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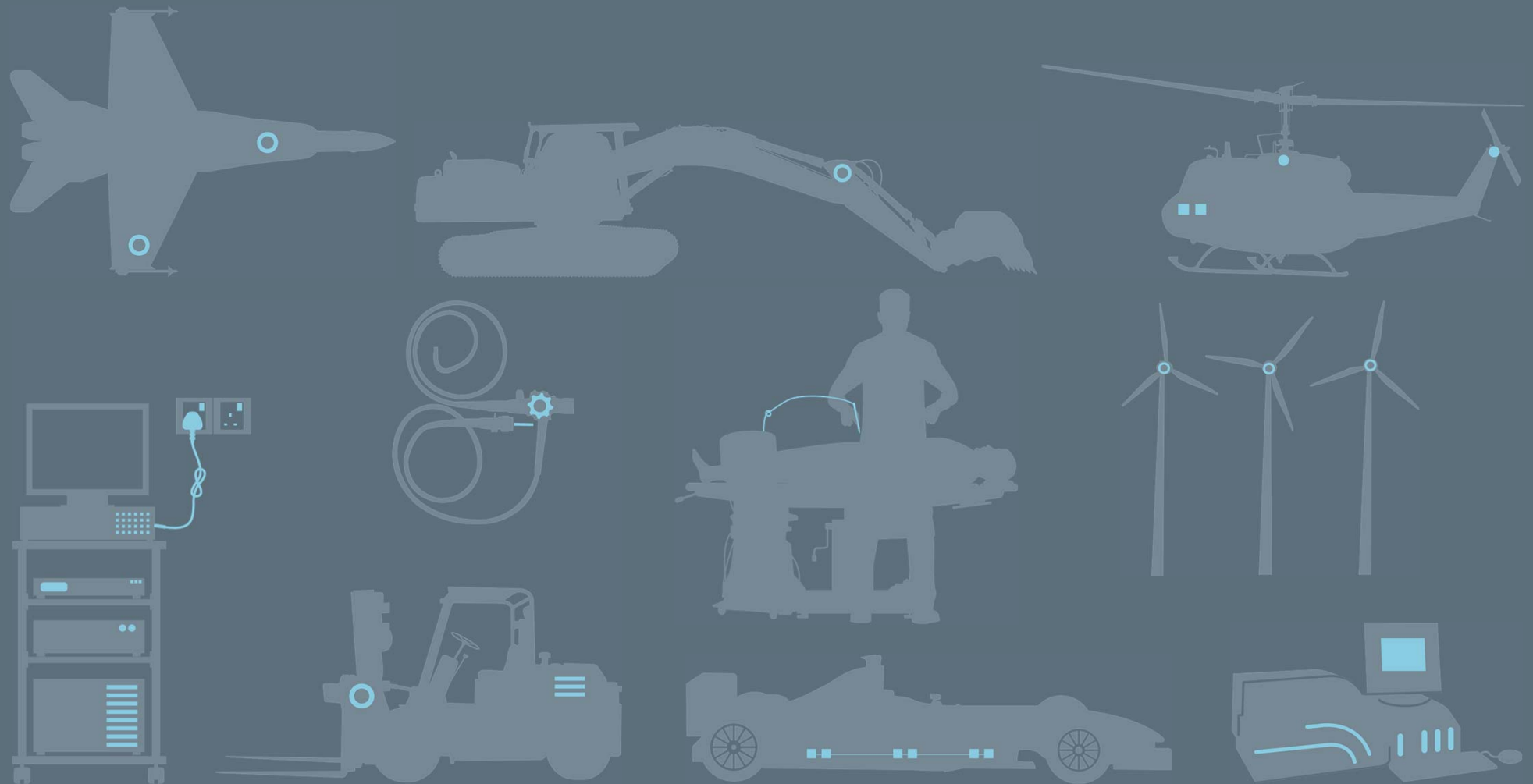
# Preliminary Announcement

Year ended 30 September 2011

21 November 2011

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DIPLOMAPLC



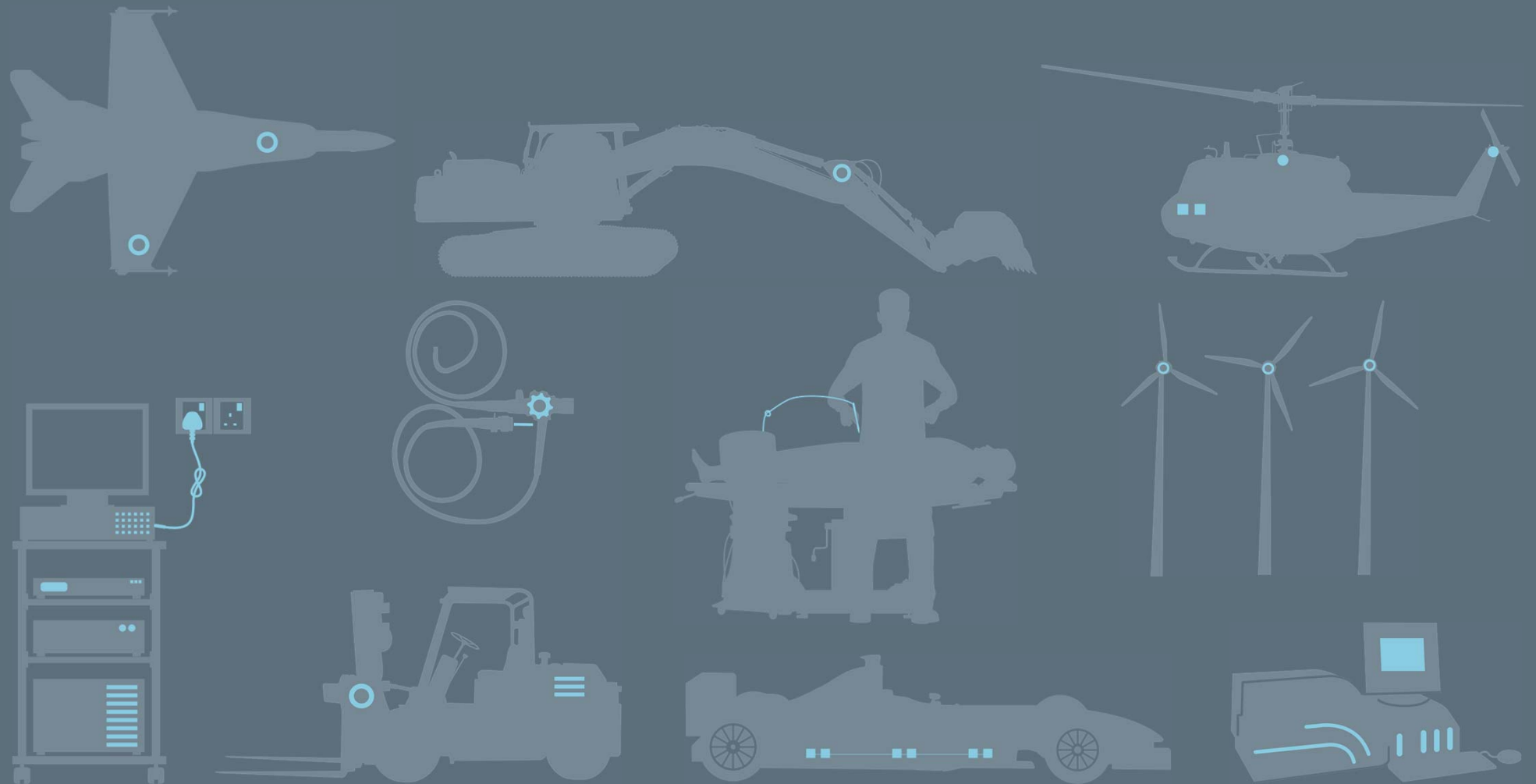
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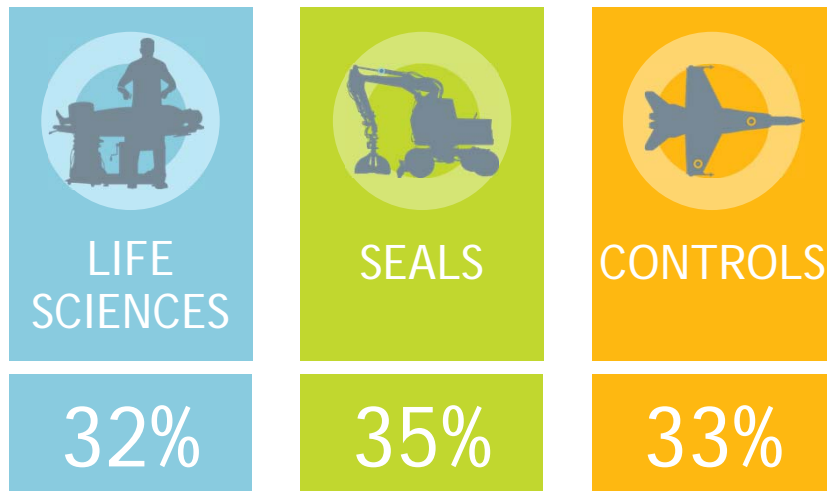


