DIPLOMA PLC

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FOR IMMEDIATE RELEASE

16 November 2020

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

"A year of significant progress with exciting prospects ahead"

- Successfully managing Covid-19 while accelerating strategic execution
- Creating high quality, scalable businesses for sustainable growth in all Sectors
  - New automated Louisville facility to support next phase of growth in Seals
  - Acquisition of Windy City Wire ("WCW") expands opportunity for Controls
- Significant management and cultural evolution
- Encouraging pipeline of value-enhancing bolt-on acquisitions
- Resilient financial performance, strong balance sheet and dividend increased

	Audited 2020 £m	Audited 2019 £m	
Revenue	**538.4**	544.7	***-1%***
Underlying revenue growth (1)	**-7%**	5%	
Adjusted operating profit (2)	**87.1**	97.2	***-10%***
Adjusted operating margin (2)	**16.2%**	17.8%	***-160bps***
Statutory operating profit	**69.8**	84.1	***-17%***
Free cash flow (3)	**72.5**	56.5	***+28%***
Adjusted earnings per share (2)	**56.4p**	64.3p	***-12%***
Basic earnings per share	**43.5p**	54.7p	***-20%***
Total dividend per share	**30.0p**	29.0p	***+3%***

(1) Adjusted for acquisition contribution and currency effects
(2) Before acquisition related charges and fair value remeasurements
(3) Before cash payments on acquisitions and dividends

Commenting, Johnny Thomson, Chief Executive Officer, said:

"Diploma is responding well to the Covid-19 crisis and our fantastic colleagues continue to make a difference for our customers and our communities. The Group has reported a resilient financial performance with strong margins and cash flow generation. All Sectors saw improving revenue momentum in Q4 which is expected to continue into 2021.

It has been a year of significant progress as we have built on the strong foundations of Diploma's value-add distribution model, developing high-quality, scalable businesses that can sustain our future growth ambitions in our core markets and products. We have made great progress with acquisitions and have a very healthy pipeline of further bolt-ons. During the past year we have also embedded a management team and a culture, with our teams all aligned behind developing our core competencies and the capabilities to deliver our customer proposition as we scale.

I am confident in the Group's positive prospects for the year ahead."

Good financial performance successfully navigating Covid-19

- Reported revenues down 1%, with underlying down 7%, acquisition contribution of 7% and a currency headwind of 1%.

- Robust adjusted operating margins at 16.2%, despite impact of negative operational leverage and restructuring charges due to tight cost management.

- Very strong free cash flow up 28% due to excellent working capital management.

Strong recovery in underlying revenues in H2 across all three Sectors

- Seals traded well through the year with underlying revenues down 5% after an excellent contribution from VSP and strong performances from International Seals and North American Aftermarket. The successful transition to the new automated facility in Louisville will support market share gains and contributes to the very positive prospects for Seals in FY21.

- Controls was the Sector most exposed to markets impacted by the Covid-19 crisis, with underlying revenues declining 14%. Actions to reposition the Controls business for growth have been effective and are delivering positive revenue trends. The exciting acquisition of WCW expands the positive future growth opportunity for Controls.

- Life Sciences has delivered a rapid and sustained recovery across the Healthcare businesses with underlying revenues down 4%. As hospital and lab activity improves and the backlog of procedures unwind, Life Sciences is well positioned for accelerated growth in FY21.

Robust balance sheet and cash generation

- Strong free cash flow conversion of 113% supported by excellent cash collection.

- Ample liquidity with undrawn facilities of £135.0m, adjusted for WCW acquisition.

- Acquisitions continue to be an integral part of the Group's growth strategy and we have an attractive pipeline of bolt-on opportunities.

- The strength of the Group's performance, strong cash generation and confidence in future growth led the Board to recommend a progressive full year dividend of 30.0p per share (2019: 29.0p).

Outlook

- We expect to deliver another strong performance in the year ahead with a return to underlying mid-single digit growth and historic margins, in line with market expectations.[1]

- Growth in revenue and margin progression are expected to be H2 weighted.

- WCW will increase Group revenue by ca. 25% in FY21 and will be accretive to both our growth and our margins.

- We are confident in the Group's growth outlook and future prospects.

(1) Market consensus for y/e 30 Sept 2021 is for revenue of ca. £715m and adjusted operating profit of ca. £125m.

There will be a webcast presentation of the results to analysts and investors at 9.00am this morning.

Conference Call Details

UK: 0800 358 6377
Participant PIN: 9501436
Webcast Link: *https://webcasting.brrmedia.co.uk/broadcast/5f9afa8e4351411bdbe63cc3*

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Notes:

- *Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted operating profit, adjusted profit before tax, adjusted earnings per share, free cash flow and ROATCE. All references in this Preliminary Announcement "Announcement" to "underlying" revenues or operating profits refer to reported results on a constant currency basis and after adjusting for any contribution from acquired or disposed businesses. The narrative in this Announcement is based on these alternative performance measures and an explanation is set out in notes 2 and 3 to the consolidated financial statements.*

- *Certain statements contained in this Announcement constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of Diploma PLC, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other factors include, among others, exchange rates, general economic conditions and the business environment.*

NOTE TO EDITORS:

Diploma PLC is an international group supplying specialised products and services to a wide range of end segments in our three Sectors of Seals, Controls and Life Sciences.

Diploma's businesses are focused on supplying *essential products* and *services* which are funded by the customers' operating rather than their capital budgets, providing recurring income and stable revenue growth.

Our businesses then design their individual business models to closely meet the requirements of their customers, offering a blend of high quality customer service, deep technical support and value adding activities. By supplying *essential solutions*, not just products, we build strong long term relationships with our customers and suppliers, which support attractive and sustainable margins.

Finally, we encourage an entrepreneurial culture in our businesses through our decentralised management structure. We want our managers to feel that they have the freedom to run their own businesses, while being able to draw on the support and resources of a larger group. These *essential values* ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

The Group employs ca. 2,000 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.

Over the last ten years, the Group has grown adjusted earnings per share at an average of ca. **12%** p.a. through a combination of underlying growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£2.9bn**.

Further information on Diploma PLC can be found at www.diplomaplc.com

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PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR YEAR ENDED 30 SEPTEMBER 2020

CHAIRMAN'S STATEMENT

2020 has been a year of considerable progress for the Group in challenging market conditions. We delivered a resilient performance, both operationally and financially. Our businesses reacted exceptionally quickly to Covid-19, making a difference to our colleagues, our customers and our communities through these uncertain times. Covid-19 demonstrated the power of our value-add distribution model, the diversity of our end market segments, the benefits of broad-based scalable businesses, and the importance of a robust balance sheet. By the end of the financial year, all Sectors were recovering, focusing on future growth, and delivering strong cash generation in a very challenging environment.

The Board was delighted with the enthusiastic support of our shareholders in the fundraising that we announced on 22 September 2020 in order to acquire Windy City Wire ("WCW"), a sizeable US business in the Controls sector. The acquisition completed on 16 October 2020 and will enable the Group to enter the US Controls market with a scalable business. We are excited about the opportunity to add a strategic, high-quality, high-growth business to the Group portfolio.

Results
Group revenues decreased by only 1% to £538.4m (2019: £544.7m), demonstrating the resilience of the business model. The decrease in underlying revenues of 7% was offset by the 7% contribution from acquisitions, primarily from VSP Technologies ("VSP"), our US Seals acquisition made in July 2019, as well as smaller bolt-on acquisitions in other Sectors. There was a small headwind from currency movements of 1%.

Underlying revenues were down 5% for Seals, demonstrating the resilience of the US Aftermarket and International Seals businesses; down 14% for Controls, which is most exposed to the UK economy as well as some more structurally impacted end segments; and down 4% for Life Sciences, which is now experiencing an impressive recovery due to pent-up demand. All Sector revenues were in recovery by the fourth quarter, compared to the third quarter, and continue on that trajectory as we enter into 2021.

Adjusted operating profit decreased by 10% to £87.1m (2019: £97.2m) and includes a non-recurring charge of £3.9m to reshape the cost base and ensure that resources are most efficiently allocated to support future revenue growth. Adjusted profit before tax and adjusted earnings per share ("EPS") decreased by 13% to £84.4m (2019: £96.5m) and 12% to 56.4p (2019: 64.3p) respectively.

On a statutory basis the Group's operating profit was £69.8m (2019: £84.1m), down 17%, after £17.3m of acquisition related charges, largely comprised of amortisation of acquired intangibles. Statutory profit before tax was £66.7m (2019: £83.5m), down 20%, and statutory EPS was down 20% at 43.5p (2019: 54.7p).

Cash generation was exceptionally good with free cash flow of £72.5m (2019: £56.5m). As part of the response to the pandemic, the Group focused on cash collection and careful inventory management. As a result, the Group delivered a cash inflow from working capital of £9.5m (2019: £9.4m outflow) boosted by an unwinding of excess stock levels in the US OEM business after its ERP implementation.

Capital expenditure remained above historic levels at £9.4m, although modestly down on the prior year (2019: £10.9m), as we completed the investment in our US Aftermarket distribution facility in Louisville, Kentucky. This will enable us to drive revenue growth and operating efficiencies by accessing a much larger territory in the US on a guaranteed next-day delivery basis.

In September 2020, the Group completed a successful fundraising for £189.2m, to partially fund the acquisition of WCW, which completed after the year end. We were delighted with the support from both existing and new shareholders.

The Group's balance sheet remains strong with cash of £206.8m as at 30 September 2020 and £17.0m of cash funds excluding the equity raise proceeds (2019: net debt of £15.1m). The Group had undrawn facilities of £60.0m at year end and had repaid its term loan in full. After the completion of the WCW acquisition, in October 2020, the Group has debt of ca. £180.0m and available facilities of ca. £135.0m (including a £50.0m accordion facility) following the refinancing undertaken as part of the acquisition. The Group therefore has sufficient liquidity to finance an additional contribution to its pension scheme, a final dividend, and execute on its encouraging pipeline of value-add, bolt-on acquisitions.

Dividends
The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with the growth in adjusted EPS. Following the suspension of the interim dividend due to the uncertainty created by Covid-19, the Group has remained profitable and cash generative and consequently was able to repay all UK government funding that had been used during the early phase of lockdown.

The resilience of the Group's performance and cash generation, and the confidence in future growth led the Board to recommend a final dividend of 30.0p per share (2019: 20.5p), meaning that the total dividend in relation to 2020 will be 30.0p per share (2019: 29.0p) representing a 1.0p (3%) increase. The level of dividend cover is ca. 1.9 times on an adjusted EPS basis (2019: 2.2 times). We expect to resume our historic dividend profile in 2021.

Board changes
We appointed a new Chief Financial Officer, Barbara Gibbes, to the Board on 22 June 2020 following a handover process with outgoing Group Finance Director, Nigel Lingwood. Nigel stepped down from the Board on the same date and formally retired on 30 September 2020.

A new non-Executive Director, Geraldine Huse, was appointed on 20 January 2020 and we welcome her onto the Board. Geraldine offers a fresh perspective and impressive experience as a senior executive for Procter & Gamble, currently leading its Canadian business.

After nearly eight years on the Board, Charles Packshaw will retire as the Senior Independent non-Executive Director at the conclusion of the Annual General Meeting in January 2021. On behalf of the Board I would like to thank him for his excellent contribution and wise counsel. The Nomination Committee has commenced a search process for a new non-Executive Director. A further announcement will be made in due course regarding Charles' successor as Senior Independent Director.

