
Half Year Announcement

Six months ended 31 March 2013

13 May 2013

DIPLOMAPLC



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LIFE SCIENCES

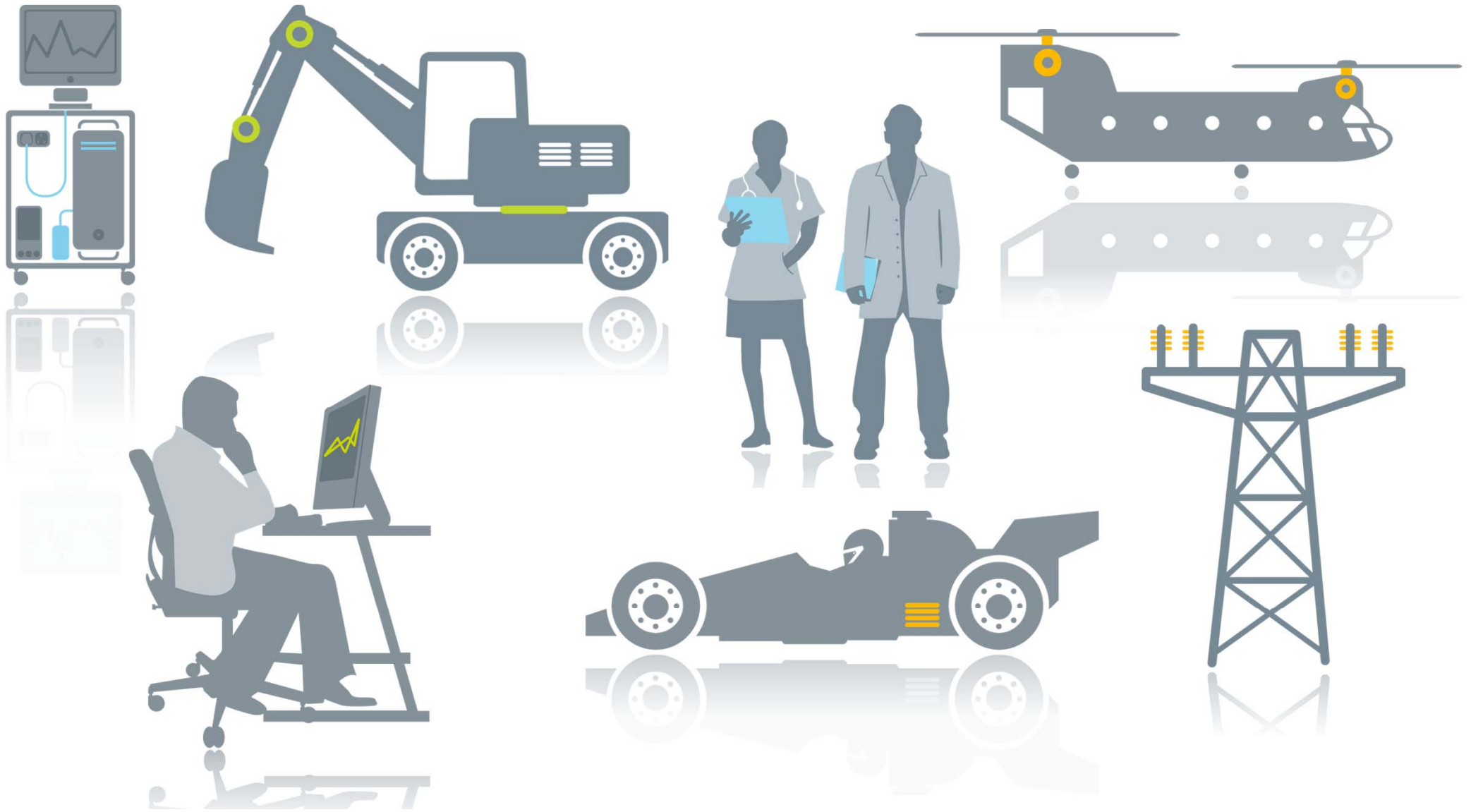


SEALS



CONTROLS

1. Group Overview



Group Overview - Sectors

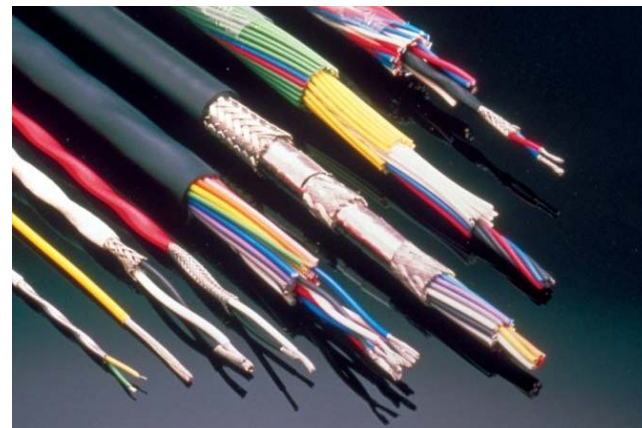
Diploma PLC is an international group of specialised businesses supplying technical products and services to the following industries:



34%
of revenues



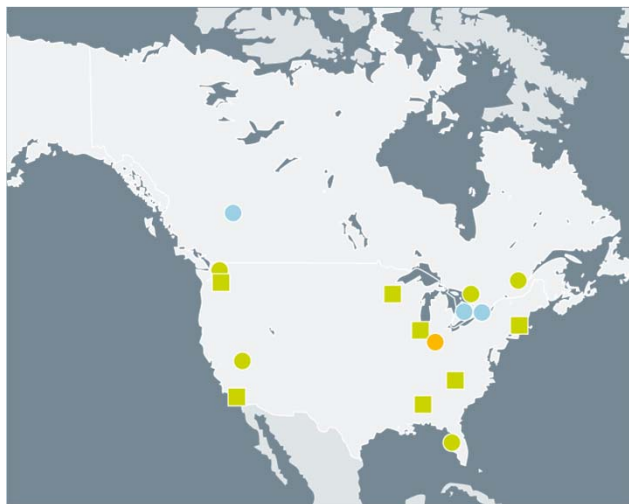
36%
of revenues



30%
of revenues

A BALANCED AND DIVERSE PORTFOLIO OF BUSINESSES BY SECTOR

Group Overview - Geography



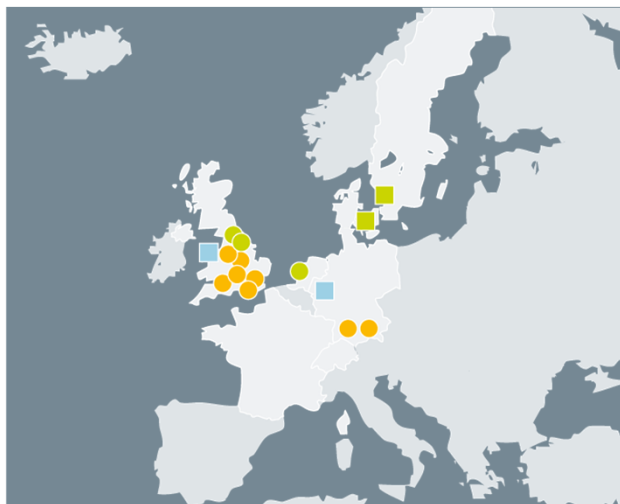
North America

53%

of revenues¹

26% US

27% Canada



Europe

38%

of revenues¹

22% UK

16% Continental Europe



Rest of World

9%

of revenues¹

Life Sciences Seals Controls
 ● Healthcare ● Aftermarket ● Controls
 ■ Environmental ■ Industrial OEM

¹By destination

Our Business Model

Essential Products

= recurring income and stable revenue growth

- > Focus on essential products and services
- > Funded by customers' operating rather than capital budgets
- > "GDP plus" organic revenue growth

Essential Solutions

= sustainable and attractive margins

- > Highly responsive customer service
- > Deep technical knowledge and support
- > Value adding activities

Essential Values

= agility and responsiveness

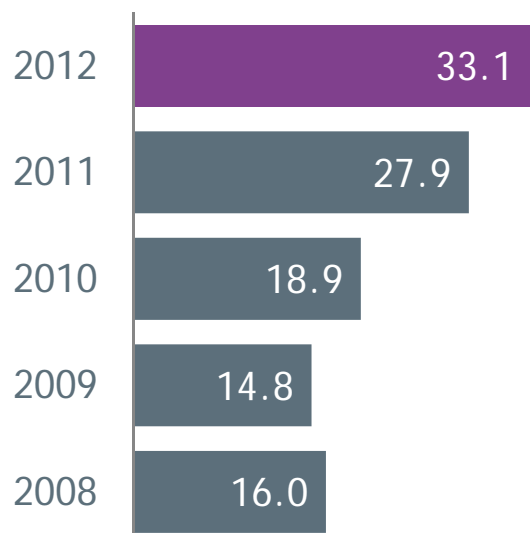
- > Entrepreneurial culture
- > Decentralised management model
- > Decisions made close to the customer

STEADY ORGANIC REVENUE GROWTH AND SUSTAINABLE MARGINS

Principal Corporate Objectives

EPS growth

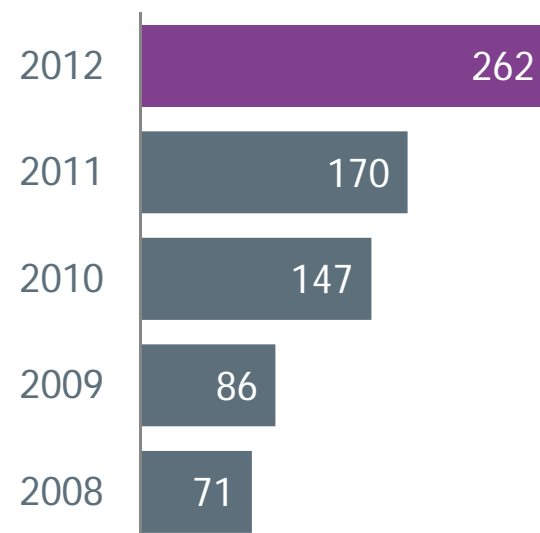
+20% p.a.