# 1. Group Overview

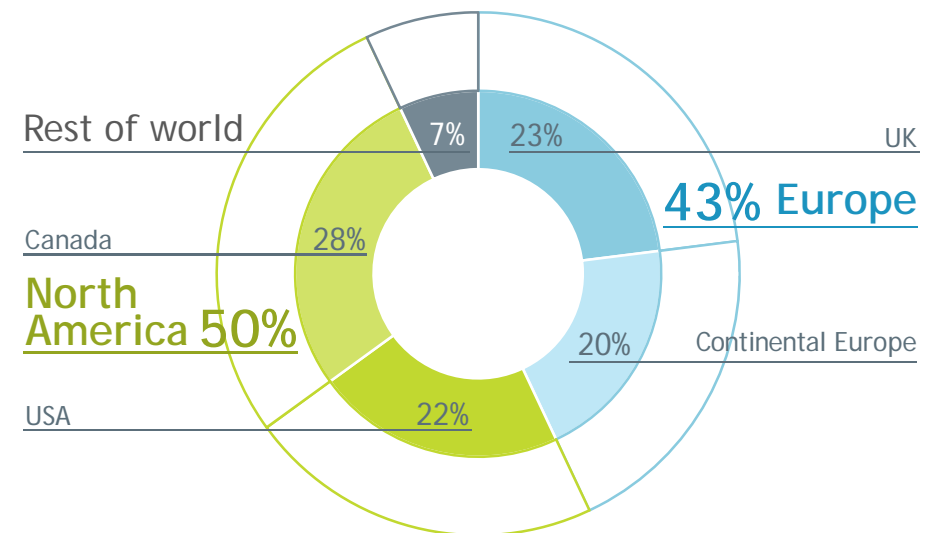


# Group Overview

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



## Revenue by Geography\*



\*By destination

# The Diploma Business Model

Essential <b>PRODUCTS</b>	Essential <b>SOLUTIONS</b>	Essential <b>VALUES</b>
<p>We focus on businesses which supply essential products and services</p> <ul style="list-style-type: none"><li>• Funded by customers' operating rather than capital budgets</li><li>• Providing recurring income and stable revenue growth</li></ul>	<p>We provide solutions designed to meet customer needs</p> <ul style="list-style-type: none"><li>• Highly responsive customer service</li><li>• Deep technical knowledge and support</li><li>• Value adding activities</li></ul>	<p>We encourage an entrepreneurial culture in our businesses</p> <ul style="list-style-type: none"><li>• Decentralised management model</li><li>• Ensures businesses are agile and responsive to change</li></ul>

WE WANT TO MAKE OURSELVES ESSENTIAL TO OUR CUSTOMERS

# The Diploma Investment Case



## GDP+ Organic Revenue Growth

We focus on essential products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues (6% p.a. organic growth\*)



## Attractive Margins

Our attractive operating margins (17-18% average\*) are sustained through the quality of customer service, the depth of technical support and value adding activities



## Acquisitions to Accelerate Growth

Carefully selected, value enhancing acquisitions accelerate the organic growth and take us into related strategic markets (acquisitions have added 10% p.a. revenue growth\*)



## Strong Cash Flow

An ungeared balance sheet and strong cash flow fund our growth strategy while providing healthy dividends



## Value Creation

We aim to create value by consistently exceeding 20% ROTCE

DELIVERED BY STRONG COMMITTED MANAGEMENT ACROSS THE GROUP

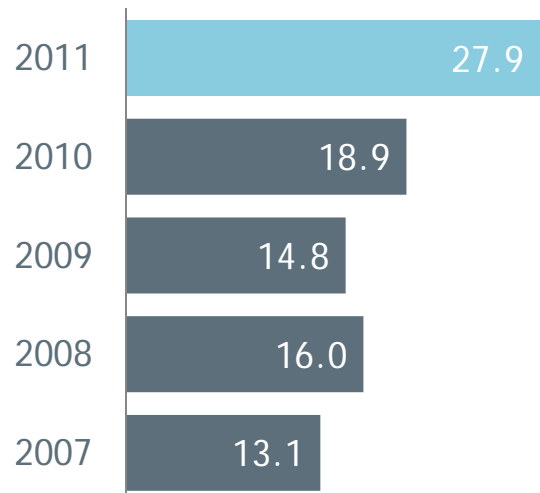
\*Over Period 2007 - 2011

# Financial Track Record

## Five Year Performance

### EPS growth

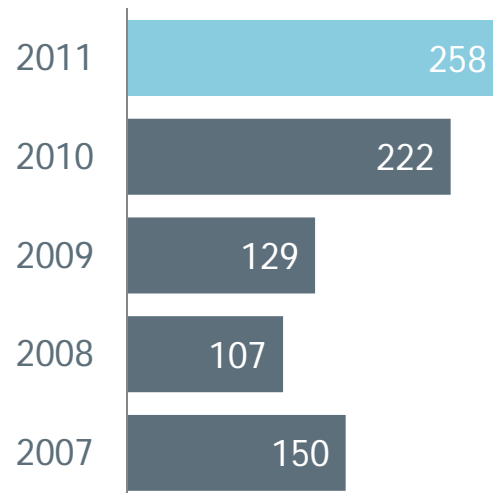
**+19% p.a.**



Adjusted EPS in pence

### TSR growth

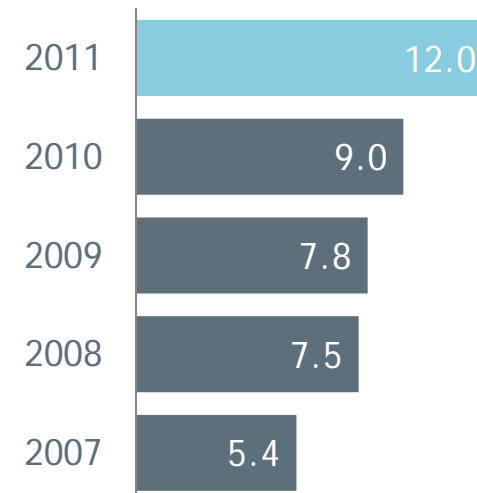
**+21% p.a.**



TSR index, 2006 = 100

### Dividend growth

**+21% p.a.**



Dividends in pence

## 2. Summary 2011 Results

DIPLOMAPLC





# Overview of Results

## Year ended 30 September

	2011	2010	
Revenue	£230.6m	£183.5m	+26%
Adjusted operating profit	£45.2m	£32.1m	+41%
Adjusted operating margin	19.6%	17.5%	
Adjusted profit before tax	£44.9m	£32.2m	+39%
Free cash flow	£25.0m	£29.8m	-16%
Profit for the year	£27.6m	£23.0m	+20%
Adjusted earnings per share	27.9p	18.9p	+48%
Total dividends per share	12.0p	9.0p	+33%