Colleagues
Our colleagues have been instrumental in delivering the customer-focus and value-add service that allowed the Group to respond so resiliently to the challenges of the Covid-19 pandemic. I would like to record my deep thanks to all of our colleagues who, during this extremely challenging period, have remained focused on doing their jobs safely for their customers and in their communities.

Outlook
The Group has a resilient business model with a broad geographic spread of businesses supported by a robust balance sheet and consistently generates strong cash flow. This model enables the Group to respond to the challenges of the Covid-19 pandemic and supports our confidence in our future growth and our inorganic growth.

The Group's business model targeting GDP+ organic growth supplemented by acquisitions is unchanged. As the Group grows in size, the growth in any one year will be subject to the availability of attractive acquisition targets. However, the Board continues to expect double-digit growth through the economic cycle.

Despite the ongoing uncertainty from Covid-19, and absent any detrimental macro events, we are confident that the Group is well positioned to deliver underlying growth in 2021, supplemented by a material contribution from the WCW acquisition. We expect that in the first half of 2021 the existing business will show modest sales and margin improvement over the second half of 2020 but below pre-Covid-19 comparatives.

CHIEF EXECUTIVE'S REVIEW

This has been a year of excellent progress for the Group. Despite the circumstances of 2020, we delivered a strong and robust performance and will carry this positive momentum into the next year.

The Group's reported revenues decreased by 1% with adjusted operating profit of £87.1m at a margin of 16.2% after one-off restructuring costs of £3.9m. Cash flow was exceptionally strong with 113% free cash flow conversion.

Our response to Covid-19

The Group is responding well to Covid-19. It has been a challenging time for everyone personally and professionally. I am immensely proud of how our businesses have responded. I would like to thank all of my colleagues for their outstanding efforts.

We established standard crisis protocols that continue today. This includes weekly Executive meetings on our response to the crisis. This has ensured that we respond quickly, that we are consistent in our approach where appropriate, and that we are learning from each other's experiences in this unusual environment. We mandated certain Group practices in response to the pandemic, but as a decentralised Group we also recognised the value of local autonomy in empowering our excellent management teams to respond appropriately. Finally, we deployed a comprehensive communication structure to ensure that the whole organisation was aligned and well informed at all times.

Our action and communications were based around the focus of Making A Difference to Our Colleagues, Our Customers, and Our Communities.

Our Colleagues
Our priority is to protect the safety and wellbeing of our colleagues. We established minimum practice guidelines for all businesses to ensure that the workspace and procedures were safe. At times this has included working from home, split shift working patterns, and other measures such as deep cleaning, temperature checks and social distancing. Importantly, we have also been acutely aware of the mental health risks at this time and have various practices, networks and helplines to support our colleagues.

Our Customers
We supply essential products to customers in essential industries. Not only have all businesses remained open and operational but we have worked hard to offer the same high levels of service throughout the pandemic. We were particularly gratified to support the Covid-19 fight with some of our products, including supplying seals for ventilators and components for Covid-19 testing.

Our Communities
It was also important that we stepped up to support the communities that our colleagues live and work in. There were many great examples of our businesses doing this through donations of personal protective equipment, or by supporting local charities.

Financial responsibility
At the onset of the crisis we took actions to ensure we had sufficient cash and liquidity. However, our businesses adapted well to the crisis and we were able to repay all UK government funding that we received in the initial weeks. Our Board and Executive Team all took a voluntary 20% reduction in salary at the peak of the crisis.

Culture
This year has reinforced the strength of our culture. Each business has its own identity but there are some common traits which have enabled us to navigate the last year and to deliver a resilient performance.

Continuous Improvement is driven by a "can do" attitude and a restless desire to evolve, even in challenging times.

Our decentralised model encourages **accountability**, empowering our business leadership teams and resulting in agile, innovative businesses that were able to adapt to the unusual circumstances this year.

Respect for our colleagues, customers, suppliers and communities motivates everything we do. We appreciate that if we look after our colleagues, they will look after our customers, suppliers and communities. The crisis and our approach to communication has without doubt strengthened the cultural identity across the Group and I believe this will be a key to our success in the future.

Strategy
We have an effective strategy built on the strong foundations of our value-add distribution model. We will continue to focus our growth in key markets and products and build high-quality, scalable businesses for organic growth.

Our strong performance last year demonstrates the resilience of our proposition of **Essential Products, Essential Solutions** and **Essential Values**. The Essential Products that we supply are funded by our customers' operating, rather than capital budgets. Our Essential Solutions support our long-term customer relationships and attractive margins. Our Essential Values give autonomy to our businesses, ensuring that they are agile, responsive and empowered to serve their customers.

Focus Our Growth
We focus on core, developed markets and current and adjacent product ranges for our growth. We are looking to create and build high-quality, scalable businesses with organic growth potential. We will focus on the Core Competencies and Organisational Capability that allow us to execute our proposition and value-add business model at scale.

Core Competencies
Following last year's refresh of the strategy and identification of our five Core Competencies, each of our businesses now understands and has prioritised the Core Competencies according to their strategic needs. As we scale, we will continue to focus on improving the Core Competencies that underpin our business model and drive our success.

Organisational Capability
In order to be able to deliver the Competencies at scale, we must develop the Organisational Capabilities that will allow us to do so: **facility**, **technology** and **talent**.

Over the last two years, we have invested over $8.0m in a state-of-the-art warehouse **facility** for our US Seals Aftermarket business in Louisville, Kentucky. Since opening in August 2020, we have almost completely transitioned from our existing facility in Clearwater, Florida. This will finalise in December 2020, when our Florida facility will be closed and sold.

The advanced automation of our artificial intelligence driven warehouse puts us at the forefront of distribution. It will use robots to pick orders making efficient use of space, increasing inventory capacity, and improving the speed and accuracy of order fulfilment. The location of the Louisville facility, next to a UPS hub, means that we can offer next-day delivery at a later cut-off time and to a larger area of the US.

In **technology**, we have undertaken a number of ERP implementations and e-commerce upgrades across the Sectors.

I am particularly pleased with the progress we have made on **talent** this year. We have embedded a new Executive team. We have made some key appointments, both in the PLC team and in business leadership roles. I am delighted that Barbara Gibbes has joined as CFO and welcome her to the Group. Other key appointments have come from internal promotions, external expertise or acquisitions. I would like to take this opportunity to welcome Rich Galgano and his team from Windy City Wire, our most recent acquisition. Within the organisation, we have made excellent progress at embedding talent management processes and this allows us to ensure that we continue to have great people running our businesses. There is always more that can be done, and we continue to focus on succession management across the Group and our diversity and inclusion agenda.

Our talent mix is a great blend of long tenure and experience in the Group, combined with newer appointments that bring fresh perspectives. My team and I remain focused on ensuring that all of our colleagues fulfill their potential at Diploma. Although Covid-19 threw us some challenges this year, we have taken this opportunity to embed and develop our talent and we enter the next year as a more cohesive and aligned team, well placed for the future.

Acquisitions

Bolt-on acquisitions remain a core element of the Group's strategy to deliver double-digit revenue growth. In 2020, we made two value-add acquisitions, CR Systems in the Controls Sector and PumpNSeal in International Seals for a total acquisition spend of ca. £13.8m. These businesses are excellent examples of Diploma bolt-on acquisitions that offer the relevant Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering, leading to increased value to shareholders.

After the year end, in October 2020, we completed the **strategic acquisition** of WCW for an initial consideration of $450m. WCW has an impressive value-add customer proposition and is a perfect fit with our business model, providing a scalable platform for our Controls Sector in the US. The business has an excellent performance track record and is well positioned to deliver growth in the future.

Acquisitions continue to be an integral part of the Group's growth strategy and we currently have an attractive and encouraging pipeline of potential opportunities. With the enhanced **organic growth** potential of the Group we are confident that we will continue to deliver strong and consistent financial returns for shareholders.

Sector performance

The Group produced a resilient financial performance in a challenging 2020 across all three Sectors.

The Seals Sector performed very well through the crisis with reported revenues up 10%, underpinned by a strong acquisition contribution of 16%, primarily from VSP Technologies ("VSP"), which achieved double-digit growth in the first half of the year. Underlying revenues for the Sector declined by only 5%.

Our Hercules Aftermarket business performance was strong and was able to leverage its scale and diverse customer base in order to manage the challenges created by Covid-19. After a few years of challenging conditions, including the 2018 ERP implementation, US & China trade tariffs and Covid-19, our US OEM businesses are seeing their efforts pay off with performance improving steadily through Q4 and into FY21. International Seals performed well, supported by the diversity of its end segments. Underlying revenues were down just 3% and overall growth reached 6% on a reported basis.

The Controls Sector had a more challenging year due to its exposure to the UK and Civil Aerospace. As a result, revenues were down 12% on a reported basis and down 14% on an underlying basis. We have taken positive measures to align the cost base and position the Sector for future growth and the Sector as a whole is now on an upward trajectory. We are excited to further diversify our Controls revenues with the acquisition of WCW in the US.

It has been a positive year for Life Sciences. Revenues declined by only 4% on a reported and underlying basis. Although Healthcare was initially the most affected by the Covid-19 lockdown restrictions, the easing of hospital access and travel restrictions has meant that elective surgery procedures and non-Covid-19 related diagnostics have resumed and pent-up demand following Covid-19 related deferrals has created significant demand. I feel very positive about the benefits of this backlog in procedures and diagnostics and the growth opportunities in this Sector.

SECTOR DEVELOPMENTS

SEALS

The Seals Sector businesses supply a range of seals, gaskets, filters, cylinders, components and kits used in heavy mobile machinery and specialised industrial equipment.

	2020	2019	
Revenue	**£242.1m**	£220.6m	*+10%*
Adjusted operating profit	**£36.0m**	£38.1m	*-6%*
Adjusted operating margin	**14.9%**	17.3%	*-240bps*
Free cash flow	**£32.2m**	£17.7m	*+82%*
ROATCE	**15.7%**	19.3%	*-360bps*

- *Performed well through the crisis – least impacted sector*
- *Excellent contribution from VSP*
- *Transition to Louisville facility opens up exciting market share gains for Aftermarket*
- *Margins down on one-off costs from facility transition and some restructuring charges*
- *Prospects for FY21 overall very positive*

Reported revenues of the Seals Sector businesses increased by 10% to £242.1m (2019: £220.6m), with underlying revenues down 5%, acquisitions during 2019 and 2020 contributing 16%, and a 1% headwind from currency.

Adjusted operating margins reduced by 240bps to 14.9% (2019: 17.3%), due to the impact of Covid-19 during the second half of the financial year, non-recurring reorganisation costs of £1.6m, and dual running costs as we transition to a new distribution facility. There was a positive mix impact on gross margins despite reducing revenues as sales to smaller, higher margin customers were sustained, particularly in the NA Aftermarket business.

North American Seals
NA Seals accounts for 62% of Sector revenues and were up 12% on a reported basis and down 7% on an underlying basis, with a significant acquisition (VSP in Q4 2019) contribution of 20% and an adverse 1% movement from currency.