Adjusted EPS in pence

TSR growth

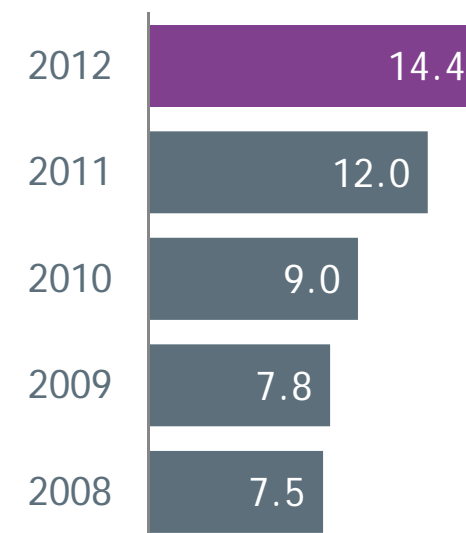
+21% p.a.



TSR index, end Sept 2007 = 100

Dividend growth

+22% p.a.



Dividends in pence

TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS

Financial KPIs

Five Year Trends

	2008	2009	2010	2011	2012
Revenue	£156.2m	£160.0m	£183.5m	£230.6m	£260.2m
<i>Total growth</i>	+25%	+2%	+15%	+26%	+13%
<i>Organic growth</i>	+8%	-12%	+11%	+17%	+6%
Operating margin	17.0%	16.0%	17.5%	19.6%	20.3%
Working capital (% revenues)	17.2%	17.6%	15.4%	16.1%	16.5%
ROTCE	22.4%	19.0%	22.1%	25.4%	26.6%
Free cash flow	£17.7m	£23.5m	£29.8m	£25.0m	£32.7m
<i>% of PAT</i>	93%	131%	131%	78%	87%

Over five years:

CAGR REVENUE
GROWTH

16% p.a.

OPERATING
MARGINS

18%

ROTCE AVERAGE

23%

FCF CONVERSION
AVERAGE

100%

2. Summary of Half Year Results



Summary of Half Year Results

Six months ended 31 March

	2013	2012	
Revenue	£139.7m	£127.1m	+10%
Adjusted operating profit	£27.0m	£26.4m	+2%
Adjusted operating margin	19.3%	20.8%	
Adjusted profit before tax	£26.9m	£26.2m	+3%
Free cash flow	£12.1m	£9.7m	+25%
Adjusted earnings per share	17.0p	16.1p	+6%
Interim dividend per share	5.0p	4.2p	+19%

Financial Highlights

- > Revenue increased by 10% to £139.7m; underlying revenue increased by 2% after adjusting for currency and acquisitions
- > Adjusted operating margin of 19.3% - in line with expectations and reflecting impact of Investment for Growth programme
- > Adjusted PBT increased by 3% to £26.9m; Adjusted EPS increased by 6% to 17.0p, reflecting lower effective tax rate
- > Free cash flow increased by 25% to £12.1m despite higher capex from on-going investment programme; net funds of £7.3m at end of March
- > Interim dividend increased by 19% to 5.0p per share - rebalances total dividend between interim and final

Operational Highlights

- > Strong performance from Life Sciences, particularly Healthcare
- > Modest growth in Seals against very strong comparatives
- > Challenging conditions in Europe for Controls; small reduction in underlying revenues
- > Positive contributions from new businesses acquired last year:
 - > Seals: J Royal in the US
 - > Controls: Amfast and Abbeychart in the UK
 - > Life Sciences: DSL in Australia
- > Investment for Growth programme - continued investment in facilities, IT infrastructure and management