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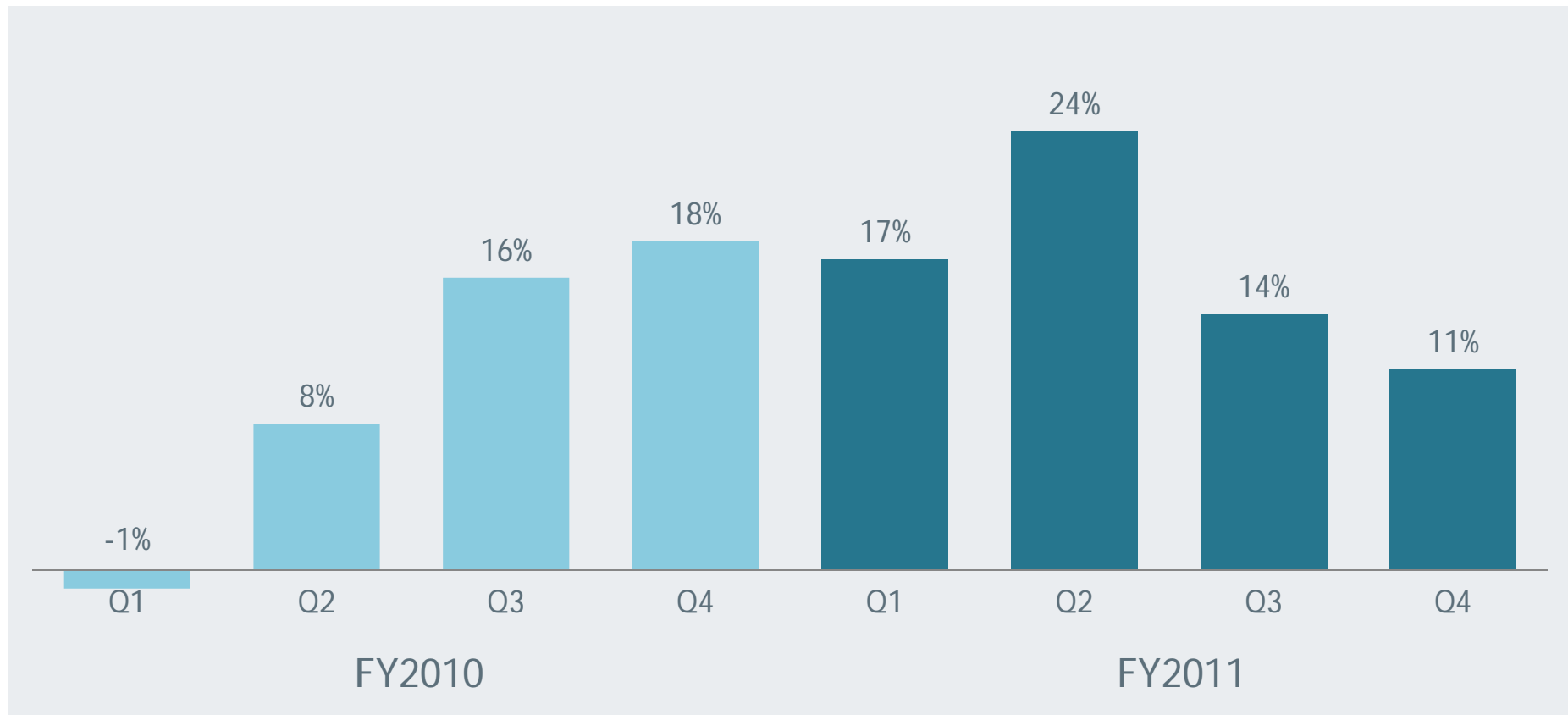
# Overview of Results

Year ended 30 September

- Revenue up 26% with continued strong demand and acquisition benefits
- Adjusted operating profit up 41% to £45.2m; operating margin at record 19.6%
- Underlying revenue and adjusted operating profit increased by 17% and 31% respectively
- Strong free cash flow of £25.0m despite working capital returning to more normal levels
- Acquisitions, including minority interests, completed in year for cash of £28.2m
- Cash funds of £12.2m at year end; total dividends up 33% to 12.0p

# Underlying Revenue Trends

Underlying growth rates by quarter 2009/10 and 2010/11



COMPARATIVES MORE DEMANDING FOR H1 2011/12, PARTICULARLY Q2

# Financial KPIs

## Five Year Trends

	2007	2008	2009	2010	2011
Revenue	£124.5m	£156.2m	£160.0m	£183.5m	£230.6m
<i>Total growth</i>	<i>+11%</i>	<i>+25%</i>	<i>+2%</i>	<i>+15%</i>	<i>+26%</i>
<i>Organic growth</i>	<i>+6%</i>	<i>+8%</i>	<i>-12%</i>	<i>+11%</i>	<i>+17%</i>
Operating margin	16.6%	17.0%	16.0%	17.5%	19.6%
Working capital (% revenues)	17.3%	17.2%	17.6%	15.4%	16.1%
ROTCE	25.5%	22.4%	19.0%	22.1%	25.4%
Free cash flow	£12.0m	£17.7m	£23.5m	£29.8m	£25.0m
<i>% of PAT</i>	<i>79%</i>	<i>93%</i>	<i>131%</i>	<i>131%</i>	<i>79%</i>

Over Period 2007 - 2011

CAGR REVENUE  
GROWTH

16% p.a.