The **NA Aftermarket** Seals businesses reported broadly flat underlying revenues despite the Covid-19 impact during the second half of the financial year, a strong performance thanks to its scale and the diversity of its customer base. US domestic sales were up on prior year, driven by strong performance in the Repair segment, partially offset by de-stocking amongst distribution customers. The business also benefited from its exposure to largely South Eastern States, which remained more open during the pandemic.

We have invested $8.0m in a new, automated distribution facility in Louisville, Kentucky, which went live in August 2020. It will be fully operational, in line with our plan, after a staged customer migration programme. The existing facility in Clearwater, Florida, will be run down and provide contingency until operations are fully stabilised before a planned close down by the end of December. The new facility contains an artificial intelligence driven AutoStore which will be more effective, efficient, and ready for greater scale. It is located next to a major logistics hub. This provides access to a much wider area of the US, particularly the West Coast and Industrial Mid-West, on a guaranteed next-day delivery basis. This will enable us to drive market share gains in those regions and accelerate the business's growth.

In terms of technology, we launched a new version of our market leading Hercules Webstore, which now accounts for over 40% of orders. We are excited about the functionality this brings our customers, including multi-spec ordering and custom designs.

The **US Industrial OEM** business was impacted by softer industrial markets in the first half of the 2020, and particularly the impact on our customers of US/China trade tariffs. This was compounded by Covid-19 in the second half. Underlying revenues were down 10% for the full year (adverse currency impact of 1%). We have been rebuilding the management team in this business and they are beginning to see the rewards for their work as the trends in revenue growth improved significantly in Q4 and into the next year.

In **MRO**, VSP, acquired in July 2019, performed extremely well in the first nine months of 2020 and was initially less impacted by the Covid-19 crisis than other businesses. Customers in the Oil & Gas sector, particularly in the Transportation segment, have been negatively affected by reduced demand driven by lower oil prices, and we have also seen customers defer scheduled plant outages and maintenance work, leading to a reduction in revenues during the final quarter compared to the prior year. However, this trend is now beginning to reverse and we are confident that VSP will contribute significantly to the Group again in the new year.

International Seals
International Seals, which accounts for 38% of the Seals Sector, delivered one of the most resilient Sector performances in the Diploma portfolio owing to its diverse customer base, end markets and geographies. Business into renewable energy and medical end segments, offset business into Oil & Gas and Industrial Sectors. Reported revenues were up 6%, with underlying revenues only 3% down, a 10% contribution from acquisitions, and 1% currency headwind.

The UK economy continues to be sluggish and we expect our UK businesses' recovery to track industrial output. During the final quarter we reorganised the businesses, including last year's DMR Seals purchase, into an Aftermarket cluster and an OEM cluster. This will allow for a more co-ordinated approach to market in these segments and provide an improved platform for scalable growth. To support this reorganisation, we have invested in an ERP platform in the Aftermarket business which will go live early in the 2021 financial year. We have started to see better performance from the UK businesses in Q4.

Our continental European businesses delivered a strong performance that was driven by our Scandinavian business, M Seals, and our Swiss business, Kubo. They have very diverse end segments and markets which supported excellent growth in the year.

In Australia we acquired PumpNSeal in January 2020, a specialist supplier of process pumps, pumping systems and sealing solutions located in Perth, which contributed £5.1m to 2020 revenues. We have combined the West Coast operation of our existing Australian business with this acquisition which will optimise the supporting cost base and provide a platform going into 2021.

CONTROLS

The Controls Sector businesses supply specialised wiring, cable, connectors, fasteners, and control devices used in a range of technically demanding applications.

	2020	2019	
Revenue	**£156.6m**	£178.3m	*-12%*
Adjusted operating profit	**£22.8m**	£31.6m	*-28%*
Adjusted operating margin	**14.6%**	17.7%	*-310bps*
Free cash flow	**£27.3m**	£24.7m	*+11%*
ROATCE	**21.1%**	31.0%	*-990bps*

- *Sector most affected by crisis due to UK and Civil Aerospace exposures*
- *Restructuring complete: businesses focused on growth with positive trends for FY21*
- *Exciting acquisition of high-quality, scalable US business in Windy City Wire*
- *Margins affected by deleveraging and restructuring charges, the benefits of which will flow into FY21*

In the Controls sector, reported revenues decreased by 12% to £156.6m (2019: £178.3m). Underlying revenues were down 14%, which was partly offset by a 2% contribution from acquisitions. Growth was impacted by the Sector's significant exposure to the UK economy and Civil Aerospace, the most severely Covid-19 affected end market within the Group.

Adjusted operating margins decreased by 310bps to 14.6% (2019: 17.7%) and include a £2.3m non-recurring restructuring cost in order to ensure that the most affected businesses have the right platform for future growth and to integrate businesses together for better revenue performance in the future. All businesses sought to preserve margins by managing expenses tightly.

Interconnect

The Interconnect business accounts for 64% of Controls revenues and reported a decrease in revenues of 12% and includes a strong performance in the first half.

The IS Group's performance in the UK was down 15% on prior year, but revenue declines in France and Germany were less pronounced due to the relative strength of the Automotive business and the Energy sector. In Germany, further progress in the Energy sector is expected to be converted in the next financial year as contractual supplier relationships have been expanded. The order books have been steadily improving across the IS Group in Q4 and we are starting to see that translate into much improved revenue performance in the early part of the new year.

During 2020, we combined two separately run cabling and cabling-solutions businesses under one management team to take advantage of compatible customer and product ranges, and build scale to unlock investment in the customer proposition and growth. This business - Shoal Group - is an early cycle business, and as such made good progress in the latter months of the year as the lockdowns across Europe eased.

Specialty Fasteners

This business was heavily impacted by Covid-19 due to its exposure to Civil Aerospace and Motorsport end segments. The business accounts for 21% of Controls revenues and reported a decrease in revenues of 9%, reflecting an underlying decrease of 21%, before contribution from acquisitions of 12%.

While the business enjoyed great momentum in the first half of the year, revenue streams fell significantly early in the crisis. We have taken actions to restructure the business appropriately for growth. However, we remain very optimistic about the future. The US and Asian Civil Aerospace markets have remained rewarding for us, we have been winning market shares in the more challenging European Civil Aerospace markets, motorsport revenues have been improving again, and finally we have been working hard to diversity further the revenue opportunities. In the short term, revenue declines have improved significantly and we remain very optimistic about the longer-term future for the business too.

Fluid Controls

The Fluid Controls business makes up 15% of the Sector and is based primarily in the UK. Reported and underlying revenues decreased by 18%. The business supplies the Food & Beverage industry, as well as vending machines and drinks markets, which were all heavily affected by the impact of lockdowns on hospitality. These reductions were offset by exposure to the Refrigeration market, in particular OEMs producing refrigeration elements for food delivery vehicles, a very high growth end segment in FY 2020/21.

LIFE SCIENCES

The Life Sciences Sector businesses supply a range of clinical diagnostics instrumentation, consumables and related services to the Healthcare and Environmental industries.

	2020	**2019**	
Revenue	**£139.7m**	£145.8m	*-4%*
Adjusted operating profit	**£28.3m**	£27.5m	*+3%*
Adjusted operating margin	**20.3%**	18.9%	*+140bps*
Free cash flow	**£22.7m**	£23.2m	*-2%*
ROATCE	**21.9%**	22.0%	*-10bps*

- *Sharp declines in Q3 as hospitals/labs focused on the virus*
- *Rapid recovery in Q4 continues as procedures largely returned to normal*
- *Backlog should deliver accelerated growth over 1-2 years depending on supply/demand factors*
- *Margins strong following tight cost control*

Reported revenues of the Life Sciences Sector businesses performed strongly in the circumstances and only decreased by a modest 4% to £139.7m (2019: £145.8m), with underlying revenues down 4%. Acquisitions contributed 2% but this was offset by an equivalent currency headwind.

Adjusted operating margins increased by 140bps to 20.3% (2019: 18.9%) primarily as a result of a mix effect towards higher margin diagnostics supplies in Canada and tight cost management.

Gross margins were in line with prior year with no meaningful impact from exchange rate fluctuations, resulting in adjusted operating profit increasing by £0.8m to £28.3m (2019: £27.5m).

Healthcare

The Healthcare business account for 85% of the Life Sciences Sector and is exposed to Canada (57%), Australia (31%), and Europe (12%). Reported and underlying revenues for the full year decreased by 4%.

Healthcare had a good first half performance with revenues 2% up on prior year on an underlying basis. However, at the start of the second half the Healthcare business experiences a sharp fall in activity with lockdowns temporarily restricting access to hospitals. Naturally, healthcare systems focussed their attention on combatting the pandemic and this almost all elective surgery and diagnostics were delayed. However, the easing of lockdown restrictions allowed the business to begin to recover relatively quickly during the final quarter, limiting the overall decrease in underlying revenues to 4%.

The speed and sustained nature of Healthcare’s recovery was a result of an agile business response to the Covid-19 impact, namely effective implementation of Covid-19-secure working practices in the businesses, as well as in our relationships and dealings with clients and suppliers. Consequently, the impact of subsequent localised lockdowns can now be more easily mitigated or circumnavigated by drawing on now-established, alternative operating procedures.

The recovery in the fourth quarter has been sustained into the new financial year with pent-up demand in elective surgery and non-critical outpatient and diagnostics procedures providing strong demand levels, which will be caught up over the medium term in line with available capacity for increased surgical and diagnostics throughput.

Environmental
Our Environmental businesses are based in Europe, and account for 15% of Life Sciences revenues. 2020 saw a slight decrease of 2% in underlying and reported revenues over last year which was mainly attributable to international business being impacted by travel restrictions.

FINANCE REVIEW

Reported and underlying results in 2020
Reported revenues decreased by 1% to £538.4m (2019: £544.7m) and adjusted operating profit decreased by 10% to £87.1m (2019: £97.2m). The results reflect a 7% contribution from acquisitions, a currency headwind of 1% and lower adjusted operating margins. Acquisitions completed this year and last year incrementally contributed £42.7m and £7.8m to revenue and adjusted operating profit, respectively.

The underlying results present the performance of the Group on a like-for-like basis by adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired in the previous year) and for the currency impact on the translation of the results of the overseas businesses. Underlying revenues and underlying adjusted operating profits decreased by 7% and 16%, respectively.

Adjusted operating margin
The Group's adjusted operating margin decreased by 160bps this year to 16.2% (2019: 17.8%) reflecting the operating leverage impact of the revenue reduction as a result of Covid-19 as well as a £3.9m restructuring charge, which was incurred in order to align resource and the cost base to the anticipated revenue growth profile going forward.

In Seals, adjusted operating margins were affected by Covid-19 and some non-recurring costs, related to restructuring and set-up costs for Louisville. This was mitigated by tight cost control measures to preserve profitability. The Controls Sector was the most severely impacted by Covid-19. Although strict cost control measures were put in place, operating margins decreased as a result of the negative operational leverage. The cost base was reviewed and aligned with the revenue profile going forward, resulting in non-recurring restructuring charges which are included in the adjusted operating margin. In Life Sciences, adjusted operating margins benefited from the mix effect inherent in the revenue reduction and tight cost control measures.

Adjusted and statutory profit before tax
Adjusted profit before tax decreased by 13% to £84.4m (2019: £96.5m). The interest expense this year increased to £2.7m (2019: £0.7m), including £0.9m on increased borrowings to finance acquisitions, fees in connection with the increase in the revolving credit facility and £1.4m relating to the IFRS 16 interest charge.

