

**DIPLOMA PLC**

# Half year results and COVID-19 update

Half year ended 31 March 2020



**Consistently delivering value**

# Agenda

**01** Overview and COVID-19 update

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**02** Financial results

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**03** Business review and strategy

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**04** Summary and outlook

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**05** Q&A

# Half year results

Robust growth with good contribution from acquisitions

Constant currency revenue growth	Underlying revenue growth	Adjusted operating margin	Adjusted EPS	Available liquidity
<b>+10%</b>	<b>+1%</b>	<b>17.6%</b>	<b>+6%</b>	<b>£66m</b>

**Another strong Diploma performance**

# COVID-19 impact

- Group revenue since H1 remains reasonably resilient, down ca. 16% in April vs. last year
  - Underlying revenue fell by ca. 28%
  - Strong contribution of ca. 11% from acquisitions
- Life Sciences seeing greatest impact but Healthcare revenues deferred not lost
- Resilience in Seals/Controls driven by diversity of end segment
- Most challenging end segment is Civil Aerospace (ca. 6% of Group)
- Lockdowns affecting industrial order levels across Seals/Controls
- Outlook remains uncertain but resilient business model

Resilient business model responding to COVID-19 challenges...

# Resilient business model

- **Essential, value-add** products and services
- **Decentralised structure:** accountable, agile leadership
- Strong positions in **attractive markets**
- **Well diversified** by customer and end market
- **Critical** to customer needs
- Serving into **opex budgets** rather than capex
- Cash generative business, strong **balance sheet**

A strong foundation to manage the crisis...

# COVID-19 response

## GOVERNANCE

Policy and guidelines to support rapid local business responses

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Aligned and agile decision-making with shared learnings

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## FINANCIAL MANAGEMENT

Frozen discretionary and capex spend; driving working capital improvements

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Robust balance sheet and significant liquidity

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## WORKFORCE MANAGEMENT

Prioritising employee wellbeing and job preservation

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Flexing working practices to manage our overheads

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## SOCIAL RESPONSE

Group-wide “Making a Difference” initiative launched

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Colleagues, Customers, Communities focus

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# Financial Results

# Financial Highlights

Robust performance, softened by COVID-19 pandemic

- Underlying revenue growth of 1%
- Adjusted operating margin broadly unchanged
- Strong free cash flow of £21.8m
- Net bank debt of £29.9m; 0.2x EBITDA
- ROATCE well ahead of threshold 20%

Revenue



**£283.6m**

2019: £260.4m

**+9%**

Adjusted operating profit



**£49.9m**

2019: £45.6m

**+9%**

Adjusted operating margin



**17.6%**

2019: 17.5%

**+10bps**

Free cash flow



**£21.8m**

2019: £14.0m

**+56%**

Net bank debt

**£29.9m**

0.2x EBITDA

ROATCE



**22.0%**

2019: 24.2%



# Profit before tax

Half Year ended 31 March

	2020 £m	2019 £m	
<b>Revenue</b>	<b>283.6</b>	260.4	+9%
<b>Adjusted operating profit</b>	<b>49.9</b>	45.6	+9%
<i>Adjusted operating margin (%)</i>	<i>17.6%</i>	17.5%	
<b>Interest expense</b>	<b>(1.5)</b>	(0.1)	
<b>Adjusted profit before tax</b>	<b>48.4</b>	45.5	+6%
<b>Profit on disposal of property</b>	<b>1.1</b>	-	
<b>Acquisition related charges</b>	<b>(7.7)</b>	(5.5)	
<b>Fair value remeasurements</b>	<b>(0.2)</b>	0.1	
<b>Statutory profit before tax</b>	<b>41.6</b>	40.1	+4%
<i>Group effective adjusted tax rate</i>	<i>24.0%</i>	23.7%	+30bps
<b>Adjusted earnings per share</b>	<b>32.3p</b>	30.5p	+6%
<b>Statutory earnings per share</b>	<b>27.4p</b>	26.4p	+4%