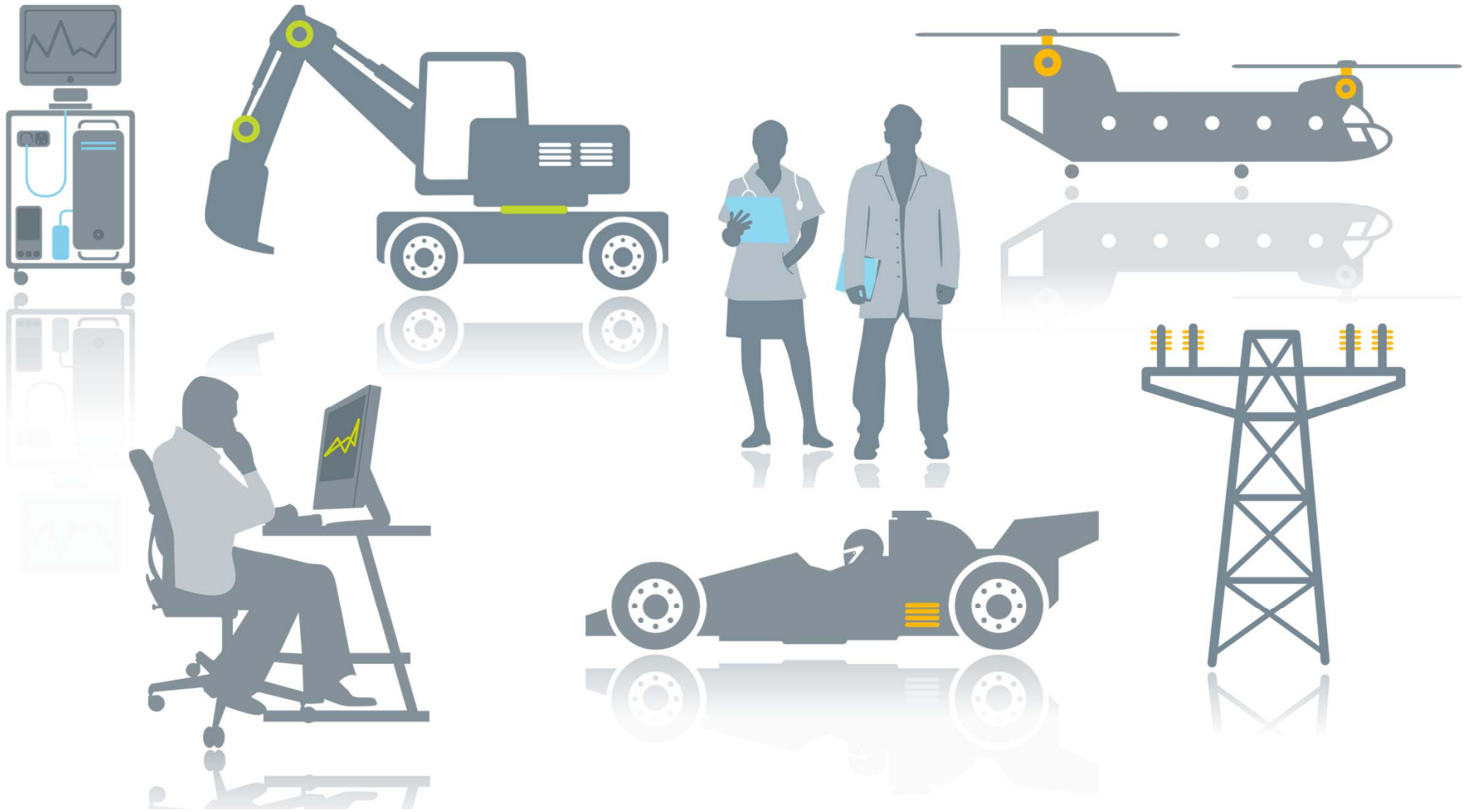
Investment for Growth Programme

- > At end of half year, £3.3m of planned £5m investment made in facilities and IT
- > Additional management resource now in place in major businesses and at Group - adds £1m to operating costs
- > Continue to expect overall impact of investment programme on operating margins of 50-100bps

	Cash investment (£m)			
	2012	2013	2014	Total
Facilities	1.5	1.6	-	3.1
IT infrastructure	0.2	0.9	0.8	1.9
	1.7	2.5	0.8	5.0
Additional management resources	0.4	0.9	1.0	
Estimated impact on adjusted operating profit	1.0	1.5	1.7	

INVESTING TO SUPPORT SUSTAINABLE GROWTH FOR THE NEXT 5 YEARS

3. Financial Results



Profit Before Tax

Six months ended 31 March

	2013 £m	2012 £m	
Revenue	139.7	127.1	+10%
Adjusted operating profit	27.0	26.4	+2%
<i>Operating margin</i>	<i>19.3%</i>	<i>20.8%</i>	
Net interest expense	(0.1)	(0.2)	
Adjusted profit before tax	26.9	26.2	+3%
Acquisition related charges	(2.8)	(2.7)	
Fair value remeasurements	(0.3)	(0.2)	
IFRS profit before tax	23.8	23.3	+2%

Underlying Results

Six months ended 31 March

		Revenue £m	Adjusted operating profit £m
As reported - HY2013		139.7	27.0
Forex	Translation & transaction	-	-
		139.7	27.0
Acquisitions	Rayquick	(0.5)	(0.1)
	J Royal, Abbeychart, Amfast and DSL	(9.9)	(1.3)
Swiss divestment		0.8	-
		130.1	25.6
Increase/(decrease) in underlying results		2%	-3%
As reported - HY2012		127.1	26.4

Taxation

Six months ended 31 March

	2013 £m	2012 £m	
Adjusted profit before tax	26.9	26.2	
IFRS taxation	(7.1)	(7.5)	
Adjustments	(0.5)	(0.4)	
Adjusted tax	(7.6)	(7.9)	
<i>Effective adjusted tax rate</i>	28.3%	30.2%	
Earnings per share			
Adjusted	17.0p	16.1p	+6%
Basic (IFRS)	14.7p	13.9p	+6%

Free Cash Flow

Six months ended 31 March

	2013 £m	2012 £m	
Adjusted operating profit	27.0	26.4	
Depreciation	1.2	1.0	
Working capital	(4.2)	(7.4)	
Pension and share schemes, net	0.4	0.3	
Operating cash flow	24.4	20.3	+20%
Interest paid, net	(0.2)	(0.2)	
Taxation	(8.9)	(8.7)	
Capital expenditure	(2.6)	(1.7)	
Purchase of own shares by EBT	(0.6)	-	
Free cash flow	12.1	9.7	+25%