OPERATING  
MARGINS

17-18%

ROTCE RANGE

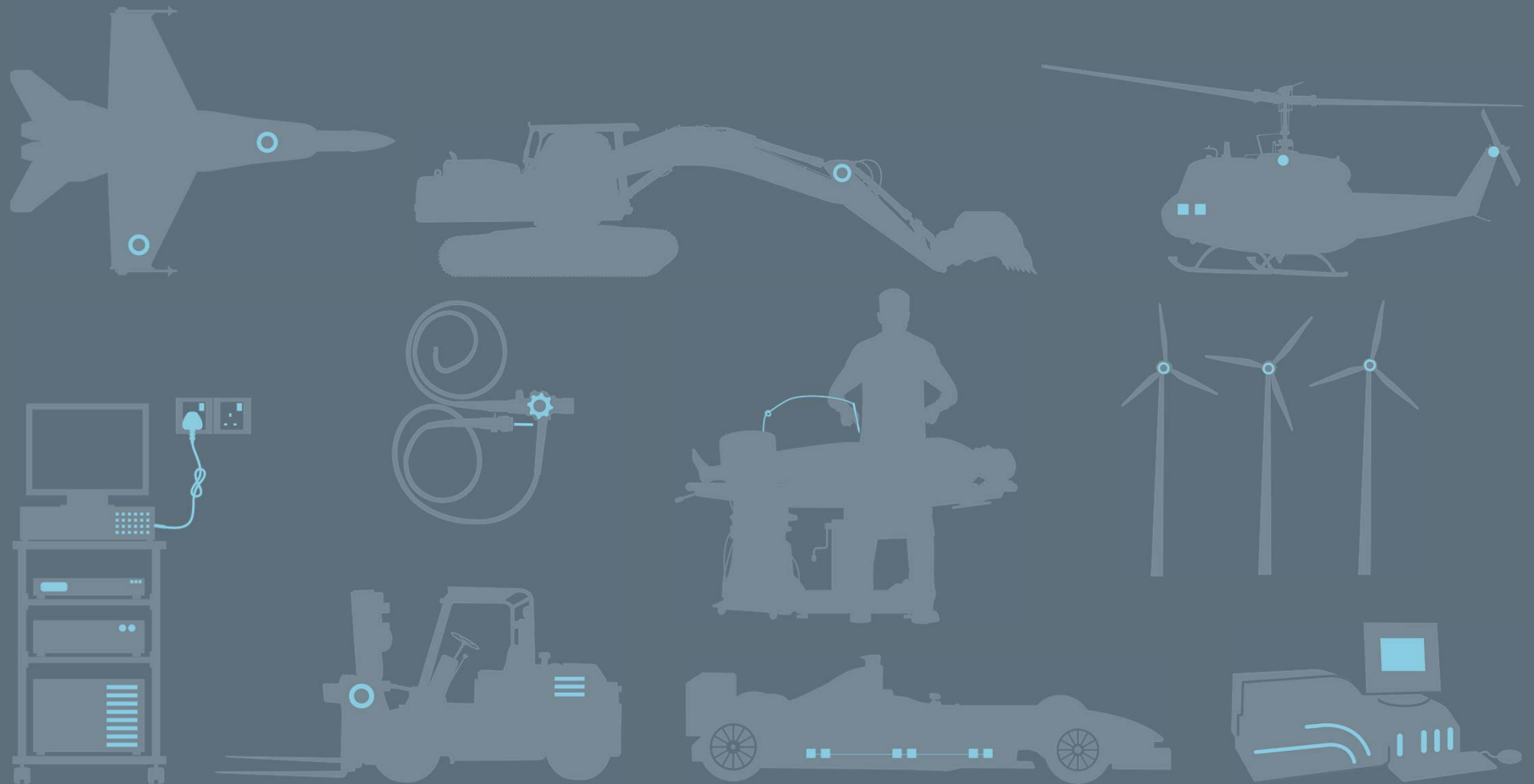
19-26%

FCF CONVERSION  
AVERAGE

101%




### 3. Business Review

DIPLOMAPLC



# Our Sectors

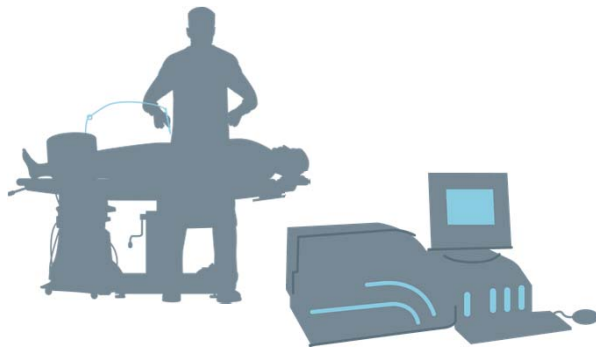
## Revenue by Sector and Destination

 LIFE SCIENCES	 SEALS	 CONTROLS
32% of group revenues	35% of group revenues	33% of group revenues
223 employees	432 employees	245 employees
75% Canada 20% Europe 5% Rest of World	70% North America 15% Europe 15% Rest of World	56% UK 39% Europe 5% Rest of World

BUSINESS APPROXIMATELY ONE THIRD SPLIT ACROSS OUR THREE SECTORS

# Life Sciences

## Results



Year ended 30 Sept	2011	2010	
Revenue	£74.4m	£55.4m	+34%
Operating profit	£17.1m	£11.9m	+44%
Operating margin	23.0%	21.5%	
Free cash flow	£11.6m	£10.1m	+15%

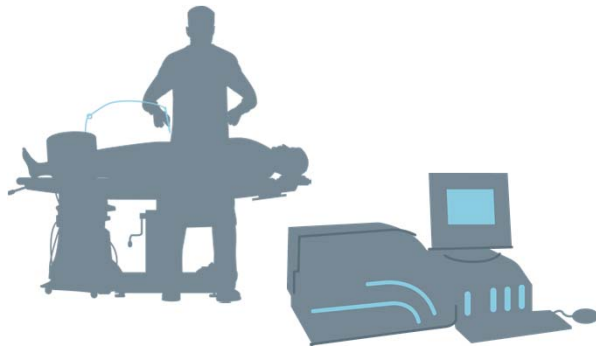
- DHG increased revenues by 41% in UK sterling:
  - Boosted by CMI and BGS acquisitions and exceptional sale of face shields
  - Underlying revenue growth of 12% in Canadian dollars
- Environmental business saw 7% increase in revenues
- Increased cash flow with working capital stable

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# Life Sciences

## Sector Developments

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- The **Healthcare** businesses account for almost 80% of sector revenues
  - Steady growth in Healthcare funding and some easing of capital funding
  - Acquisition of CMI and AMT minorities (total £28m investment)
  - CMI and AMT Endoscopy now combined to form Vantage Endoscopy - will move this year into new facility in Toronto
  - In **Environmental**, prior year restructuring delivered improvement in operating margins



# Seals

## Results



Year ended 30 Sept	2011	2010	
Revenue	£80.0m	£60.1m	+33%
Operating profit	£14.9m	£8.9m	+67%
Operating margin	18.6%	14.8%	
Free cash flow	£6.9m	£7.9m	-13%

- Results benefited from full 12 months of All Seals
- Underlying sector revenues increased by 26%, after adjusting for currency effects and acquisitions
- Operating margin improved to 18.6% demonstrating operational leverage
- Inventories returned to more normal levels

# Seals

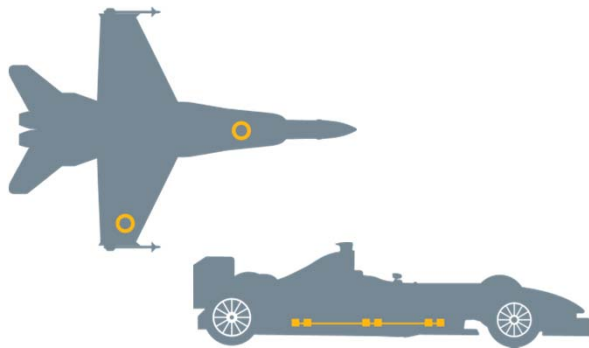
## Sector Developments



- The **Aftermarket** businesses account for just over 60% of sector revenues
  - Revenues increased by over 25%, across all products and geographies
  - Market share gains driven by customer service and inventory levels
- Warehouse automation project completed, delivering improved service levels and efficiency
- Continued strong growth in **Industrial OEM** businesses
- Revenues increased by 22% on a like-for-like basis, despite product shortages
- M Seals established WOFE in China to serve wind power sector