Statutory profit before tax was £66.7m (2019: £83.5m) and is after charging acquisition related costs of £17.3m (2019: £13.1m), comprising the amortisation of acquisition related intangible assets and acquisition costs and a net £0.4m charge (2019: £0.1m credit) on the fair value remeasurement of financial liabilities and the unwind of discounts.

Tax charge, earnings per share and dividends
The Group's effective tax charge on adjusted profit remained unchanged at 24.0%, compared with 24.0% last year.

Adjusted earnings per share ("EPS") decreased by 12% to 56.4p, compared with 64.3p last year and statutory EPS decreased by 20% to 43.5p (2019: 54.7p).

The Board has a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long term growth strategy and the target level of dividend cover. The Board continues to target ca. two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year), which provides a prudent buffer. The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified on pages 15 to 21 that could adversely impact the performance of the Group.

The 2020 final dividend additionally takes into account the fact that no 2020 interim dividend was paid during the Covid-19 crisis. The Board considered all stakeholders, including the repayment of all UK government funds and other support, a one-off contribution to the Group defined benefit pension scheme of £5.1m following the year end, as well as the strong cash flow performance and liquidity position of the Group in making a decision on the 2020 final dividend.

For 2020, the Board has recommended a final dividend of 30.0p per share (2019: 20.5p) making the proposed full year dividend 30.0p (2019: 29.0p). This represents a 3% increase in the proposed full year dividend with dividend cover at ca. 1.9 times adjusted EPS.

Free cash flow
Free cash flow represents cash available to invest in acquisitions or return to shareholders. The Group generated exceptionally strong free cash flow this year of £72.5m compared with £56.5m last year and benefited from ca. £5.8m (2019: £nil) received on asset sale proceeds.

The improvement in free cash flow conversion to 113% (2019: 78%) of adjusted earnings reflects a large cash inflow from working capital. This was the result of strong credit collection boosted by stock reductions from operational improvements in the US OEM business where there were elevated stock balances last year, following the cut over from a new ERP system in the previous year.

The Group's KPI metric of working capital to revenue at 30 September 2020 decreased to 16.0% (2019: 16.5%).

Group tax payments decreased by £0.4m to £21.5m (2019: £21.9m). On an underlying basis, cash tax payments represented ca. 25% (2019: ca. 22%) of adjusted profit before tax which is up on prior year due to two additional quarterly UK tax payments following a change in the UK tax payments regime. Underlying tax payments are before currency effects from translation and exclude payments for pre-acquisition tax liabilities in acquired businesses.

The Group's tax strategy is to comply with tax laws in the countries in which it operates and to balance its responsibilities for managing tax with its responsibility to pay tax where it does business. The Group's tax strategy and policy was approved by the Board last year and tax risks are regularly reviewed by the Audit Committee.

The Group's capital expenditure was slightly lower this year at £9.4m (2019: £10.9m) but higher than historic levels and largely reflected investment in expanding the Group's facilities, particularly the NA Aftermarket facility in Louisville (£3.1m), as well as ongoing investment in both new field equipment in the Healthcare businesses (£2.5m) and investment in technology across the Group to replace legacy IT systems and build a platform for growth.

The Group spent £14.9m (2019: £78.3m) of free cash flow on acquisitions as described below and £23.4m (2019: £30.1m) on paying dividends to both Company and minority shareholders.

The Group raised a net £189.2m (including unpaid fees of £0.6m) in equity proceeds from shareholders in a 10% placing announced on 22 September 2020. These funds are included in cash at 30 September 2020 and have been applied, along with arranged debt facilities, to the $450m initial consideration for the acquisition of WCW, which completed on 16 October 2020.

Acquisitions completed during the year
The Group invested £13.8m on acquiring new businesses this year and paid a further £1.1m of deferred consideration for businesses acquired last year. These bolt-on businesses comprised CR Systems, a fasteners business in Germany, for consideration of £9.1m and PumpNSeal, a specialist supplier of process pumps, pumping systems and sealing solutions in Perth, Australia, for £4.7m (including £0.5m of deferred consideration). These businesses are excellent examples of Diploma bolt-on acquisitions that offer the relevant Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering, leading to increased value to shareholders.

Goodwill at 30 September 2020 was £159.0m (2019: £155.0m). Goodwill is not amortised but is assessed each year at a Sector level to determine whether there has been any impairment in the carrying value. The exercise to assess whether goodwill has been impaired is described in note 11 to the consolidated financial statements. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

Acquisitions completed after year end
On 16 October 2020, the Group completed the acquisition of WCW, a low voltage wire and cable business with a strong service component in the US, for initial consideration of $450m. WCW has an impressive value-add customer proposition and is a perfect fit with our business model. Furthermore, it accelerates our strategy of focusing our growth in our key markets in a product area we know well, providing a scalable platform for our Controls sector in the US. The business has an excellent performance track record and is positioned well in high structural growth end segments to deliver growth in the future.

Liabilities to shareholders of acquired businesses
The Group's liability to shareholders of acquired businesses at 30 September 2020 increased by £0.2m to £11.5m (2019: £11.3m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior year.

The liability to acquire minority shareholdings outstanding at 30 September 2020 relates to a 10% interest held in both M Seals and Kentek. These options are now fully exercisable and are valued at £4.2m (2019: £4.3m), based on the Directors' latest estimate of the earnings before interest and tax ("EBIT") of these businesses when these options crystallise.

The liability for deferred consideration payable at 30 September 2020 was £7.3m (2019: £7.0m). This liability represents the Directors' best estimate of the amount likely to be paid to the vendors of businesses purchased during the year, based on the expected performance of these businesses during the measurement period. During the year, £1.1m of deferred consideration was paid to the vendors of DMR Seals (£0.6m) and PumpNSeal (£0.5m).

Return on adjusted trading capital employed and capital management
A key metric used to measure the overall profitability of the Group and its success in creating value for shareholders is the return on adjusted trading capital employed ("ROATCE"). At a Group level, this is a pre-tax measure that is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings. At 30 September 2020, the Group ROATCE of 19.1% (2019: 22.9%) was lower as a result of the Covid-19 related impact on revenue and

profitability. Adjusted trading capital employed is defined in notes 2 and 3 to the consolidated financial statements.

The Group continues to maintain a robust balance sheet with cash funds of £206.8m at 30 September 2020 compared with net debt of £15.1m last year. Surplus cash funds generated in the businesses are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group generated enough cash organically to be in a position to repay its term loan before the end of the year, and following the equity raise which provided net cash funds of £189.2m (includes unpaid fees of £0.6m) the Group refinanced its credit facilities in order to complete the acquisition of WCW on 16 October 2020. The Group now has a $170.0m term loan and a £135.0m fully revolving multi-currency credit facility to 31 December 2023 with two 12-month extension options to 31 December 2025. The facility also has an accordion option to increase the committed facility by a further £50.0m. The term loan and RCF have been fully and partly drawn to fund the acquisition of WCW. The financing package will allow the Group to continue with its strategy of pursuing bolt-on acquisitions. More detail on finance terms are provided in note 10 to these financial statements.

As at year end the Group had £206.8m of cash and £60.0m of undrawn facilities.

Employee pension obligations
Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in 2020 of £4.3m (2019: £3.8m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. A formal triennial funding valuation of this scheme was carried out as at 30 September 2019 and reported a funding deficit of £9.9m with a 76% funding level. The company is currently funding this deficit with cash contributions of £0.5m (2019: £0.5m) which increases annually on 1 October by 2%. In addition, a one-off contribution of £5.1m has been agreed with the Trustees of the scheme as part of the triennial review and was paid in October 2020.

In Switzerland, local law requires Kubo to provide a contribution-based pension for all employees, which are funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies, which pools the funding risk between participating companies. In Switzerland, Kubo's annual cash contribution to the pension scheme was £0.4m (2019: £0.4m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (Revised). At 30 September 2020, the aggregate accounting pension deficit in these two schemes increased slightly by £0.5m to £18.3m reflecting the impact from a small fall in bond yields. The gross aggregate pension liability in respect of these two schemes at 30 September 2020 decreased by £1.5m to £55.8m, which is funded by £37.5m of assets.

New Reporting Standards (IFRSs)
IFRS 16 'leases' was adopted by the Group in the year using the modified retrospective approach. The amounts for the year ended 30 September 2019 have not been restated. On implementation of IFRS 16, the Group recognised leases – right-of-use assets and corresponding lease liabilities of £33.5m and £33.7m respectively. There was no impact on the Group's opening shareholders' funds. The right-of-use asset and lease liability were £31.6m and £33.7m respectively as at 30 September 2020. Further information as to the impact of adoption is included in note 15 to the financial statements.

Impact of Brexit
At an operational level, the impact on the Group's businesses from the UK's exit from the European Union is not expected to be significant in terms of the Group's overall profitability. UK based revenues account for less than a quarter of the Group's overall revenues and the UK

businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited cross border sales activity.

A prolonged disruption at the UK's borders as a result of Brexit has the potential to impact the supply chain of the Group's UK businesses. Our business have developed mitigating strategies around inventory levels and goods flow to minimise any potential impact. The Board will continue to monitor this closely.

GOING CONCERN

Directors' assessment of going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this announcement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. In addition, the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Given the global economic uncertainty of the Covid-19 pandemic and taking into account the recent guidance issued by the FCA and FRC, the Directors have considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described below.

Liquidity and Financing position

The Group's liquidity and funding arrangements are described in note 10 to these financial statements. As at 30 September 2020, the Group had cash funds of £206.8m and also had a committed multi-currency revolving bank facility of £60.0m which includes a committed accordion facility of £30.0m which was exercised during the year. In the prior year, the Group extended its facilities with a two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies. The Group fully repaid this loan in September 2020.

On 13 October 2020, the Group entered into a new debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The SFA is due to expire in December 2023 and there is an option to extend for a further two 12-month periods. The facility also has an accordion option to increase the committed facility by a further £50.0m. The term loan and RCF facility have been fully and partly drawn to assist in the acquisition of Windy City Wire Cable & Technology Products, LLC which completed on 16 October 2020.

Operational and business impact of Covid-19

The Group operates businesses which continued to trade successfully throughout the lockdown periods, demonstrating the resilience and power of our value-add model, the diversity of our end segments and the benefits of a geographically diverse scalable business. Changes were made to the operating processes and practices to ensure the business can respond to and meet the specific local government requirements in each country in which it operates. Although the duration and severity of the lockdown restrictions have varied from country to country, in general Covid-19 impacted trading most severely in each of the three Sectors through April to June 2020. In the final quarter of the year all businesses were in recovery and focusing on future growth. Despite the challenges from the pandemic the Group still generated strong profit and free cash flows in each month. The Group generated free cash flows for the year of £72.5m which was up 28% on the prior year.

Financial modelling
The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed Budget which is built up on a business by business case and considers both the micro and macro-economic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep declines in revenues and operating margins as well as materially adverse working capital movements. These sensitivities factor in a continued unfavourable impact from the Covid-19 pandemic.

The purpose of this exercise is to consider if there is a significant risk that the Group could breach either its facility headroom or financial covenants. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

Going concern basis
Accordingly and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

Set out below are the principal risks and uncertainties affecting the Group that have been determined by the Board, based on a robust risk evaluation process, that have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. There were no new Principal Risks identified from the review process carried out by the Board this year.