# Free cash flow

Half Year ended 31 March

	2020 £m	2019 £m	
<b>Adjusted operating profit</b>	<b>49.9</b>	45.6	
Depreciation	6.0	2.6	
Increase in working capital	(13.1)	(16.9)	
Previous CEO transition costs paid	-	(1.3)	
Pension and share schemes, net	0.2	0.1	
<b>Operating cash flow, before acquisition expenses</b>	<b>43.0</b>	30.1	+43%
Interest paid, net	(0.7)	(0.1)	
Tax paid	(13.1)	(9.6)	
Capital expenditure	(6.4)	(3.5)	
Proceeds from sale of property and investment	5.1	-	
Lease repayments	(3.6)	-	
EBT – share scheme funding	(2.5)	(2.9)	
<b>Free cash flow</b>	<b>21.8</b>	14.0	+56%
<i>Cash conversion</i>	<b>60%</b>	41%	

# (Net bank debt)/cash funds

Half Year ended 31 March

	2020 £m	2019 £m
<b>Free cash flow</b>	<b>21.8</b>	14.0
Acquisition cash paid	(13.6)	(6.4)
Deferred consideration paid	-	(1.1)
Proceeds from borrowings, net	14.0	-
Dividends paid	(23.4)	(20.5)
	(1.2)	(14.0)
Increase in bank borrowings	(14.0)	-
Exchange and other adjustments	0.4	-
(Net bank debt)/cash funds brought forward	(15.1)	36.0
<b>(Net bank debt) / cash funds</b>	<b>(29.9)</b>	22.0
Comprising:		
Cash funds	25.9	22.0
Bank debt	(55.8)	-

# Liquidity

- Available liquidity of ca. £66m; cash funds at 31 March £25.9m + undrawn committed RCF £40m expires in June 2022
- Borrowings at 31 March include Term Loan of £35.8m repayable in July 2021; option to extend to July 2022
- Cash collected in April 2020 of ca. £55m; ca. 63% of outstanding receivables at 31 March
- Available liquidity at 30 April increased to ca. £74m
- Net bank debt:EBITDA at 0.2x against a covenant of 2x (excluding IFRS16 Lease liabilities)
- Eligibility confirmed to HM Treasury Covid Corporate Financing Facility

Strong liquidity position

# Shareholders' funds

	31 March 2020 £m	30 September 2019 £m
Goodwill and acquisition intangible assets	254.6	251.1
Tangible and other intangible assets	31.1	29.4
Net working capital	113.8	96.6
<b>Trading capital employed - reported</b>	<b>399.5</b>	<b>377.1</b>
<i>Working capital as % of revenue</i>	17.6%	16.5%
<i>ROATCE</i>	22.0%	22.9%
Leases – right of use assets	33.0	-
Retirement benefit obligations	(17.9)	(17.8)
Acquisition liabilities	(16.1)	(11.3)
Net bank debt	(29.9)	(15.1)
Lease liabilities	(34.6)	-
Minority interests and deferred tax, net	(13.8)	(11.6)
<b>Total shareholders' funds</b>	<b>320.2</b>	<b>321.3</b>