# Controls

## Results

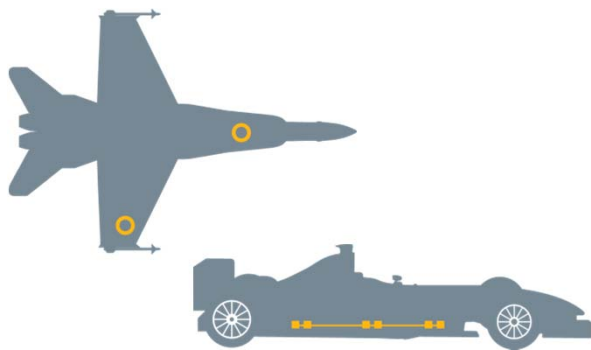


Year ended 30 Sept	2011	2010	
Revenue	£76.2m	£68.0m	+12%
Operating profit	£13.2m	£11.3m	+17%
Operating margin	17.3%	16.6%	
Free cash flow	£9.8m	£9.9m	-1%

- No significant impact from currency effects or acquisitions - underlying revenue growth of 12%
- Operating margins improved to 17.3%
- Increased inventories limited improvement in cash flow

# Controls




## Sector Developments



- Modest decline in **Defence** sector - we have relatively low exposure to major capital projects
- **Commercial Aerospace** sales positive with fit out of new and refurbished aircraft - sector may be returning to long term growth rate of 5% p.a.
- Sharp increase in **Motorsport** activity - growth in F1, Indycar, Nascar, DTM and WRC
- Strong demand from customers in **Energy** and **General Industrial** sectors
- **Medical** business positive
- **Commercial Refrigeration** - buoyant demand driven by investment by major food retailers

# Acquisition Development

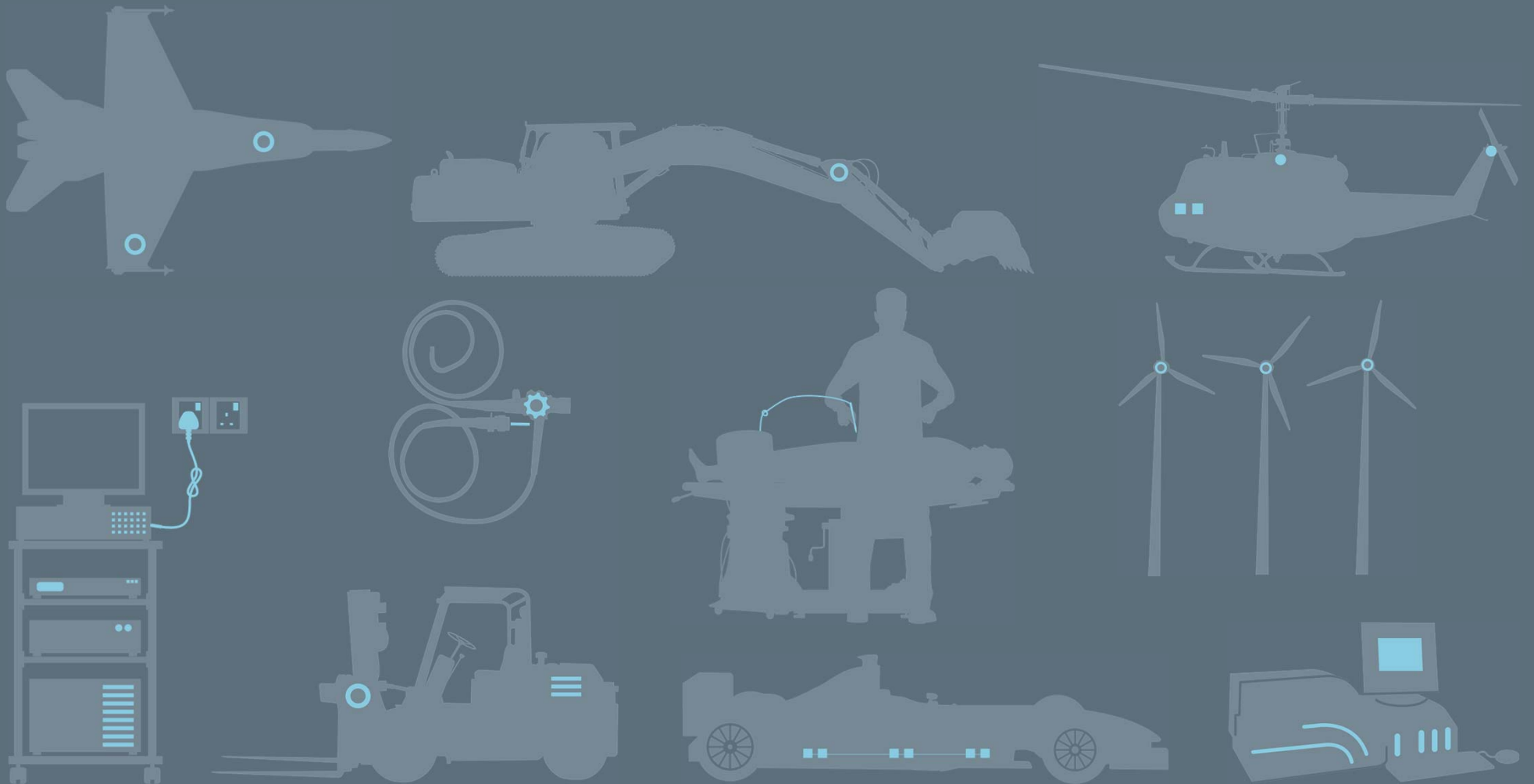
## 5 years - 2007 to 2011

Financial Year	Acquisition spend £m	 Life Sciences	 Seals	 Controls
2007	32.1	AMT (75%) - Canada CBISS - UK	M Seals (90%) - Denmark	Cabletec - UK Hawco (8%) - UK
2008	7.6	Somagen (12%) - Canada	Snijders - Holland	Hitek - UK
2009	11.5	Meditech - Canada	RT Dygert - US	
2010	11.1	BGS (80%) - Australia Somagen (8%) - Canada	All Seals - US	ET Fisher - Germany
2011	28.2	AMT (25%) - Canada Carsen Medical - Canada		
5 Yr Total = <b>£90.5m</b> (average £18.1m p.a.)				

IN 2011 OUR PRE-TAX RETURN ON THE TOTAL INVESTMENT IN ACQUISITIONS MADE OVER THE LAST 5 YEARS WAS IN EXCESS OF **20%**

## 4. Financial Highlights

DIPLOMAPLC



# Profit Before Tax

## Year ended 30 September

	2011 £m	2010 £m	
Revenue	230.6	183.5	+26%
Adjusted operating profit	45.2	32.1	+41%
Operating margin	19.6%	17.5%	
Finance (expense)/income	(0.3)	0.1	
Adjusted profit before tax	44.9	32.2	+39%
Acquisition related charges	(4.8)	(3.5)	
Fair value remeasurements	(0.9)	(2.0)	
IFRS profit before tax	39.2	26.7	+47%

# Underlying Results

	Revenue 2011 £m	Adjusted Operating Profit 2011 £m
As reported	230.6	45.2
Forex - translation	0.5	-
Forex - transaction	-	-
	<u>231.1</u>	<u>45.2</u>
Acquisitions - CMI	(9.0)	(2.0)
Acquisitions - All Seals	(6.2)	(1.1)
Acquisitions - BGS	<u>(2.0)</u>	<u>-</u>
	<u>213.9</u>	<u>42.1</u>
Movement in underlying results	+17%	+31%

FY2010

£183.5m

£32.1m



# Profit After Tax

## Year ended 30 September

	2011 £m	2010 £m	
IFRS profit before tax	39.2	26.7	
Taxation	(11.6)	(8.8)	
Profit after tax - continuing	27.6	17.9	
Profit for the year - discontinued	-	5.1	
Profit for the year	27.6	23.0	
Effective tax rate on continuing operations	28.7%	29.2%	
Earnings per share			
Adjusted	27.9p	18.9p	+48%
IFRS Basic	24.0p	14.6p	+64%