Net Funds

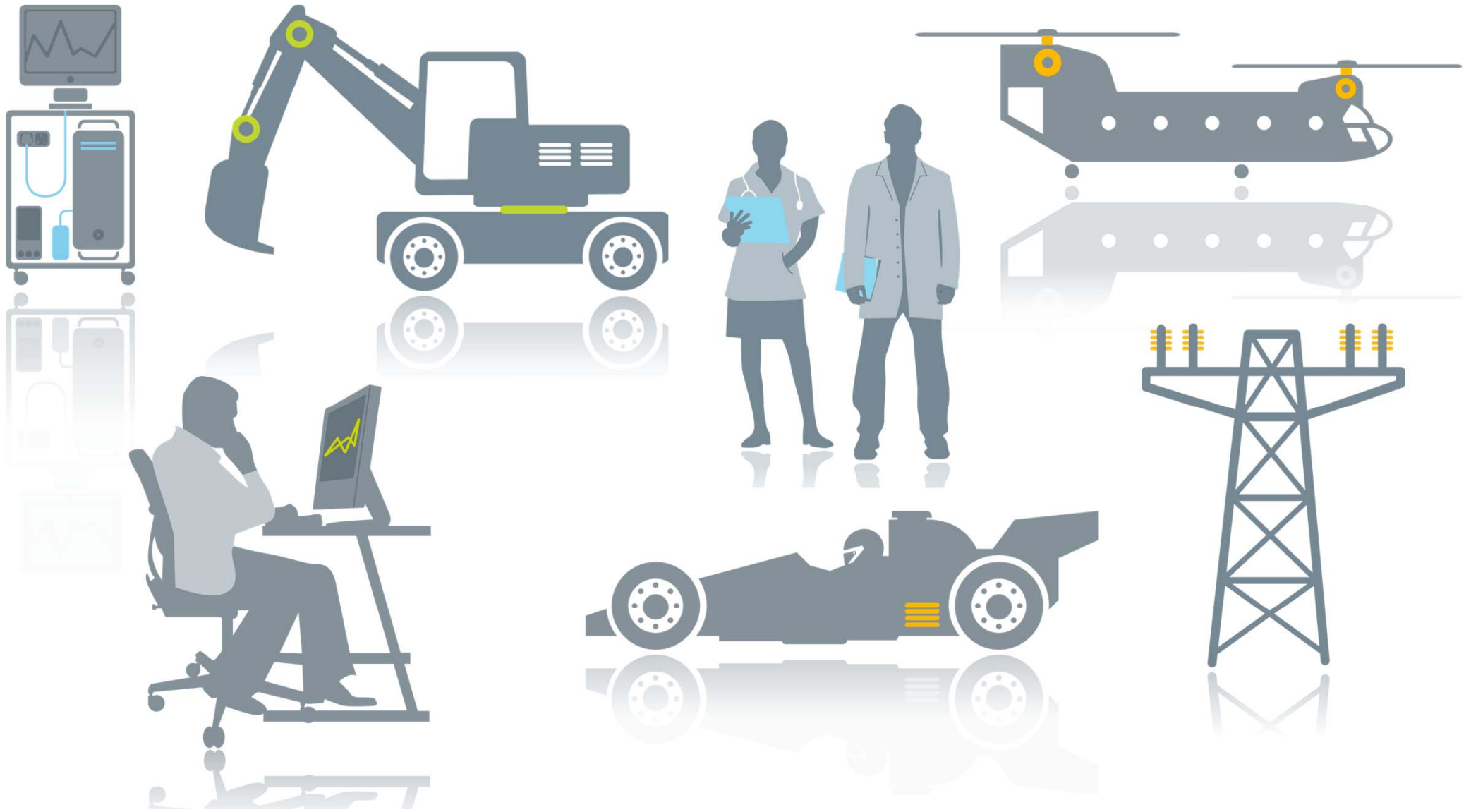
Six months ended 31 March

	2013 £m	2012 £m
Free cash flow	12.1	9.7
Acquisition cash paid	(1.5)	(14.7)
Deferred consideration	-	(0.8)
Dividends	(11.7)	(9.6)
	<u>(1.1)</u>	<u>(15.4)</u>
Net funds brought forward	7.9	12.2
Exchange adjustments	0.5	0.2
Net funds	<u>7.3</u>	<u>(3.0)</u>
<i>Comprising:</i>		
Cash funds	14.3	11.7
Borrowings	<u>(7.0)</u>	<u>(14.7)</u>

Shareholders' Funds

	31 Mar 2013 £m	30 Sept 2012 £m
Goodwill	83.1	79.8
Acquisition intangible assets	31.4	32.2
Investment	0.7	0.7
Tangible assets	14.7	13.0
	<u>129.9</u>	<u>125.7</u>
Net working capital	52.6	44.4
Trading capital employed	182.5	170.1
Retirement benefit obligations	(5.1)	(5.4)
Deferred tax, net	(1.5)	(1.6)
Future purchases of minorities	(2.9)	(3.2)
Deferred consideration	(0.9)	(0.6)
Net funds	7.3	7.9
	<u>179.4</u>	<u>167.2</u>
less: minority interests	(1.4)	(1.4)
Total shareholders' equity	178.0	165.8