# Current trading

## APRIL 2020 – UNDERLYING GROWTH RATES

Seals



-16%

Controls



-34%

Life  
Sciences



-39%

Acquisitions



+11%

**GROUP UNDERLYING APRIL REVENUE: -28%**

**GROUP ACTUAL APRIL REVENUE: -16%**

## CONVERSION

**Group drop  
through, after  
mitigating  
actions**

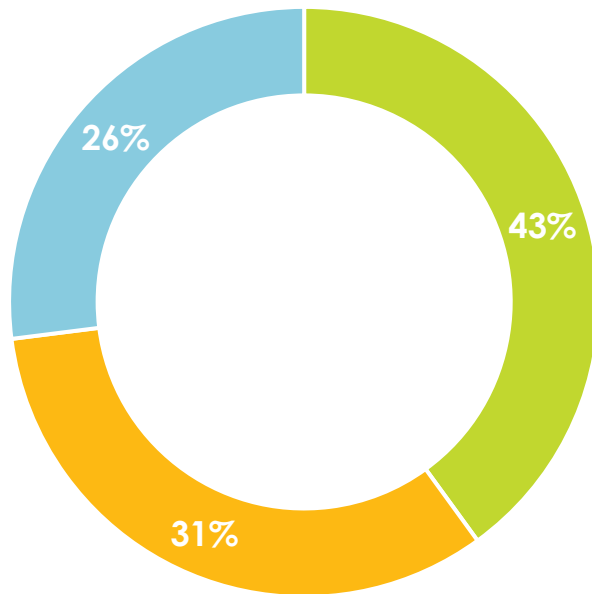
**25%**

# Business Review and Strategy

# The Group

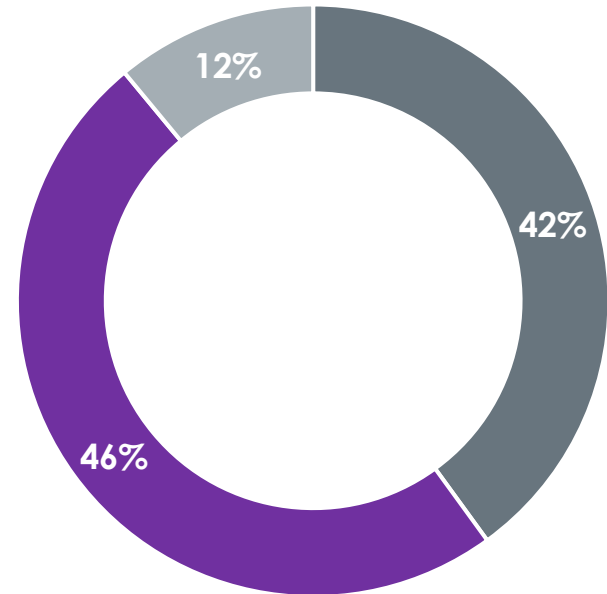
Well diversified by Sector and geography

Revenue by Sector



■ Seals ■ Controls ■ Life Sciences

Revenue by geography\*



■ North America ■ Europe ■ Rest of World

\*by destination



# Strategy Overview

- Focussed on five core business model competencies for success at scale
- Talent development a priority, now embedded in local business management
- Technology capability developing with care
- New facility in Louisville on track to be fully operational in calendar year
- Creating informal networks for sharing best practice
- Five successful acquisitions in last 12 months and strengthening the pipeline
- Sector strategies progressing well...

Good strategic progress in H1



# Seals

Further progress despite softer industrial markets

Half year ended 31 March	2020	2019	
Revenue	£123.0m	£102.4m	+20%
Adjusted operating profit	£20.1m	£17.1m	+18%
Adjusted operating margin	16.3%	16.7%	-40bps

## SECTOR PERFORMANCE

- Softer industrial markets driving broadly flat underlying revenues
- NA Aftermarket businesses strong
- Challenging industrial markets in North America and Europe impacted Industrial OEM
- Strong contribution from acquisitions



## COVID-19 IMPACT

- Lockdown impacting Aftermarket
- Industrial OEM robust but later impact
- Diversity of end market supports resilience

## STRATEGIC PROGRESS

- New facility in Louisville progressing well
- VSP Technologies trading ahead of expectations
- DMR integrating well into UK Seals



# Controls

Resilient performance despite some market challenges

Half year ended 31 March	2020	2019	
Revenue	£88.2m	£86.9m	+1%
Adjusted operating profit	£15.8m	£15.5m	+2%
Adjusted operating margin	17.9%	17.8%	+10bps

## SECTOR PERFORMANCE

- Underlying revenue flat with weaker industrial segment and lapping Brexit stocking affecting UK businesses
- Clarendon further penetration in Civil Aerospace
- Good progress in IS-Group European businesses



## COVID-19 IMPACT

- Lower construction activity and lockdown impacting CCA
- Civil Aerospace issues severely impacting Clarendon business
- Diversity of end markets supports resilience in IS-Group

## STRATEGIC PROGRESS

- Strengthened position in Germany with acquisition of CR Systems
- Integration of Cablecraft and FS Cables to create CCA
- Important progress in talent development and succession planning



# Life Sciences

Strong H1 performance with exciting post-COVID-19 potential

Half year ended 31 March	2020	2019	
Revenue	<b>£72.4m</b>	£71.1m	+2%
Adjusted operating profit	<b>£14.0m</b>	£13.0m	+8%
Adjusted operating margin	<b>19.3%</b>	18.3%	+100bps

## SECTOR PERFORMANCE

- Underlying revenue growth +2%
- Strong consumable revenues in Healthcare
- Capital revenues impacted as hospitals prepared for COVID-19 pandemic
- Strong contribution from Environmental businesses

## COVID-19 IMPACT

- Cancellation of elective surgeries
- Delays in clinical testing programmes
- Monitoring return to surgery and associated supply chain management

## STRATEGIC PROGRESS

- Product pipeline development
- New product roll-out in Canada
- Sphere Surgical performing well in Australian bariatrics segment