The risks are each classified as either strategic, operational, financial or accounting. The Group's decentralised operations with different Sectors and geographical spread helps mitigate the impact of these principal risks.

The Board has also considered the risks associated with the Covid-19 pandemic and the UK's vote to leave the European Union and this is explained above in the Finance Review.

Strategic risk: Downturn/instability in major markets
Relative movement to prior year: Increase

Risk description and assessment
Adverse changes in the major markets in which the businesses operate can result in slowing revenue growth, due to reduced or delayed demand for products and services, or margin pressures due to increased competition.

A number of characteristics of the Group's businesses moderate the impact of economic and business cycles:

- The Group's businesses operate in three different Sectors with different cyclical characteristics and across a number of geographical markets.
- The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs.
- A high proportion of the Group's revenues comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer.

Mitigation
The businesses identify key market drivers and monitor trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand.

Changes to cost levels and inventories can then be made in a measured way to mitigate the effects.

Significant global events are closely monitored to determine any potential impact on key markets.

The diversified nature of the business model in terms of geographies, customers and end segments provided resilience against the impact of Covid-19.

The decentralised management structure allowed for an agile response to the crisis.

Change
Covid-19 has changed the macro environment in which our businesses operate and we had to respond quickly and effectively to the change in the markets we face.

Strategic risk: Supplier concentration/loss of key suppliers
Relative movement to prior year: No change

Risk description and assessment
For manufacturer-branded products, there are risks of cancellation of existing distribution agreements and vertical integration of suppliers, losing access to key distribution channels. There is also the risk of a supplier taking away exclusivity and either setting up direct operations or appointing another distributor.

Currently no single supplier represents more than 8% of Group revenue and only four suppliers represent more than 2% each of Group revenue.

Relationships with suppliers have been built up over many years and a strong degree of interdependence has been established. This generally ensures continuity of supply when there is shortage of product. The average length of principal supplier relationships is over ten years.

The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand, relying on suppliers to invest in new development and technologies.

Mitigation
Long term, multi-year, exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition.

Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings.

Regular review of inventory levels.

Bundling and kitting of products and provision of value-added services.

Periodic research of alternative suppliers as part of contingency planning and attending industry exhibitions to keep abreast of the latest technology and market trends.

Meeting with key customers on a regular basis to gain insight into their product requirements and market developments.

Change
This risk has remained at a similar level to last year and is addressed continuously in our business risk management process.

Strategic risk: Customer concentration/loss of key customer(s)
Relative movement to prior year: No change

Risk description and assessment
The loss of one or more major customers can be a material risk. The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer and no single customer represents more than 3.5% of Sector revenue or more than 1.5% of Group revenue.

Mitigation
Specific large customers are important to individual operating businesses and a high level of effort is invested in ensuring that these customers are retained and encouraged not to switch to another supplier.

In addition to providing high levels of customer service and value-added activities, close integration is established where possible with customers' systems and processes.

Change
This risk has remained at a similar level to last year and is addressed continuously in our businesses risk management process.

Strategic risk: Unsuccessful acquisition
Relative movement to prior year: No change

Risk description and assessment
Diploma has a strong history of disciplined acquisitions. The business model of the Group is based on successful acquisitions in large and developed markets and in our core products.

The risks of an unsuccessful acquisition can be analysed as:

- The acquired business may underperform post acquisition.
- Loss of key customers or suppliers post integration.
- Potential lack of cultural fit as businesses that are relatively small in size are faced with the new requirements of a listed Group.

The above may be the result of inadequate due diligence, poor integration, or unrealistic assumptions used in the investment case.

Mitigation
A clearly defined acquisition strategy is in place, with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group.

An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the Chief Executive Officer ("CEO").

A formal due diligence process is followed for all acquisitions, with close supervision by the CEO and relevant Group senior management. There is a formal governance process in place up to Board level.

A disciplined integration process covers operational, financial, governance and reporting matters.

Change
The acquisition pipeline remains healthy and although acquisition processes remain competitive, the Group will retain its disciplined approach to bringing high-quality, value enhancing businesses into the Group.

Operational risk: Health & Safety
Relative movement to prior year: Increase

Risk description and assessment
Covid-19 has placed a much greater focus on Health & Safety and preventative measures to limit the spread of coronavirus. An increased number of measures are now required to be taken by businesses across the world to ensure a safe work environment for all employees.

As Health & Safety regulation related to Covid-19 is subject to rapid change, there is a risk of non-compliance with the latest government guidelines.

Local government measures on lockdown as a result of Covid-19 could result in business interruption, where employees cannot fully perform their duties for a limited time period.

Additionally, there is a risk in potential working time lost as a result of a potential increase in sick days or prevention measures employees may have to undergo across the Group.

Mitigation
The Group undertook a risk assessment in each of its businesses in line with Government guidelines on working safely during Covid-19. The risk assessments were approved by the Managing Director of each business and are reviewed regularly or in the case of a change in circumstance.

Additionally, management promote mental health and wellbeing awareness, offer support to their colleagues, and access to an employee assistance programme.

Short lines of communication to the businesses ensured focused and timely actions were taken.

There is regular involvement of the Board, ensuring adequate oversight.

Change
There has been a significant increase in Health & Safety risk as a result of the Covid-19 pandemic.

Additional Health & Safety measures were introduced across all businesses, including social distancing and PPE equipment to comply with local government regulations and keep our colleagues safe.

The businesses' responses to the implications of Covid-19 have been timely and agile, with remote working practices being effectively introduced when needed.

There were no reported issues from the businesses, testament to the strong governance in place, which focused on structured communication with the businesses.

Business disruptions have been minimal across the Group, all the businesses remained open and operational during 2020.

Operational risk: Cybersecurity/information technology/business interruption
Relative movement to prior year: No change

Risk description and assessment
Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses. The Group seeks to ensure continuous availability, security and operation of those information systems.

Any disruption or denial of service may delay or impact decision making if reliable data is unavailable. Poor information handing or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber attack may also lead to disruption, including fraud.

Mitigation
There is good support and back-up built into local IT systems and the spread of businesses with their own stand-alone IT systems also offers good protection from individual events. The majority of businesses back-up online data at least once a day to an offsite data storage centre.

All businesses in the Group have a robust cybersecurity programme and there are regular reports to the Board on the status of cybersecurity across the Group.

Education/awareness of cyber threats continues to ensure colleagues protect themselves and Group assets.

Business continuity plans exist for each business with ongoing testing.

Change
Cyber threats to the businesses' information systems have this year reduced, following action taken to strengthen the IT infrastructure environment across the Group's businesses.

The businesses have maintained a high standard of cyber-security whilst accommodating remote working practices in territories where strict lockdowns were in place as a response to the Covid-19 pandemic.

At 30 September 2020, all existing businesses had achieved or renewed the UK Government endorsed Cyber Essentials accreditation. It is expected that recently acquired businesses will be fully accredited in 2021.

Operational risk: Loss of key personnel
Relative movement to prior year: No change

Risk description and assessment
The success of the Group is built on strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have an impact on performance for a limited time period.

The average length of service of the ca. 100 senior managers in the Group is ten years and for all personnel in the Group is consistently ca. seven years.

Mitigation
Contractual terms, such as notice periods and non-compete clauses, can mitigate the risk in the short term.

The Group places very high importance on planning the development, motivation and reward for key managers in the operating businesses including:

- Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses.
- Implementing a structured talent review process for the development, retention and succession of key personnel.
- Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Change
The Group and the businesses have managed to retain key employees despite the significant economic challenges resulting from Covid-19.

Flexible working practices have been introduced, where needed, to both retain staff and manage operating costs effectively.

Operational risk: Product liability
Relative movement to prior year: No change

Risk description and assessment
There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability.

The Group's businesses may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. Product liability insurance can be limited in terms of its scope of insurable events, such as product recall.

In situations where a Group business is selling own-branded products and cannot subrogate the liability to a supplier, the business will be liable for failure of the product. Additionally, it may also be liable for the associated costs of a subsequent customer recall arising directly from failure of an own-branded product.

Mitigation
Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake product risk assessments and comprehensive supplier quality assurance assessments. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £30m across all Sectors.

The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers. In this way the liability can be limited and subrogated to the supplier.

Change
This risk has remained at a similar level to last year and is addressed continuously in our business risk management process.

Financial risk: Foreign currency
Relative movement to prior year: No change

Risk description and assessment
The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, being the effect that currency movements have on the Group's financial statements on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, being the effect that currency movements have on the results of operating businesses (due to their revenues or product costs being denominated in a currency other than their local currency).

Translational foreign exchange risk arises from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro.

A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £7.6m (9%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £17.0m (3%).

Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.

Mitigation
The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets.

The Group's businesses may hedge up to 80% of forecast (for a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts.

The Group Finance department monitors rolling monthly forecasts of currency exposures.

Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group are showing in note 16 to the consolidated financial statements.

Change
This risk has remained at a similar level to last year and is addressed continuously in our business risk management process.

Accounting risk: Inventory obsolescence
Relative movement to prior year: No change

Risk description and assessment
Working capital management is critical to success in specialised industrial distribution businesses as this has a major impact on cash flow. The principal risk to working capital is in inventory obsolescence and write-off.

Mitigation
Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts.

Where necessary, a provision is made to cover both excess inventory and potential obsolescence.

Change
The charge against operating profit in respect of aged or surplus inventory in the year was £2.2m, but inventories are generally not subject to technological obsolescence.

Inventories were reviewed carefully, taking into account reduced sales volumes as a result of Covid-19 to ensure all surplus stock was appropriately identified and dealt with.

RESPONSIBILITY STATEMENT OF THE DIRECTORS
IN RESPECT OF THE ANNUAL REPORT 2020

The Directors confirm that to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces; and

- the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors of Diploma PLC and their respective responsibilities are listed in the Annual Report & Accounts for 2019 and on the Company's website at *www.diplomaplc.com*.