# Free Cash Flow

## Year ended 30 September

	2011 £m	2010 £m
Operating profit	45.2	32.1
Depreciation	2.1	2.1
Working capital	(7.4)	0.1
Pension and share schemes, net	0.4	-
Operating cash flow	40.3	34.3
Interest	(0.5)	0.1
Taxation	(12.4)	(9.3)
Capital expenditure	(1.7)	(1.3)
Disposal of subsidiaries	0.9	6.4
Purchase of own shares	(1.6)	(0.4)
Free cash flow - continuing	25.0	29.8
Free cash flow - discontinued	-	(0.5)
	<u>25.0</u>	<u>29.3</u>

# Net Cash Funds

Year ended 30 September

	2011 £m	2010 £m
Free cash flow	25.0	29.3
Acquisition cash paid	(28.2)	(11.0)
Dividends	(14.8)	(10.2)
	<u>(18.0)</u>	<u>8.1</u>
Cash funds brought forward	30.1	21.3
Exchange movement	0.1	0.7
Net cash funds	<u>12.2</u>	<u>30.1</u>
<u>Comprising:</u>		
Cash funds	17.8	30.1
Borrowings	<u>(5.6)</u>	<u>-</u>

# Shareholders' Funds

## As at 30 September

	2011 £m	2010 £m
Intangible assets, including goodwill	114.4	90.0
Tangible assets	11.4	11.7
	<u>125.8</u>	<u>101.7</u>
Net working capital	37.1	28.2
Trading capital employed	162.9	129.9
Retirement benefit obligations	(5.4)	(5.3)
Deferred tax, net	(2.0)	(1.3)
Future purchase of minorities	(2.0)	(13.2)
Deferred consideration	(1.1)	(1.0)
Net cash funds	12.2	30.1
	<u>164.6</u>	<u>139.2</u>
Less: Minority interests	(0.5)	(3.1)
Total shareholders' equity	<u>164.1</u>	<u>136.1</u>

## 5. Outlook and Prospects

DIPLOMAPLC



# Outlook and Prospects

- The Group is well diversified by geography and business area
- We have a resilient business model
  - we supply **essential products** and services providing recurring income and stable revenue growth
  - we offer **essential solutions**, not just products, which support sustainable and attractive margins
  - our **essential values** ensure our businesses are agile and responsive to change
- These factors gives us confidence in delivering “GDP plus” levels of organic growth while maintaining attractive margins



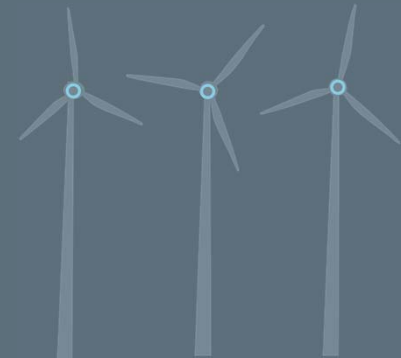
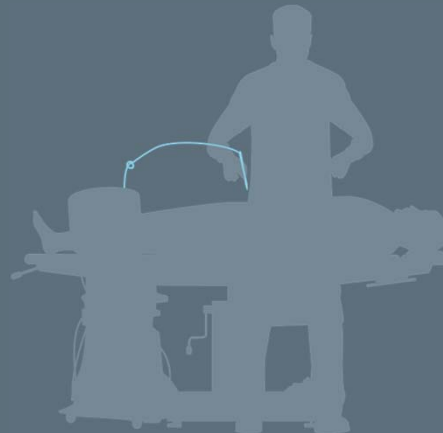
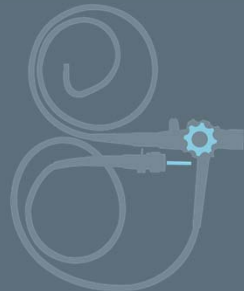
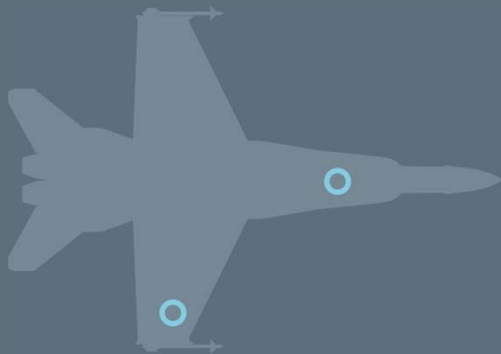
## Outlook and Prospects (continued)

- There are currently good opportunities for value adding acquisitions:
  - good recent performance on which to base valuations
  - economic uncertainty encourages sale discussions
- Ungearred balance sheet, committed bank facilities and strong cash flow will fund the growth strategy and healthy dividends
- The Board is confident of further progress in 2012, from combination of:
  - good consistent organic growth
  - favourable environment for acquisitions



# Appendices

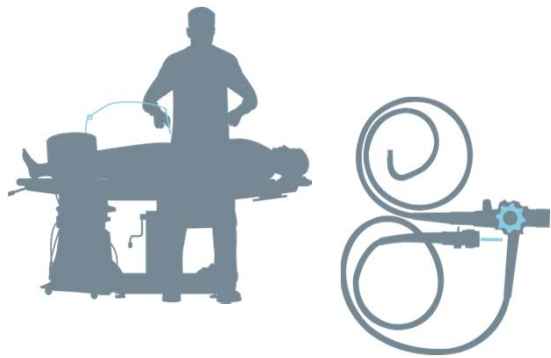
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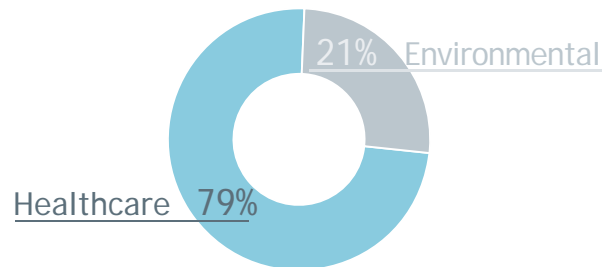
# Life Sciences

## Healthcare



Core business supplies specialised instruments and consumables used in the operating rooms and pathology labs of hospitals across Canada (and now Australia)

### 2011 Life Sciences Sector Revenue



### Market Drivers

Public funding of the Healthcare sector in Canada, which has seen steady growth at 6-7% p.a. over 15 years due to increasing demand from a growing, ageing and well-educated population

### Business Model

- Quality manufacturer branded products are sourced under exclusive, long term distribution agreements
- Multi-year customer contracts for consumables and service underpin ca 70% of sector revenues
- Highly qualified technical sales staff with network of trained service engineers to maintain instrumentation
- For medium sized medical device manufacturers we are a very cost effective route to a market which can be difficult to service

**79%** OF THE LIFE SCIENCES REVENUES ARE GENERATED IN STEADILY GROWING HEALTHCARE MARKETS

# Life Sciences

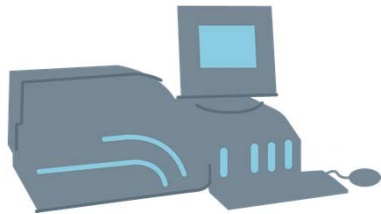
## Healthcare Case Study: Smoke evacuation in electrosurgery



