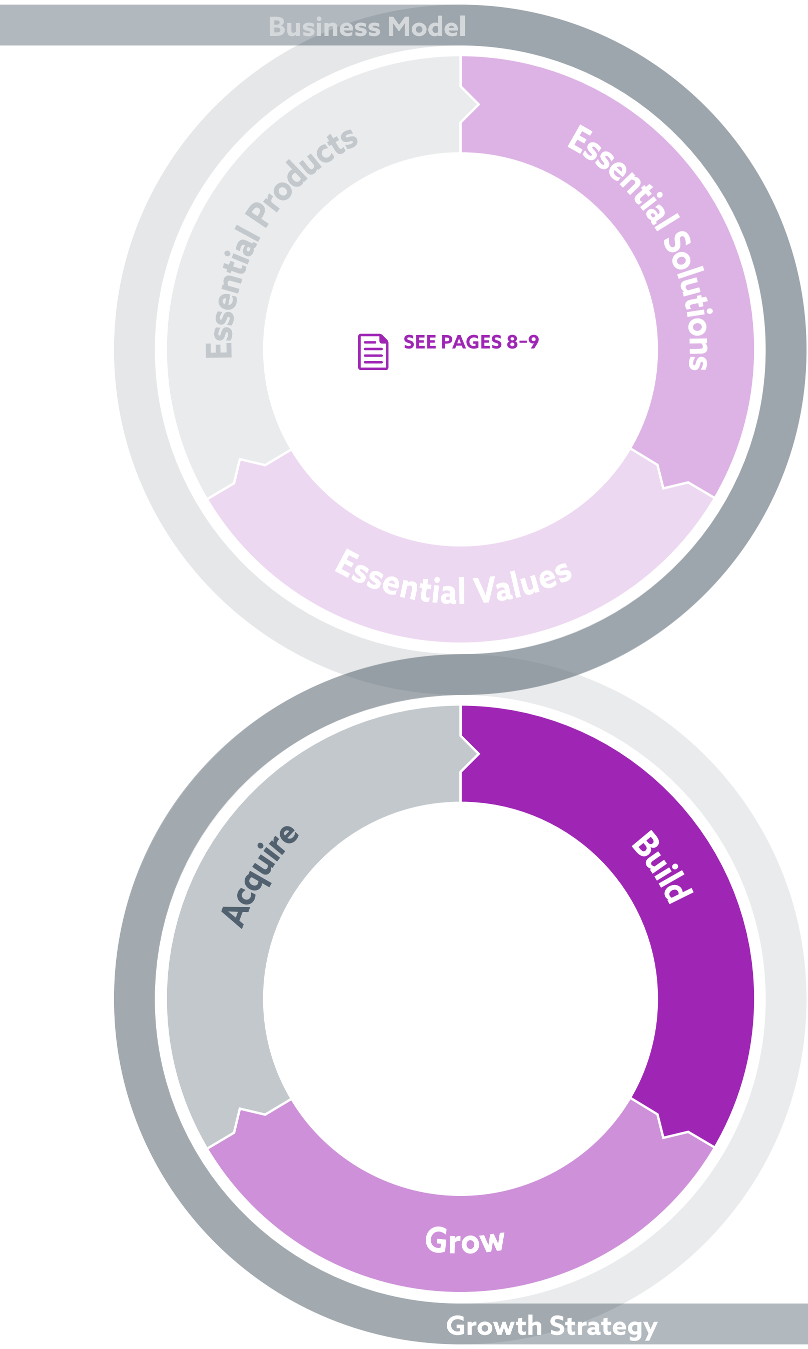
Growth Strategy

Delivering strong, double-digit growth



What we put in

Acquire

Clear business criteria have been established to guide the Group's acquisition programme:

- Fit with the Group's business model
- Marketing led with strong customer relationships
- Secure supply of high quality, differentiated products
- Capable management

The principal financial criteria are:

- Track record of stable, profitable growth and cash generation
- Exceed post-tax IRR threshold of 13% to ensure 20%+ pre-tax return on investment

Build

Acquisitions are intended to give entry into new but related markets and thereby extend the reach of the existing businesses and bring new growth opportunities.

The acquisitions we make are of businesses which are already successful and with a good track record. However, these businesses have typically reached the point where additional resources are needed to take them to the next level of growth.

Working with the management, we provide the investment required to build a solid foundation to allow the business to move to a new level of growth. The investment we make in new acquisitions will normally be in new facilities and IT systems, increased but better managed working capital and additional management resource.

Grow

Once the acquisition is integrated into the Group, with a solid platform established, the focus is on delivering stable, profitable growth.

The results of the Acquire, Build, Grow strategy can be seen in the improving revenue growth and operating margins post acquisition.

What we get out

The Group applies a consistent level of effort and resources to identifying and developing acquisition opportunities. However, the output in terms of acquisitions completed, ebbs and flows depending on the acquisition environment.

To achieve the Group's objective of strong double digit growth, acquisition spend of ca.£30m p.a. is targeted.

Over the last three years, this target has been met, with a total of ca.£90m invested in acquisitions. These acquisitions have contributed 20% of 2016 Group revenues.

Except in the case of smaller bolt-on acquisitions, the acquired companies maintain their distinct sales and marketing identity and strong independent management teams.

Where there are opportunities for synergies with other Group businesses, these are managed in larger business clusters.

Typically synergies within the business clusters come in the following areas:

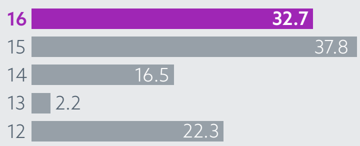
- Cross-selling between the businesses
- Joint purchasing between the businesses
- Shared operational infrastructure and shared back-office functions

By the third year post-acquisition, organic revenue growth for the acquired businesses is typically higher than the Group average and operating margins have improved by 200-300bps on average.

These improvements in financial performance ensure that the Group creates value through its acquisition programme and maintains ROATCE above the 20% threshold.

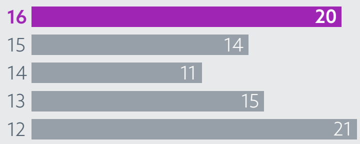
KPIs

Acquisition spend (£m)



£22m p.a.
Five-year average

Revenue from acquisitions (%)



Percentage of revenue from acquisitions completed over the last (rolling) three years

16%
Five-year average

Adjusted operating margin (Δbps)

Improvement in adjusted operating margin of acquired businesses three years after acquisition

200–300bps

ROATCE (%)

25%
Five-year average

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www.diplomaplc.com/investor-relations.aspx