4. Business Review and Outlook



Our Sectors

Revenue by Sector and Destination



LIFE SCIENCES

34% of group revenues

300 employees

72% Canada

15% Europe

13% Rest of World



SEALS

36% of group revenues

513 employees

77% North America

13% Europe

10% Rest of World



CONTROLS

30% of group revenues

315 employees

58% UK

34% Europe

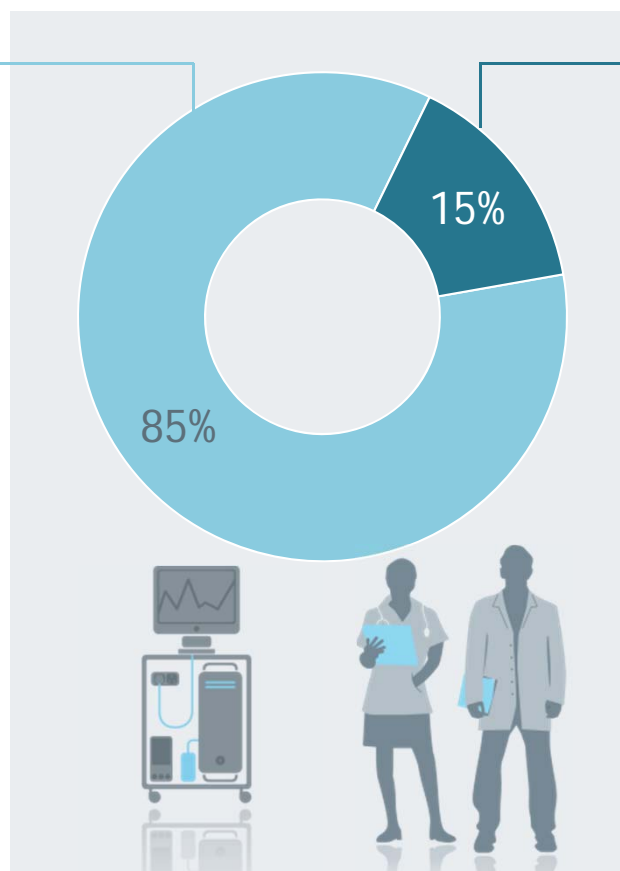
8% Rest of World

Life Sciences

Segmentation

Healthcare

Diploma Healthcare Group ("DHG") supplies medical devices and related consumables and services to the healthcare industries in Canada and Australia



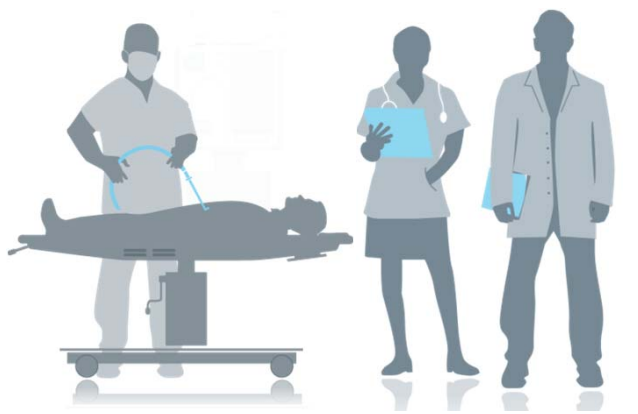
Environmental

The a1-group supplies environmental analysers, containment enclosures, emissions monitoring systems and gas detection devices

85% OF REVENUES FROM STEADILY GROWING HEALTHCARE MARKETS

Life Sciences

Operating Results

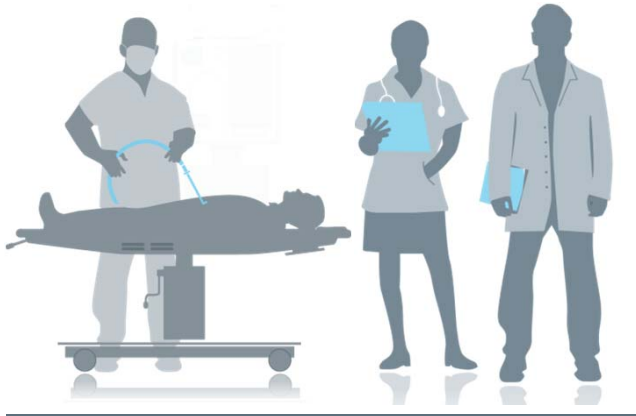


Six months ended 31 March	2013	2012	
Revenue	£46.7m	£39.7m	+18%
Operating profit	£11.0m	£9.3m	+18%
Operating margin	23.6%	23.4%	

- > DHG revenue growth of 14% in Canadian dollars and UK sterling after adjusting for acquisition of DSL in 2012
- > Environmental revenue growth of 11% after adjusting for currency and divestment of small Swiss operation in May 2012

Life Sciences

Sector Developments



- > Steady growth in consumable and service sales in core **Healthcare** businesses in Canada
- > Significant progress in new AMT Surgical division - addition of new suppliers has given access to new growth segments
- > Vantage benefited from investments last year and delivered strong performance - moved to new, larger facility in Q1
- > In Australia, major new supplier added at DSL shortly after acquisition; BGS operations and back office integrated into DSL
- > Good progress in **Environmental** businesses with strong contribution from a1-envirosciences