# Summary and Outlook

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- Robust first half performance
  - Unprecedented uncertainty of COVID-19
  - Resilient business model; strong balance sheet and liquidity
  - Decentralised model able to respond and adapt quickly to crises
  - Well prepared to return to delivering our strategy and performance objectives
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DIPLOMA PLC

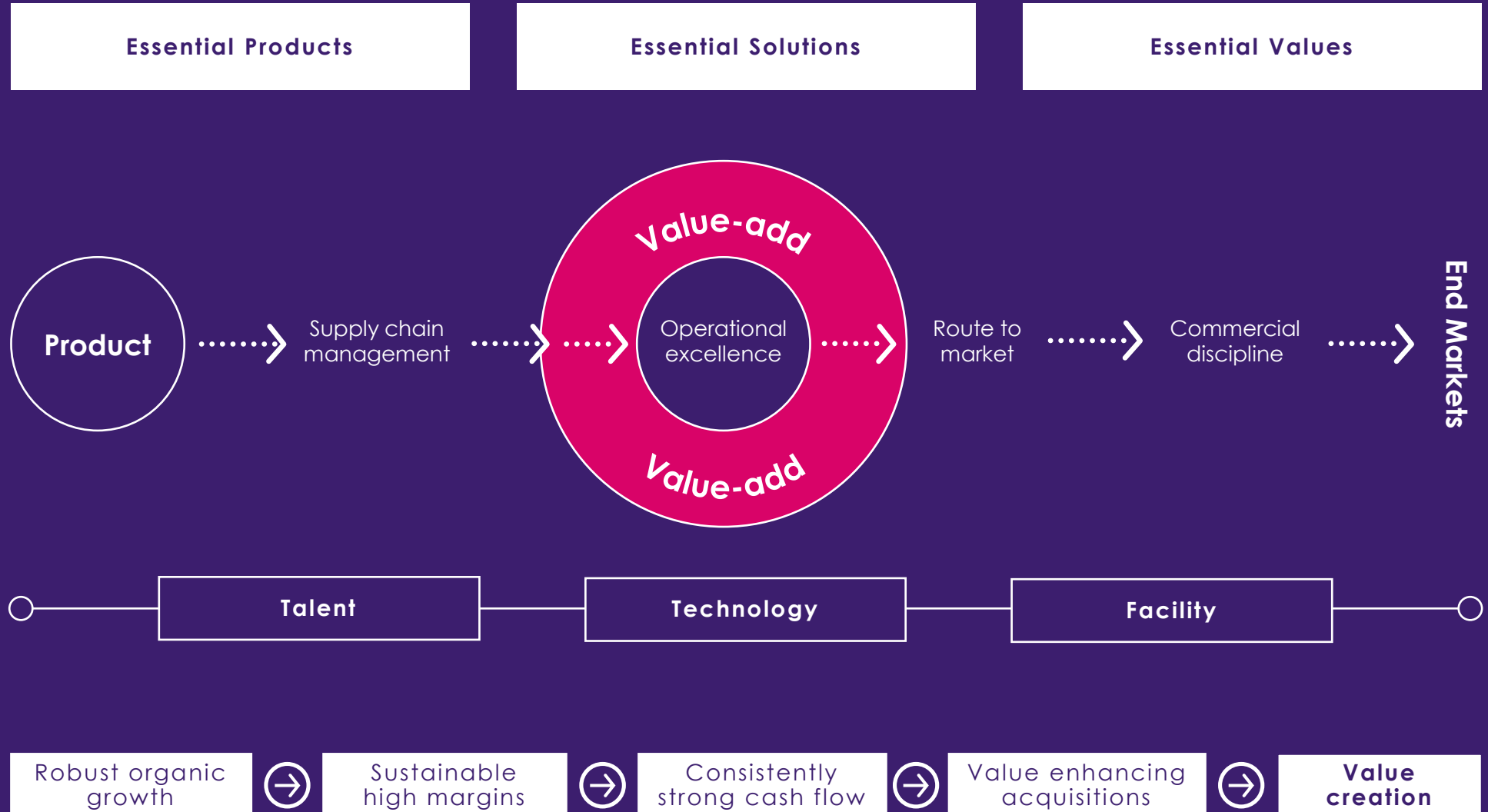
Q&A



Consistently delivering value

# Appendix

# DIPLOMA: CONSISTENTLY DELIVERING VALUE





# Value-add proposition

## Essential Products

✓ Critical to customers needs

✓ Opex budgets

✓ Range of end markets

Growth and resilience

## Essential Solutions

✓ Responsive customer service



✓ Deep technical support



✓ Added value services



Sustainable high margins

## Essential Values

✓ Decentralised model

✓ Customer-orientated

✓ Accountable for performance execution

Empowered management teams



# Life sciences

## Segmentation

### Healthcare

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**85%** of revenues

Clinical diagnostics instrumentation, consumables and services supplied to hospital pathology and life sciences laboratories for the testing of blood, tissue and other samples.