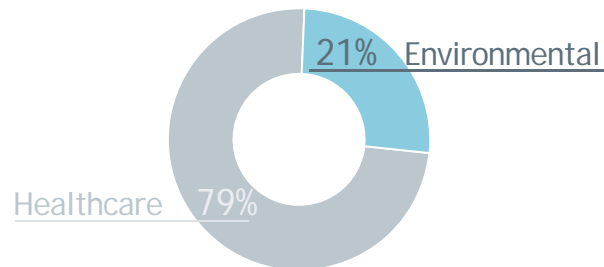
- Electrosurgery devices are used in 90% of endoscopic and open surgical procedures to cut and coagulate tissue
- Inhaling surgical smoke is a hazard for operating room surgical teams
- We supply smoke evacuation pumps at little or no charge to hospitals
- We then sign multi-year contracts to supply consumable electrosurgery and smoke evacuation products
- Once smoke evacuation has been introduced its use quickly becomes an essential requirement in operating rooms and is written into policies and procedures

# Life Sciences

## Environmental



### 2011 Life Sciences Sector Revenue



### Products

Suppliers of highly specialised, manufacturer branded and essential products:

- Customised containment enclosures for the personal protection of technicians in the research labs of pharmaceutical companies
- Analysers detecting and measuring specific elements in liquids, solids and gases, largely servicing the petrochemicals industry
- Equipment for monitoring and control of environmental emissions in industry

Supplies a range of products to Environmental testing laboratories and Health & Safety engineers in Europe

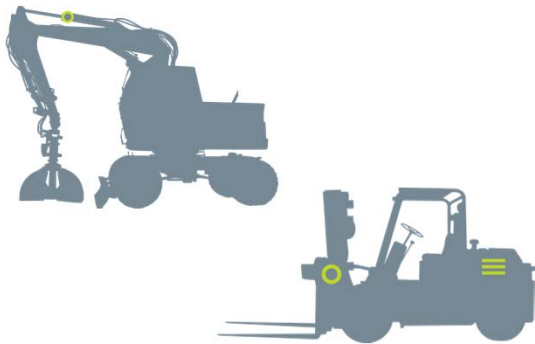
### Market Drivers

Market demand largely driven by Environmental and Health & Safety regulation which ensures steady demand for essential consumable products

**21%** OF THE LIFE SCIENCES BUSINESS DRIVEN BY ENVIRONMENTAL, HEALTH & SAFETY REGULATION

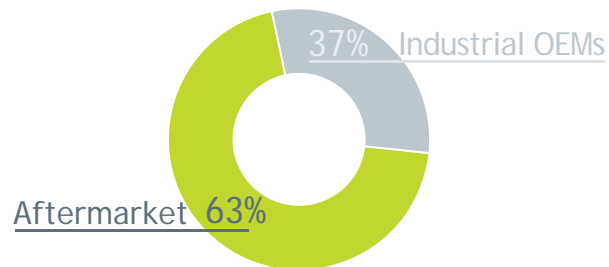
# Seals

## Aftermarket



Supplies seals used in the repair and maintenance of heavy mobile machinery on a next day delivery basis. Customers are mainly machinery and cylinder repair shops, engine and transmission re-builders and tractor parts distributors

### 2011 Seals Sector Revenue



### Market Drivers

Principal market driver is general industrial economy in North America, in particular heavy construction

### Business Model

Very compelling product and high service offering after equipment is sold into the pre-used market or moves out of warranty (typically first 3 years are controlled by warranty / lease terms of OEMs):

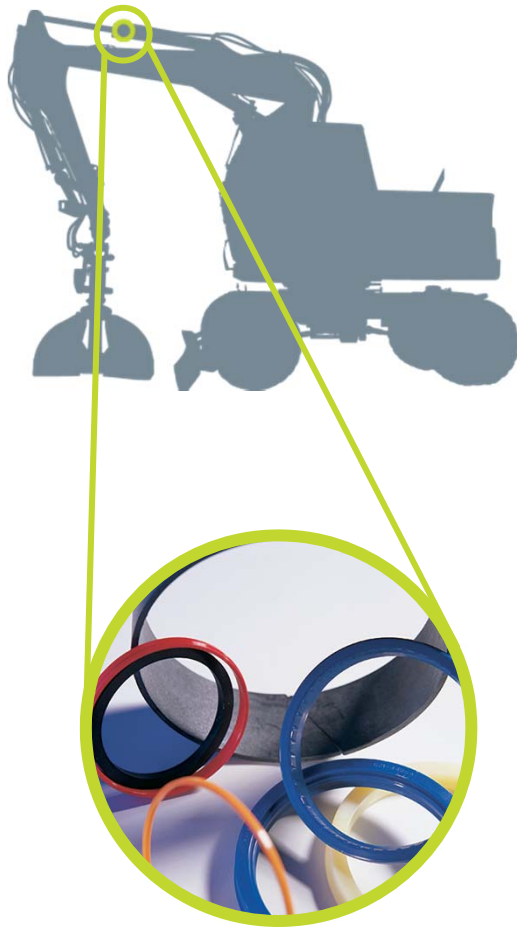
- Ex-stock availability of seals and seal kits for all main brands of mobile machinery
- Next day delivery from central Clearwater warehouse
- Seals sourced from same manufacturers who supply to OEMs
- Very competitive pricing compared to OEM dealer network

Focus on aftermarket means insulated from the extremes of business cycles

**63%** OF THE SEALS BUSINESS SUPPLIES THE HEAVY MOBILE MACHINERY AFTERMARKET

# Seals

## Aftermarket Case Study: Next day delivery of seals



- A typical large bulldozer or excavator has on average 30-50 seals in its hydraulic cylinders
- If any of these fail an expensive piece of machinery is out of action
- We become the supplier of choice once the equipment is sold into the pre-used market, or the lease term for the equipment expires
- One-stop source for replacement seals covering all main brands of heavy machinery, with high customer service and competitive pricing
- Expenditure on repair & maintenance required to keep older equipment operational, insulating us from the worst effects of a downturn in end-use markets

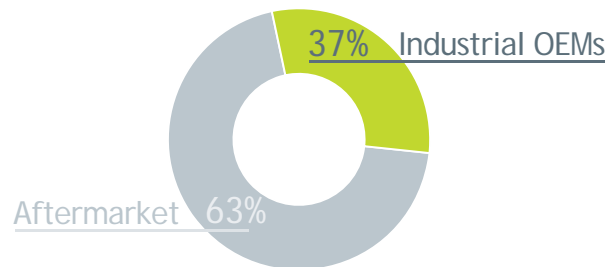
# Seals

## Industrial OEMs



Supplies seals, O-rings and custom moulded and machined parts to Industrial Original Equipment Manufacturers (OEMs) and equipment dealers in North America, Scandinavia, the UK and China

### 2011 Seals Sector Revenue



### Market Drivers

Principal market driver is growth in the general industrial economies in North America, Scandinavia and China

### Products

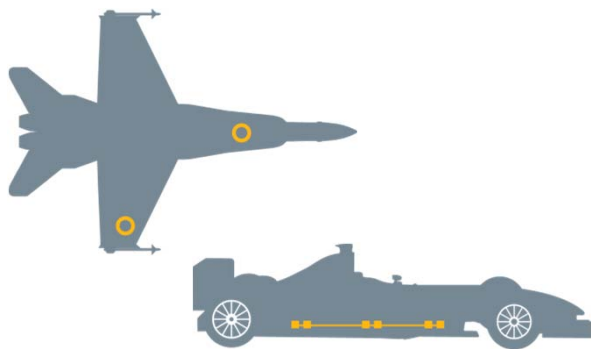
Supplying manufacturers in a diverse spread of industry segments with a wide range of specialised industrial (and some retail) products.