Seals

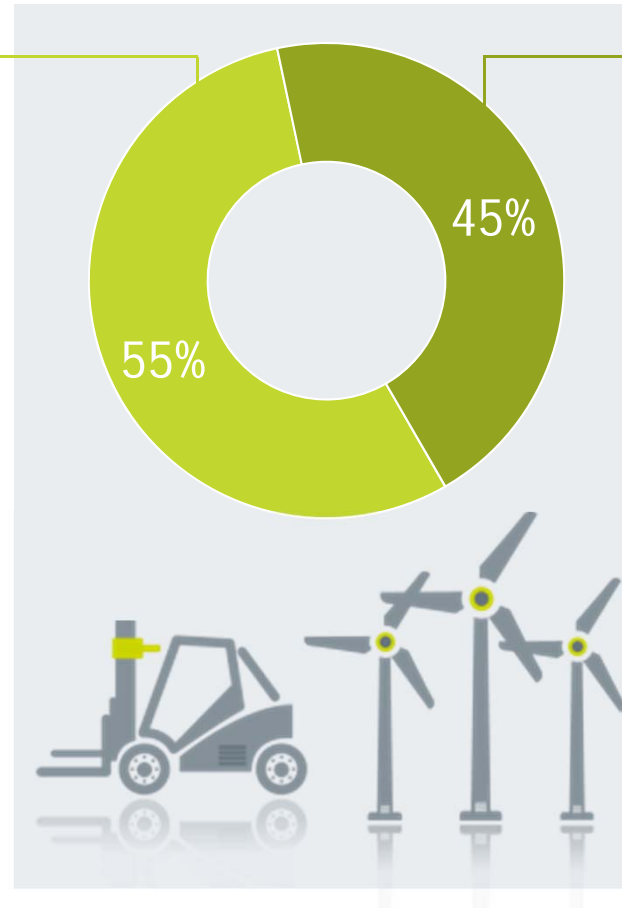
Segmentation

Aftermarket

Next day delivery of seals, seal kits, O-rings, gaskets and cylinder components for the repair of **heavy mobile machinery**

Industrial OEMs

Supply of seals, O-rings and custom moulded and machined parts to manufacturers of **specialised industrial equipment**



TWO RESILIENT REVENUE STREAMS

Seals

Operating Results



Six months ended 31 March 2013 2012

Revenue	£50.5m	£48.0m	+5%
Operating profit	£9.1m	£9.9m	-8%
Operating margin	18.0%	20.6%	

- > Underlying Seals revenues broadly flat against very strong comparatives - 19% growth in 2012, 30% in 2011
- > Decrease in operating margin of 260 bps from planned investments and some gross margin pressure in Industrial OEMs

Seals

Sector Developments



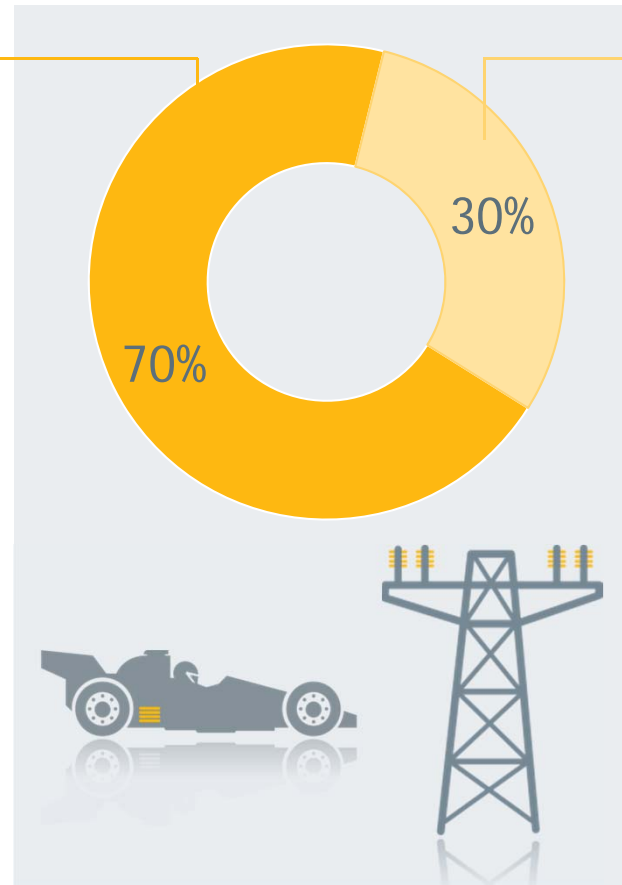
- > In the **Aftermarket** businesses, modest decrease against very strong prior year comparatives
- > Steady growth in traditional markets, but reduced sales to sub-distributors and to rental fleets
- > Performance in international markets mixed
- > In the **Industrial OEM** businesses, RT Dygert and All Seals in the US delivered steady “GDP plus” growth
- > J Royal proving a very complementary acquisition – sales resource added to broaden the customer base
- > M Seals performance varied by territory – Sweden strong, Denmark flat, China held back by consolidation in wind power