Surgical medical devices and related consumables and services supplied to hospital operating rooms, GI/ Endoscopy suites and clinics.

### Environmental

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**15%** of revenues

Environmental analysers, containment enclosures and emission monitoring systems.

### Primary growth drivers

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Public and private healthcare spending

Population ageing and increasing life expectancy

Health and Safety and Environmental Regulation





# Seals

## Segmentation

### North America Aftermarket and Industrial OEM

**49%** of revenues

Next day delivery of seals for the repair of heavy mobile machinery; and the supply of sealing products to manufacturers of specialised industrial equipment.

### International

**35%** of revenues

Sealing products and filters supplied outside North America to Aftermarket and Industrial OEM customers as well as to MRO operations.

### North America MRO

**16%** of revenues

Supplier of high quality gaskets and fluid sealing products and customized solutions to the industrial MRO markets

### Primary growth drivers

General economic growth

Activity and spending levels in Heavy Construction and Infrastructure

Growth in industrial production

MRO expenditure in Mining and Process industries

Supplies fluid sealing products to high cost failure applications





# Controls

## Segmentation

### Interconnect

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**62%** of revenues

Wiring, cable, harness components and cable accessories used in specialised technical applications in Aerospace, Defence, Motorsport, Energy, Medical, Rail and Industrial.

### Specialty Fasteners

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**23%** of revenues

Specialty aerospace-quality fasteners supplied to Civil Aerospace, Motorsport, Industrial and Defence markets.

### Fluid controls

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**15%** of revenues

Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

### Primary growth drivers

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General growth in the industrial economy

Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail

Equipment installation and maintenance in Food, Beverage and Catering



# Financial KPIs

## Five year trends

	2019	2018	2017	2016	2015
<b>Revenue</b>	£544.7m	£485.1m	£451.9m	£382.6m	£333.8m
<i>Total growth</i>	+12%	+7%	+18%	+15%	+9%
<i>Underlying growth</i>	+5%	+7%	+7%	+3%	+1%
<b>Adjusted operating margin</b>	17.8%	17.5%	17.3%	17.2%	18.1%
<b>Working capital (% revenues)</b>	16.5%	15.1%	15.0%	16.6%	17.0%
<b>Free cash flow</b>	£56.5m	£60.5m	£55.7m	£59.0m	£40.3m
<i>Free cash conversion (%)</i>	78%	95%	99%	124%	93%
<b>ROATCE</b>	22.9%	24.5%	24.0%	21.1%	23.9%

### Average over five years:

CAGR revenue growth

**12% p.a.**

Adjusted operating margin

**18%**

ROATCE

**23%**

Free cash flow conversion

**98%**

# Making a difference

Our social response is built around three key stakeholder groups:

## Colleagues

Our priority is the health, safety & wellbeing of our colleagues

- Additional safety policies and working practices
- Employee Assistance Programmes
- 20% reduction in base salary and fees for Board and Executive Team

## Customers

We continue to support our customers & suppliers

- All Diploma businesses are open and operational
- Actively managing levels of inventory and supply
- Supplying COVID-19 critical products, including PPE and parts for ventilators

## Communities

Make a difference in our local communities

- 10,000 N-95 face shields donated
- 12,000 meals donated
- PPE given to local hospitals and care homes
- Many more initiatives across the businesses



# DIPLOMA PLC

## **Johnny Thomson**

Chief Executive Officer

## **Nigel P Lingwood**

Group Finance Director

Tel: +44 (0) 20 7549 5700  
Email: [investors@diplomapl.com](mailto:investors@diplomapl.com)  
Web: [www.diplomapl.com](http://www.diplomapl.com)

12 Charterhouse Square  
London EC1M 6AX

### **Tulchan Communications**

Martin Robinson  
Olivia Peters  
Guy Bates

Tel: +44 (0) 20 7353 4200  
Email: [diploma@tulchangroup.com](mailto:diploma@tulchangroup.com)

## **Consistently delivering value**