This responsibility statement was approved by the Board of Directors on 16 November 2020 and is signed on its behalf by:

JD Thomson
Chief Executive Officer

B Gibbes
Chief Financial Officer

Registered office:
12 Charterhouse Square
London
EC1M 6AX

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2020

	Note	2020 £m	2019 £m
REVENUE	3,4	**538.4**	544.7
Cost of sales		**(344.0)**	(347.7)
Gross profit		**194.4**	197.0
Distribution costs		**(14.0)**	(12.7)
Administration costs		**(110.6)**	(100.2)
OPERATING PROFIT	3	**69.8**	84.1
Financial expense, net	5	**(3.1)**	(0.6)
PROFIT BEFORE TAX		**66.7**	83.5
Tax expense	6	**(16.9)**	(21.1)
PROFIT FOR THE YEAR		**49.8**	62.4
Attributable to:			
Shareholders of the Company		**49.3**	61.9
Minority interests		**0.5**	0.5
		49.8	62.4
EARNINGS PER SHARE			
Basic and diluted earnings	7	**43.5p**	54.7p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	Note	2020 £m	2019 £m
Operating profit		**69.8**	84.1
Add: Acquisition related charges		**17.3**	13.1
ADJUSTED OPERATING PROFIT	3,4	**87.1**	97.2
Deduct: Interest expense	5	**(2.7)**	(0.7)
ADJUSTED PROFIT BEFORE TAX		**84.4**	96.5
ADJUSTED EARNINGS PER SHARE	7	**56.4p**	64.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2020

	2020 £m	2019 £m
Profit for the year	**49.8**	62.4
Items that will not be reclassified to the Consolidated Income Statement		
Actuarial losses in the defined benefit pension schemes	**(0.4)**	(7.2)
Deferred tax on items that will not be reclassified	**0.4**	1.3
	-	(5.9)
Items that may be reclassified to Consolidated Income Statement		
Exchange rate (losses)/gains on foreign currency net investments	**(7.6)**	6.2
(Losses)/gains on fair value of cash flow hedges	**(0.1)**	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	**(0.4)**	(0.7)
Deferred tax on items that may be reclassified	**0.1**	-
	(8.0)	5.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**41.8**	62.4
Attributable to:		
Shareholders of the Company	**41.2**	61.9
Minority interests	**0.6**	0.5
	41.8	62.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2020

		Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Share-holders' equity £m	Minority interests £m	Total equity £m
At 1 October 2018		5.7	-	29.8	0.5	255.2	**291.2**	3.1	**294.3**
Total Comprehensive Income		-	-	6.2	(0.3)	56.0	**61.9**	0.5	**62.4**
Share-based payments		-	-	-	-	0.8	**0.8**	-	**0.8**
Minority interests acquired		-	-	-	-	-	**-**	-	**-**
Minority interest contribution		-	-	-	-	-	**-**	-	**-**
Tax on items recognised directly in equity		-	-	-	-	0.1	**0.1**	-	**0.1**
Notional purchase of own shares		-	-	-	-	(2.9)	**(2.9)**	-	**(2.9)**
Dividends	14	-	-	-	-	(29.8)	**(29.8)**	(0.3)	**(30.1)**
At 30 September 2019		**5.7**	**-**	**36.0**	**0.2**	**279.4**	**321.3**	**3.3**	**324.6**
Total Comprehensive Income		-	-	(7.7)	(0.5)	49.4	**41.2**	0.6	**41.8**
Issue of shared based capital		0.6	188.6	-		-	**189.2**	-	**189.2**
Share-based payments		-	-	-	-	0.8	**0.8**	-	**0.8**
Minority interest acquired		-	-	-	-	-	**-**	-	**-**
Minority interest contribution		-	-	-	-	-	**-**	-	**-**
Tax on items recognised directly in equity		-	-	-	-	0.2	**0.2**	-	**0.2**
Notional purchase of own shares		-	-	-	-	(2.5)	**(2.5)**	-	**(2.5)**
Dividends	14	-	-	-	-	(23.2)	**(23.2)**	(0.2)	**(23.4)**
AT 30 SEPTEMBER 2020		**6.3**	**188.6**	**28.3**	**(0.3)**	**304.1**	**527.0**	**3.7**	**530.7**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2020

	Note	2020 £m	2019 £m
NON-CURRENT ASSETS			
Goodwill	11	**159.0**	155.0
Acquisition intangible assets		**87.2**	96.1
Other intangible assets		**3.0**	2.7
Property, plant and equipment		**27.9**	26.7
Leases – right-of-use assets	8	**31.6**	-
Deferred tax assets		**0.7**	0.5
		309.4	281.0
CURRENT ASSETS			
Inventories		**100.6**	102.6
Trade and other receivables		**77.8**	91.1
Cash and cash equivalents	10	**206.8**	27.0
		385.2	220.7
CURRENT LIABILITIES			
Trade and other payables		**(87.1)**	(90.2)
Current tax liabilities	6	**(4.7)**	(6.9)
Other liabilities	13	**(11.5)**	(10.8)
Lease liabilities	8	**(7.2)**	-
		(110.5)	(107.9)
NET CURRENT ASSETS		**274.7**	112.8
TOTAL ASSETS LESS CURRENT LIABILITIES		**584.1**	393.8
NON-CURRENT LIABILITIES			
Retirement benefit obligations		**(18.3)**	(17.8)
Borrowings	10	**-**	(42.1)
Lease liabilities	8	**(26.5)**	-
Other liabilities		**-**	(0.5)
Deferred tax liabilities		**(8.6)**	(8.8)
NET ASSETS		**530.7**	324.6
EQUITY			
Share capital		**6.3**	5.7
Share premium		**188.6**	-
Translation reserve		**28.3**	36.0
Hedging reserve		**(0.3)**	0.2
Retained earnings		**304.1**	279.4
TOTAL SHAREHOLDERS' EQUITY		**527.0**	321.3
Minority interests		**3.7**	3.3
TOTAL EQUITY		**530.7**	324.6

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2020

	Note	2020 £m	2019 £m
OPERATING PROFIT		**69.8**	84.1
Acquisition related charges	9	**17.3**	13.1
CEO transition costs paid	9	**-**	(1.3)
Non-cash items and other	9	**11.8**	5.8
Decrease/(increase) in working capital	9	**9.5**	(9.4)
CASH FLOW FROM OPERATING ACTIVITIES	9	**108.4**	92.3
Interest paid, net		**(1.5)**	(0.1)
Tax paid		**(21.5)**	(21.9)
NET CASH FROM OPERATING ACTIVITIES		**85.4**	70.3
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (net of expenses and net of cash acquired)	12	**(13.8)**	(77.2)
Deferred consideration paid	13	**(1.1)**	(1.1)
Proceeds from sale of business (net of expenses)		**0.8**	-
Purchase of property, plant and equipment		**(8.4)**	(9.7)
Purchase of other intangible assets		**(1.0)**	(1.2)
Proceeds from sale of property, plant and equipment		**5.8**	-
NET CASH USED IN INVESTING ACTIVITIES		**(17.7)**	(89.2)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital (net of fees)		**189.8**	-
Dividends paid to shareholders	14	**(23.2)**	(29.8)
Dividends paid to minority interests		**(0.2)**	(0.3)
Purchase of own shares by Employee Benefit Trust		**(1.8)**	(1.2)
Notional purchase of own shares on exercise of share options		**(0.7)**	(1.7)
(Repayment of)/Proceeds from borrowings (net)	10	**(42.1)**	41.1
Lease repayments	8	**(7.6)**	-
NET CASH FROM FINANCING ACTIVITIES		**114.2**	8.1
Net increase/(decrease) in cash and cash equivalents		**181.9**	(10.8)
Cash and cash equivalents at beginning of year		**27.0**	36.0
Effect of exchange rates on cash and cash equivalents		**(2.1)**	1.8
CASH AND CASH EQUIVALENTS AT END OF YEAR	10	**206.8**	27.0

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2020

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)			2020 £m	2019 £m
Net increase/(decrease) in cash and cash equivalents			**181.9**	(10.8)
Add:	Dividends paid to shareholders	14	**23.2**	29.8
	Dividends paid to minority interests		**0.2**	0.3
	Acquisition of businesses (net of expenses and cash acquired)	12	**13.8**	77.2
	Acquisition of minority interests		**-**	-
	Proceeds from issue of share capital (net of fees)		**(189.8)**	-
	Deferred consideration paid	13	**1.1**	1.1
	Repayment of/(Proceeds from) borrowings (net)	10	**42.1**	(41.1)
FREE CASH FLOW			**72.5**	56.5
Cash and cash equivalents			**206.8**	27.0
Borrowings			**-**	(42.1)
CASH FUNDS/(NET DEBT)			**206.8**	(15.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2020

1. GENERAL INFORMATION

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group") and were authorised by the Directors for publication on 16 November 2020. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU") and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. Aside from the adoption of IFRS 16 'leases' the accounting policies have been consistently applied in the current and the comparative year.

There was one new accounting standard adopted in the year, IFRS 16 'leases' which had a material impact on the financial statements and in note 15 we have disclosed the impact on adoption of this new standard.

The financial information set out in this Preliminary Announcement, which has been extracted from the audited consolidated financial statements, does not constitute the Group's statutory financial statements for the years ended 30 September 2020 and 2019. Statutory financial statements for the year ended 30 September 2019 have been delivered to the Registrar of Companies and are available on the website at *www.diplomaplc.com.* The statutory financial statements for the year ended 30 September 2020, which were approved by the Directors on 16 November 2020, will be sent to shareholders in December 2020 and delivered to the Registrar of Companies, following the Company's Annual General Meeting.

The auditor has reported on the consolidated financial statements for the years ended 30 September 2020 and 2019. The reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Company's Annual General Meeting will be held at 12.00 midday on 20 January 2021 in The Great Chamber, The Charterhouse, Charterhouse Square, EC1M 6AN. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) financial measures which are not defined within IFRS. The Directors use these measures for internal management reporting of Key Performance Indicators ("KPIs") in order to assess the operational performance of the Group on a comparable basis against the Group's KPIs, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. As such these measures should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Preliminary Announcement:

2.1 Adjusted operating profit
At the foot of the Consolidated Income Statement, "adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets, acquisition expenses, adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of a material restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's revenue.

2.2 Adjusted profit before tax
At the foot of the Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (but before fair value remeasurements in respect of acquisition related payments) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

2.3 Adjusted earnings per share

"Adjusted earnings per share" ("adjusted EPS") is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact on the items included in the calculation of adjusted profit, less profit attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year. The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

2.4 Free cash flow

At the foot of the Consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets and including proceeds received from business disposals, but before expenditure on business combinations/investments, borrowings received to fund acquisitions and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment or distribution to shareholders.

2.5 Trading capital employed and ROATCE

In the Sector analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents ("cash funds") and after adding back: borrowings (other than lease liabilities); retirement benefit obligations; deferred tax; and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets). Return on adjusted trading capital employed ("ROATCE") at the Group and Sector level is defined as the adjusted operating profit, divided by adjusted trading capital employed and adjusted for the full year effect of acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

3. BUSINESS SECTOR ANALYSIS

The Chief Operating Decision Maker ("CODM") for the purposes of IFRS 8 is the Chief Executive Officer ("CEO"). The financial performance of the Sectors are reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

For management reporting purposes, the Group is organised into three main reportable business Sectors: Life Sciences, Seals and Controls. These Sectors are the Group's operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures below. The CODM reviews discrete financial information at these operating segment levels. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

Sector assets exclude cash and cash equivalents, deferred tax assets and corporate assets that cannot be allocated on a reasonable basis to a business Sector. Sector liabilities exclude borrowings (other than lease liabilities), retirement benefit obligations, deferred tax liabilities, acquisition liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business Sector. These items are shown collectively in the following analysis as "unallocated assets" and "unallocated liabilities", respectively.

		Life Sciences		Seals		Controls		Group	
		2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Revenue	- existing	**139.7**	145.8	**237.0**	220.6	**153.0**	178.3	**529.7**	544.7
	- acquisitions	**-**	-	**5.1**	-	**3.6**	-	**8.7**	-
Revenue		**139.7**	145.8	**242.1**	220.6	**156.6**	178.3	**538.4**	544.7
Adjusted operating profit	- existing	**28.3**	27.5	**35.4**	38.1	**21.6**	31.6	**85.3**	97.2
Adjusted operating profit	- acquisitions	**-**	-	**0.6**	-	**1.2**	-	**1.8**	-
Adjusted operating profit		**28.3**	27.5	**36.0**	38.1	**22.8**	31.6	**87.1**	97.2
Acquisition related charges		**(2.4)**	(2.3)	**(9.1)**	(7.0)	**(5.8)**	(3.8)	**(17.3)**	(13.1)
OPERATING PROFIT		**25.9**	25.2	**26.9**	31.1	**17.0**	27.8	**69.8**	84.1

3. BUSINESS SECTOR ANALYSIS (continued)

Acquisition related charges of £17.3m (2019: £13.1m) comprises £15.4m (2019: £11.6m) of amortisation of acquisition intangible assets and £1.9m of acquisition expenses (2019: £1.5m).