Range of end use applications includes:

- Hearing aids
- Wind turbines
- Paint spray equipment
- Irrigation equipment
- Industrial refrigeration
- Medical equipment

**37%** OF THE SEALS BUSINESS SUPPLIES TO SPECIALISED INDUSTRIAL EQUIPMENT MANUFACTURERS

# Controls



## Market Drivers

General industrial economies in Europe, particularly the UK and Germany.

Operational funding in Defence & Aerospace, Motorsport and other specialised technology sectors.

Rising demand for energy efficient components.

## Business Model

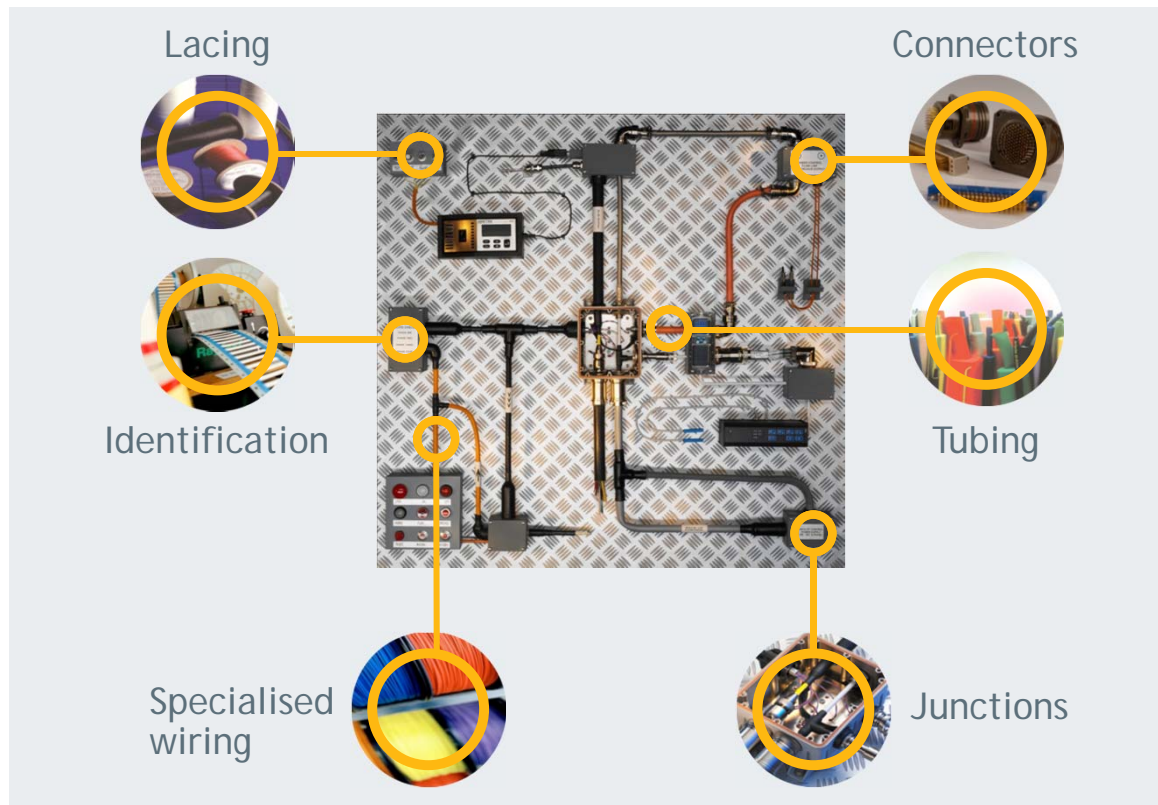
- Operate in parallel with principal suppliers, who do original design-in work and supply large quantities to major new build, capital projects
- Focus on **supplying in-service needs** inc. **repair & maintenance, upgrade and refurbishment programmes**
- Supply manufacturer branded **products** sourced under **long term exclusive distribution agreements**
- Develop strong customer relationships by providing:
  - Ex-stock availability of products in smaller quantities
  - Technical knowledge to specify product for customers
  - Range of added value services, e.g. connector assembly, sleeve marking, kitting, prototyping of customised cables

The controls sector businesses supply high performance wiring, connectors, fasteners and control devices used in the repair, maintenance, refurbishment and upgrade of specialised technical equipment. Major segments include Defence & Aerospace, Motorsport, Medical, Energy and Commercial Refrigeration

CONTROLS IS A  
PREDOMINANTLY  
EUROPEAN BUSINESS,  
MAINLY IN THE UK  
AND GERMANY

# Controls

## Core Products and End-user Markets

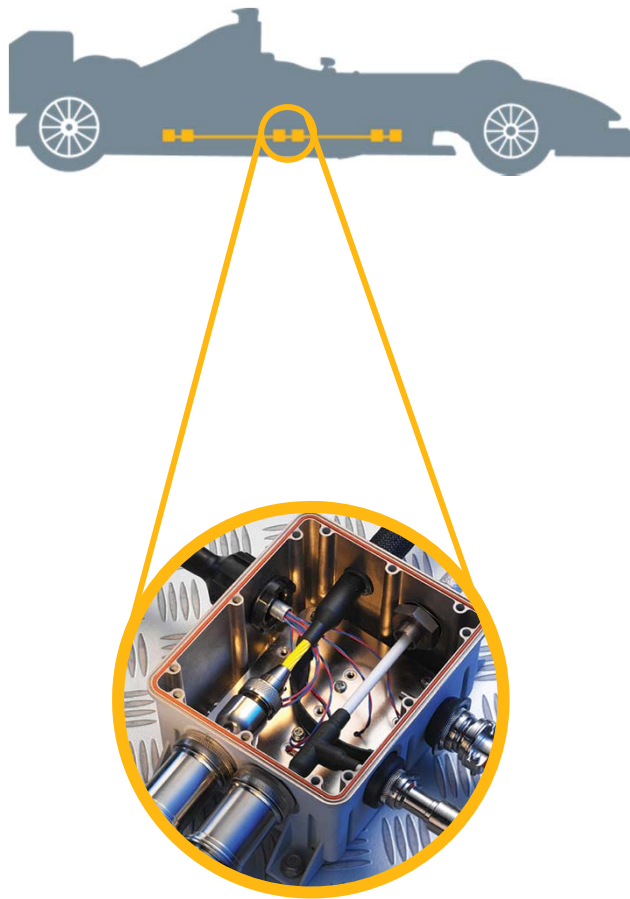


A BROAD RANGE OF ESSENTIAL, INTEGRATED PRODUCTS TO MEET TECHNICALLY DEMANDING APPLICATIONS ACROSS INDUSTRIES



# Controls

## Case Study: Complex wiring harnesses



- Complex wiring harnesses are used to control a range of functions in technically demanding applications
- In a typical Formula 1 car chassis there are over 1,000 metres of high performance wiring and over 200 individual interconnect components
- Full range of components in stock and technical staff to work with customers' engineers
- For the F1 teams, in addition to supplying products to harness assemblers, kits of components are supplied to engine builders to build and rebuild engines efficiently
- Focus on the aftermarket e.g. in the replacement/upgrade of aircraft seating or in-flight entertainment systems in civil aerospace, and the upgrade for weapons systems on military platforms in defence

# Contact

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**Bruce M Thompson**  
Chief Executive Officer

**Nigel P Lingwood**  
Group Finance Director

Tel: +44 (0) 20 7549 5700

Fax: +44 (0) 20 7549 5715

Email: [investors@diplomapl.com](mailto:investors@diplomapl.com)

12 Charterhouse Square  
London EC1M 6AX

Tulchan Communications

David Allchurch

Martin Robinson

Tel: +44 (0) 20 7353 4200

Email: [diploma@tulchangroup.com](mailto:diploma@tulchangroup.com)