Controls

Segmentation

Interconnect

Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial



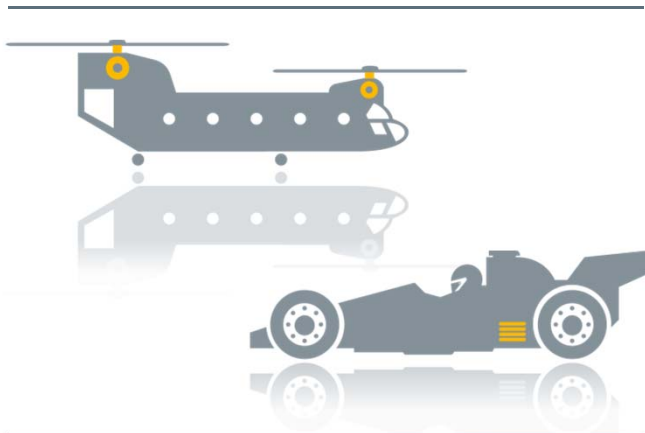
Fluid controls

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

A BROAD RANGE OF SPECIALISED, HIGH PERFORMANCE PRODUCTS

Controls

Operating Results



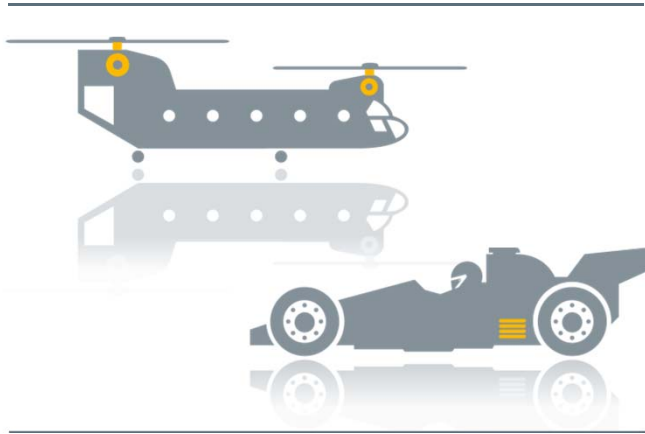
Six months ended 31 March 2013 2012

Revenue	£42.5m	£39.4m	+8%
Operating profit	£6.9m	£7.2m	-4%
Operating margin	16.2%	18.3%	

- > Underlying revenue decreased by 5% after adjusting for currency and acquisitions of Abbeychart, Amfast and Rayquick
- > Operating margins reduced by 210 basis points reflecting costs of new IS-Rayfast facility and leverage impact of reduced revenue

Controls

Sector Developments



- > The **Interconnect** businesses experienced modest decrease in revenues in challenging European markets
- > Aerospace & Defence showed continued good growth with Amfast performing well; Energy and Medical markets remain growth opportunities
- > Motorsport reduced against strong comparative and Industrial markets remain difficult
- > Reduced revenues in the **Fluid Control** businesses as major food retailers delayed larger store investments and prioritised local convenience store model
- > Abbeychart performed in line with expectations and is integrating well into the Hawco group - initial focus on expanding sales and marketing resource

Our Acquisition Growth Strategy

ACQUIRE

- > Fit with Group's business model
- > Marketing led with strong customer relationships
- > Track record of stable profitable growth and cash generation
- > Capable management
- > Target of 20% plus pre-tax ROI

BUILD

- > Investment to build a solid foundation for growth:
 - > New facilities and IT systems
 - > Increased working capital
 - > Strengthened management

GROW

- > Businesses maintain their distinct sales and marketing identity
- > Synergies managed within business clusters:
 - > Cross-selling
 - > Joint purchasing
 - > Shared back-office operations

Acquisition Developments

- > Acquisitions remain an integral part of the Group's strategy, designed to:
 - > Accelerate organic growth
 - > Extend into related strategic markets
- > Acquisition spend ebbs and flows depending on market conditions:
 - > Average ca. £16m p.a. over 5 years
 - > Highs of £32m in 2007, £28m in 2011
- > Pipeline of acquisition opportunities remains promising and is growing with additional resources
- > Transaction processes lengthened and completion of target acquisitions delayed in current uncertain economic conditions

Outlook and Prospects

Group

- > Resilient business model
- > Good geographic spread
- > Strong balance sheet and robust cash flow

Life Sciences

- > Continuing to perform strongly and to benefit from investments last year

Seals

- > Expected to make further progress against less demanding comparatives

Controls

- > Underlying trading activity continues to be challenging, while European markets remain subdued

Acquisitions

- > Pipeline remains promising and growing with additional resource
- > Uncertainty continues to slow transaction processes and delay completions

THE GROUP IS WELL PLACED TO DELIVER FURTHER PROGRESS IN THE SECOND HALF OF THE YEAR AND LONGER TERM

Contact

Bruce M Thompson
Chief Executive Officer

Tel: +44 (0) 20 7549 5700
Fax: +44 (0) 20 7549 5715
Email: investors@diplomapl.com

Nigel P Lingwood
Group Finance Director

12 Charterhouse Square
London EC1M 6AX

Tulchan Communications

David Allchurch
Martin Robinson
Tel: +44 (0) 20 7353 4200
Email: diploma@tulchangroup.com