	Life Sciences		Seals		Controls		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Operating assets	**47.3**	45.6	**123.1**	109.6	**66.7**	65.6	**237.1**	220.8
Goodwill	**62.0**	64.0	**60.5**	59.1	**36.5**	31.9	**159.0**	155.0
Acquisition intangible assets	**12.6**	15.6	**53.9**	61.7	**20.7**	18.8	**87.2**	96.1
	121.9	125.2	**237.5**	230.4	**123.9**	116.3	**483.3**	471.9
Unallocated assets:								
– Deferred tax assets							**0.7**	0.5
– Cash and cash equivalents							**206.8**	27.0
– Corporate assets							**3.8**	2.3
TOTAL ASSETS	**121.9**	125.2	**237.5**	230.4	**123.9**	116.3	**694.6**	501.7
Operating liabilities	**(27.6)**	(25.3)	**(52.5)**	(37.1)	**(31.8)**	(27.6)	**(111.9)**	(90.0)
Unallocated liabilities:								
– Deferred tax liabilities							**(8.6)**	(8.8)
– Retirement benefit obligations							**(18.3)**	(17.8)
– Acquisition related liabilities							**(11.5)**	(11.3)
– Corporate liabilities							**(13.6)**	(7.1)
– Borrowings							**-**	(42.1)
TOTAL LIABILITIES	**(27.6)**	(25.3)	**(52.5)**	(37.1)	**(31.8)**	(27.6)	**(163.9)**	(177.1)
NET ASSETS	**94.3**	99.9	**185.0**	193.3	**92.1**	88.7	**530.7**	324.6

Alternative Performance Measures (Note 2)	Life Sciences		Seals		Controls		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
NET ASSETS	**94.3**	99.9	**185.0**	193.3	**92.1**	88.7	**530.7**	324.6
Add/(deduct):								
- Deferred tax, net							**7.9**	8.3
- Retirement benefit obligations							**18.3**	17.8
- Acquisition related liabilities							**11.5**	11.3
- (Cash funds)/net debt							**(206.8)**	15.1
REPORTED TRADING CAPITAL EMPLOYED							**361.6**	377.1
- Historic goodwill and acquisition related charges, net of deferred tax	**34.7**	32.0	**47.3**	39.2	**17.4**	13.1	**99.4**	84.3
ADJUSTED TRADING CAPITAL EMPLOYED	**129.0**	131.9	**232.3**	232.5	**109.5**	101.8	**461.0**	461.4
Pro-forma adjusted operating profit(1)	**28.3**	29.0	**36.5**	44.9	**23.1**	31.6	**87.9**	105.5
ROATCE	**21.9%**	22.0%	**15.7%**	19.3%	**21.1%**	31.0%	**19.1%**	22.9%

(1)After annualisation of adjusted operating profit of acquisitions and disposals

3. BUSINESS SECTOR ANALYSIS (continued)

OTHER SECTOR INFORMATION	Life Sciences		Seals		Controls		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Capital expenditure	**2.9**	3.3	**5.2**	5.1	**1.3**	2.5	**9.4**	10.9
Depreciation and amortisation	**2.6**	2.7	**2.1**	2.0	**0.7**	0.7	**5.4**	5.4
Revenue recognition:								
- immediately on sale	**124.6**	131.8	**239.3**	219.5	**156.6**	178.3	**520.5**	529.6
- over a period of time	**15.1**	14.0	**2.8**	1.1	**-**	-	**17.9**	15.1
	139.7	145.8	**242.1**	220.6	**156.6**	178.3	**538.4**	544.7

Accrued income ("contract assets") at 30 September 2020 of £0.9m (2019: £1.5m) and deferred revenue ("contract liabilities) of £2.4m at 30 September 2020 (2019: £2.6m) is included in trade and other receivables and trade and other payables, respectively.

4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
United Kingdom	**134.0**	154.8	**19.0**	27.8	**64.7**	59.0	**71.4**	84.5	**1.4**	2.0
Rest of Europe	**126.8**	128.1	**17.7**	18.6	**73.5**	58.9	**85.8**	80.4	**0.9**	1.7
North America	**228.5**	220.5	**43.3**	45.0	**133.8**	129.8	**165.7**	176.2	**6.3**	6.5
Rest of World	**49.1**	41.3	**7.1**	5.8	**36.7**	32.8	**38.7**	36.0	**0.8**	0.7
	538.4	544.7	**87.1**	97.2	**308.7**	280.5	**361.6**	377.1	**9.4**	10.9

[1] Non-current assets exclude deferred tax assets.

5. FINANCIAL EXPENSE, NET

	2020 £m	2019 £m
Interest (expense)/income and similar charges		
- bank facility and commitment fees	**(0.2)**	(0.2)
- interest income on bank deposits	**0.1**	0.1
- interest expense on bank borrowings	**(0.9)**	(0.4)
- notional interest expense on the defined benefit pension scheme	**(0.3)**	(0.2)
- interest of lease liabilities	**(1.4)**	-
Net interest expense and similar charges	**(2.7)**	(0.7)
- fair value remeasurement of financial liabilities and unwind of discount	**(0.4)**	0.1
FINANCIAL EXPENSE, NET	**(3.1)**	(0.6)

The fair value remeasurement of £0.4m debit (2019: £0.1m credit) comprises a £0.5m debit (2019: £0.1m debit) that relates to the unwinding of the discount on the liability for deferred consideration and of a movement in the fair value of put options of £0.1m credit (2019: £0.2m credit).

6. TAX EXPENSE

	2020 £m	2019 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	**3.5**	4.9
- Overseas tax	**15.6**	17.8
	19.1	22.7
Adjustments in respect of prior year:		
- UK corporation tax	**0.1**	-
- Overseas tax	**0.1**	0.5
Total current tax	**19.3**	23.2
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	**(1.1)**	(0.9)
- Overseas	**(1.3)**	(1.2)
Total deferred tax	**(2.4)**	(2.1)
TOTAL TAX ON PROFIT FOR THE YEAR	**16.9**	21.1

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax balance relating to the retirement benefit scheme and cash flow hedges of £0.5m was credited (2019: £1.3m credit) directly to the Consolidated Statement of Comprehensive Income. A further £0.2m of current tax (2019: £0.1m) was credited to the Consolidated Statement of Changes in Equity which relates to share-based payments made during the year.

Factors affecting the tax charge for the year
The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.0% to the profit before tax of £66.7m and the amount set out above is as follows:

	2020 £m	2019 £m
Profit before tax	**66.7**	83.5
Tax on profit at UK effective corporation tax rate of 19.0% (2019: 19.0%)	**12.7**	15.9
Effects of:		
– higher tax rates on overseas earnings	**3.6**	3.8
– adjustments to current tax charge in respect of previous years	**0.2**	0.5
– other permanent differences	**0.4**	0.9
TOTAL TAX ON PROFIT FOR THE YEAR	**16.9**	21.1

The Group earns its profits in the UK and overseas. The Group prepares its consolidated financial statements for the year to 30 September and the statutory tax rate for UK corporation tax in respect of the year ended 30 September 2020 was 19.0% (2019: 19.0%) and this rate has been used for tax on profit in the above reconciliation.

The Group's net overseas tax rate is higher than that in the UK, primarily because profits earned in the US, Canada and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2020 have been calculated based on the future UK corporation tax rate of 19.0% (2019: 17.0%), as substantively enacted at 30 September 2020.

At 30 September 2020, the Group had outstanding tax liabilities of £4.7m (2019: £6.9m) of which £0.6m (2019: £3.0m) related to UK tax liabilities and £4.1m (2019: £3.9m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

7. EARNINGS PER SHARE

Basic and diluted earnings per share
Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 113,397,329 (2019: 113,179,582) and the profit for the year attributable to shareholders of £49.3m (2019: £61.9m).

Adjusted earnings per share
Adjusted earnings per share, which is defined in note 2, is calculated as follows:

	2020 pence per share	**2019 pence per share**	**2020 £m**	**2019 £m**
Profit before tax			**66.7**	83.5
Tax expense			**(16.9)**	(21.1)
Minority interests			**(0.5)**	(0.5)
Earnings for the year attributable to shareholders of the Company	**43.5**	54.7	**49.3**	61.9
Acquisition related charges	**15.2**	11.6	**17.3**	13.1
Fair value remeasurement of financial liabilities and unwind of discount	**0.3**	(0.1)	**0.4**	(0.1)
Tax effects on above adjustments	**(2.6)**	(1.9)	**(3.0)**	(2.1)
ADJUSTED EARNINGS	**56.4**	64.3	**64.0**	72.8

8. LEASES – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Land and Buildings £m	Plant & Machinery £m	Motor Vehicles £m	IT & Office equipment £m	**Total £m**
At 1 October 2019	30.3	0.3	2.3	0.6	33.5
Additions	4.7	0.2	1.0	0.2	6.1
Disposals	(0.1)	-	-	-	(0.1)
Exchange adjustments	(0.6)	-	-	-	(0.6)
At 30 September 2020	34.3	0.5	3.3	0.8	38.9
Depreciation	(5.8)	(0.1)	(1.2)	(0.2)	(7.3)
At 30 September 2020	**28.5**	**0.4**	**2.1**	**0.6**	**31.6**
At 1 October 2019	30.3	0.3	2.3	0.6	33.5

Leases – rights-of-use assets represent those assets held under operating leases which IFRS 16 requires to be capitalised.

	£m
At 1 October 2019	33.7
Additions	6.9
Disposals	(0.1)
Lease repayments	(7.6)
Interest of lease liabilities	1.4
Exchange movements	(0.6)
At 30 September 2020	33.7
Analysed as:	**£m**
Repayable within one year	7.2
Repayable after one year	26.5

On adoption of IFRS 16, the opening balance sheet at 1 October 2019 has not been restated. If it had been restated the opening balance of leases – right-of-use assets and lease liabilities would have been £33.5m and £33.7m respectively.

9. RECONCILIATION OF OPERATING PROFIT TO CASH FLOW FROM OPERATING ACTIVITIES

	2020 £m	2020 £m	2019 £m	2019 £m
Operating profit		**69.8**		84.1
Acquisition related charges		**17.3**		13.1
CEO transition costs		**-**		-
Adjusted operating profit		**87.1**		97.2
CEO transition costs paid		**-**		(1.3)
		87.1		95.9
Depreciation or amortisation of tangible and other intangible assets and leases – right-of-use assets	**12.7**		5.4	
Share-based payments expense	**0.8**		0.8	
Defined benefit pension scheme payment in excess of interest	**(0.2)**		(0.4)	
Profit on disposal of assets	**(1.0)**		-	
Other non-cash movements	**(0.5)**		-	
Non-cash items and other		**11.8**		5.8
Operating cash flow before changes in working capital		**98.9**		101.7
Decrease/(increase) in inventories	**1.6**		(12.2)	
Decrease/(increase) in trade and other receivables	**10.3**		(1.2)	
(Decrease)/increase in trade and other payables	**(2.4)**		4.0	
Decrease/(increase) in working capital		**9.5**		(9.4)
CASH FLOW FROM OPERATING ACTIVITIES, BEFORE ACQUISITION EXPENSES		**108.4**		92.3

10. CASH FUNDS/(NET DEBT)

The movement in net funds during the year is as follows:

	1 Oct 2019 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**30 Sept 2020 £m**
Cash and cash equivalents	27.0	181.9	(2.1)	-	**206.8**
Borrowings	(42.1)	42.1	-	-	**-**
Cash funds/(net debt)	(15.1)	224.0	(2.1)	-	**206.8**

	1 Oct 2018 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sept 2019 £m
Cash and cash equivalents	36.0	(10.8)	1.8	-	27.0
Borrowings	-	(41.1)	(0.7)	(0.3)	(42.1)
Cash funds/(net debt)	36.0	(51.9)	1.1	(0.3)	(15.1)

As at 30 September 2020, the Group had a committed multi-currency revolving facility of £60.0m expiring on 1 June 2022. The facility had an accordion option to increase the committed facility which was exercised during the second half of the year. This increased the committed facility by a further £30.0m up to the aforementioned maximum of £60.0m. At 30 September 2020, the Group had utilised £nil of this facility (2019: £6.1m). Interest on the facility was payable between 70-115bps over LIBOR, depending on the ratio of debt to EBITDA.

In the prior year the Group extended its facilities with a two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies.

10. CASH FUNDS/(NET DEBT) (continued)

At 30 September 2020, the Group had fully repaid this loan. Interest on this facility was payable between 90-135bps over LIBOR, depending on the ratio of net debt to EBITDA.

On 13 October 2020, the Group entered into a new debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The term loan was fully drawn and RCF partly drawn to assist with the acquisition of Windy City Wire Cable & Technology Products, LLC on 16 October 2020. Interest on the facility is payable between 125-275bps above LIBOR, depending on the ratio of net debt to EBITDA.

The total net cash is £173.1m comprising cash funds of £206.8m and lease liabilities of £33.7m. The bank covenants are tested against net cash funds only.

11. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2018	59.0	40.3	29.2	128.5
Acquisitions	3.9	17.5	2.7	24.1
Exchange adjustments	1.1	1.3	-	2.4
At 30 September 2019	64.0	59.1	31.9	155.0
Acquisitions (note 12)	-	2.2	4.1	6.3
Exchange adjustments	(2.0)	(0.8)	0.5	(2.3)
AT 30 SEPTEMBER 2020	**62.0**	**60.5**	**36.5**	**159.0**

The Group tests goodwill for impairment at least once a year. For the purposes of impairment testing, goodwill is allocated to each of the Group's three cash generating units, which are the three operating Sectors: Life Sciences; Seals; and Controls. This represents the lowest level within the Group at which goodwill is monitored by management and reflects the Group's strategy of acquiring businesses to drive synergies across a Sector, rather than within an individual business. The impairment test requires a "value in use" valuation to be prepared for each Sector using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and the Group's strategic plan. Beyond five years, cash flow projections utilise a perpetuity growth rate of 2%.

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2021 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2019: 11%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors, the Board considers that it is more appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

Based on the criteria set out above, no impairment in the value of goodwill in any of the Sectors was identified.

11. GOODWILL (continued)

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a "reasonably possible adverse change" in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a "reasonably possible adverse change" would not give rise to an impairment charge to goodwill in any of the three Sectors.

12. ACQUISITION OF BUSINESSES

Acquisition of CR System Components GmbH
On 10 December 2019 the Group acquired 100% of CR System Components GmbH ("CR Systems"), based near Stuttgart in Germany. The initial consideration, including acquisition expenses of £0.1m (€0.1m), was £9.1m (€10.8m) and is net of cash acquired of £0.1m (€0.1m). Deferred consideration of £1.1m (€1.2m) is assumed payable and has been held back pending any claims received.

Acquisition of PumpNSeal Australia Pty Limited
On 15 January 2020 the Group acquired 100% of PumpNSeal Australia Pty Limited ("PNS"), based in Australia, for total consideration of £4.7m (AUD 8.8m) including acquisition expenses of £0.1m (AUD 0.1m) and net of cash acquired of £0.3m (AUD 0.6m). This includes deferred consideration of £0.5m (AUD 1.0m) paid during the year.

Fair value adjustments
The provisional fair value of CR Systems and PNS's net assets acquired, excluding acquisition intangibles and related deferred tax, is £3.2m following fair value adjustments to reduce the book value of fixed assets by £0.1m and increase the provision held against inventory by £0.3m.

Acquisitions revenue and operating profit
From the date of acquisition to 30 September 2020, the newly acquired CR Systems and PNS businesses contributed £8.7m to revenue and £1.8m to adjusted operating profit. If the businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a pro rata basis £11.7m to revenue and £2.3m to adjusted operating profit. However, these amounts should not be viewed as indicative of the results of the businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

13. OTHER LIABILITIES

	2020 £m	2019 £m
Future purchases of minority interests	**4.2**	4.3
Deferred consideration	**7.3**	7.0
	11.5	11.3
Analysed as:		
Due within one year	**11.5**	10.8
Due after one year	**-**	0.5

The movement in the liability for future purchases of minority interests is as follows:

	2020 £m	2018 £m
At 1 October	**4.3**	4.5
Acquisition of minority interests on exercise of options	**-**	-
Exchange	**-**	-
Fair value remeasurements	**(0.1)**	(0.2)
AT 30 SEPTEMBER	**4.2**	4.3

13. OTHER LIABILITIES (continued)

At 30 September 2020, the Group retained put options to acquire minority interests of 10% in M Seals and Kentek which were both exercisable from November 2018. At 30 September 2020, the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2020. This led to a remeasurement of the fair value of these put options and the liability decreased by £0.1m (2019: £0.2m decrease) reflecting a revised estimate of the future performance of these businesses. In aggregate, £0.1m (2019: £0.2m credit) has been credited to the Consolidated Income Statement in respect of this remeasurement of the liability.

During the year, outstanding deferred consideration of £1.1m was paid to the vendors of DMR Seals (£0.6m) and PumpNSeal Australia Pty Limited (£0.5m). At the year end there is a deferred consideration liability of £7.3m which relates to VSP (£5.5m), CR Systems (£1.0m) and Sphere (£0.8m).

The amounts outstanding at 30 September 2020 are expected to be paid within the next two years and are based on the performance of these businesses in the period following their acquisition by the Group.

14. DIVIDENDS

	2020 pence per share	**2019 pence per share**	**2020 £m**	**2019 £m**
Interim dividend, paid in June	**-**	8.5	**-**	9.6
Final dividend of the prior year, paid in January	**20.5**	17.8	**23.2**	20.2
	20.5	26.3	**23.2**	29.8

The Directors have proposed a final dividend in respect of the current year of 30.0p per share (2019: 20.5p), which will be paid on 25 January 2021, subject to approval of shareholders at the Annual General Meeting on 20 January 2021. The total dividend for the current year, subject to approval of the final dividend, will be 30.0p per share (2019: 29.0p).

The Diploma PLC Employee Benefit Trust holds 118,553 (2019: 51,867) shares, which are ineligible for dividends.

15. IMPACT ON ADOPTION OF IFRS 16 LEASES

The Group adopted IFRS 16 on 1 October 2019 using the modified retrospective approach. The Group leases various offices, warehouses, equipment and motor vehicles. On implementation of IFRS 16 on 1 October 2019, the Group recognised right-of-use assets and corresponding lease liabilities of £33.5m and £33.7m respectively. There was no impact on the Group opening shareholders' funds as a result of adopting IFRS 16. The Group's most significant leases relates to property. The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition ranged from 1.7%-5.7%. The Group has used a portfolio approach by grouping certain assets with reasonably similar characteristics when determining the range of discount rates.

The impact on the consolidated financial statements is as follows:

Adjusted operating profit	**30 Sept 2020 £m**
Adjusted operating profit – post IFRS 16	87.1
Operating lease rentals, removed from operating costs	(7.6)
Depreciation on leases – right-of-use assets, added to operating costs	7.3
Deferred profit on sale and leaseback of properties and other movements	0.6
Adjusted operating profit – pre IFRS 16	**87.4**

Adjusted profit before tax	**30 Sept 2020 £m**
Adjusted profit before tax – post IFRS 16	84.4
Operating lease rentals, removed from operating costs	(7.6)
Add back depreciation on leases – right-of-use assets added to operating costs	7.3
Deferred profit on sale and leaseback of properties and other movements	0.6
Add back interest on lease liabilities	1.4
Adjusted profit before tax – pre IFRS 16	**86.1**

Earnings per share

The impact of adopting IFRS 16 is to reduce basic earnings per share from 44.5p to 43.5p and reduce adjusted earnings per share from 57.4p to 56.4p.

Adjusted operating margin by sector

	Post IFRS 16 30 Sept 2020 £m	**Pre IFRS 16 30 Sept 2020 £m**	**Post IFRS 16 30 Sept 2020 %**	**Pre IFRS 16 30 Sept 2020 %**
By Sector				
Life Sciences	**28.3**	28.3	**20.3**	20.3
Seals	**36.0**	35.7	**14.9**	14.7
Controls	**22.8**	23.4	**14.6**	15.0
Adjusted operating margin	**87.1**	87.4	**16.2**	16.2

There is no impact of adopting IFRS 16 on free cash flow. However, in the Consolidated Cash Flow Statement, the repayments of the operating lease liabilities of £7.6m are included within financing activities, whereas the operating lease rentals were previously presented within operating activities.

16. EXCHANGE RATES

The exchange rates used to translate the results of the overseas businesses are as follows:

	Average		Closing	
	2020	**2019**	**2020**	**2019**
US dollar ($)	**1.29**	1.27	**1.29**	1.23
Canadian dollar (C$)	**1.73**	1.69	**1.73**	1.63
Euro (€)	**1.14**	1.13	**1.10**	1.13
Swiss franc (CHF)	**1.23**	1.27	**1.19**	1.23
Australian dollar (AUD)	**1.89**	1.81	**1.80**	1.83

17. POST BALANCE SHEET EVENTS

On 22 September 2020, the Group announced the proposed acquisition of Windy City Wire Cable & Technology Products LLC ("Windy City Wire" or "WCW"), a leading value-add distributor of premium quality, low voltage wire and cable in the US for total consideration of up to ca. £357m ($465m). The conditions to achieve completion of the acquisition of WCW were satisfied, subsequently resulting in the completion taking place on 16 October 2020.

The acquisition was funded partly by an equity placing announced on 22 September 2020 (gross proceeds of £193.7m offset by related transaction costs of £4.5m) with the remaining balance being funded through a new committed debt facility. On 13 October 2020, the Group entered into a new committed debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The SFA is due to expire in December 2023 and there is an option to extend for a further two 12-month periods. The facility also has an accordion option to increase the committed facility by a further £50.0m. The term loan has been fully drawn and RCF partly drawn to assist with the acquisition of WCW, which completed on 16 October 2020. Interest on the facility is payable between 125-275bps above LIBOR, depending on the ratio of net debt to EBITDA.

An initial accounting and fair value exercise will be completed in the first half of the year ended 30 September 2021.