

DIPLOMA PLC

Full year results and strategy update

Year ended 30 September 2019



Consistently delivering value

Agenda

01 Overview

02 Financial results

03 Business review and outlook

04 Strategy update

05 Q&A

Full year results

Strong growth and margin progression

Revenue growth	Underlying revenue growth	Adjusted operating margin	Adjusted EPS	Dividend per share
+12%	+5%	+30bps	+14%	+14%

Another strong Diploma performance

Financial Results

Financial Highlights

Another good performance

- Robust underlying revenue growth of 5%
- Improvement in adjusted operating margin of 30bps
- Strong free cash flow of £56.5m
- Record investment of £78.3m in acquisitions
- ROATCE well ahead of threshold 20%

Revenue



£544.7m

2018: £485.1m

+12%

Adjusted operating profit



£97.2m

2018: £84.9m

+14%

Adjusted operating margin



17.8%

2018: 17.5%

+30bps

Free cash flow



£56.5m

2018: £60.5m

-7%

Acquisition spend



£78.3m

2018: £20.4m

ROATCE

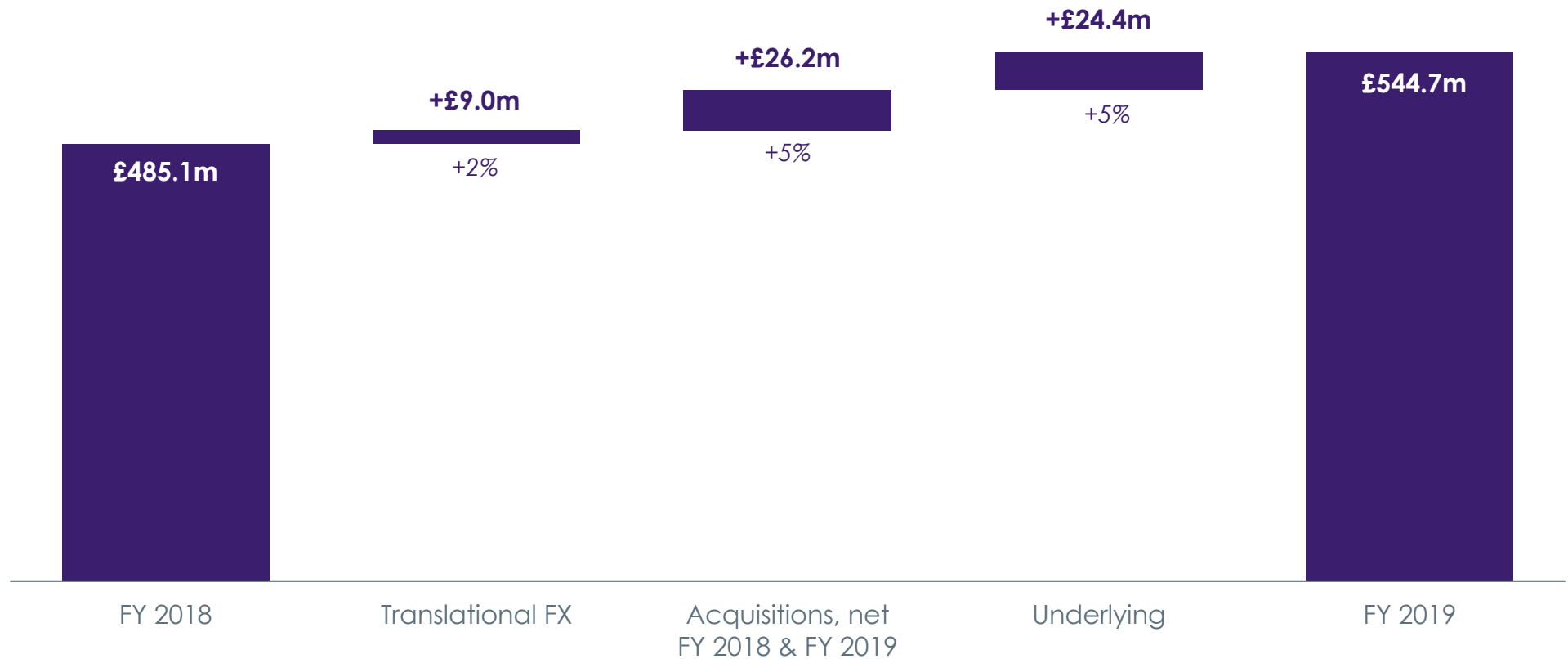


22.9%

2018: 24.5%

Revenue Bridge FY 2019

Robust underlying growth of 5%



Profit before tax

Year ended 30 September

	2019 £m	2018 £m	
Revenue	544.7	485.1	+12%
Adjusted operating profit	97.2	84.9	+14%
<i>Adjusted operating margin (%)</i>	<i>17.8%</i>	17.5%	
Interest expense	(0.7)	(0.1)	
Adjusted profit before tax	96.5	84.8	+14%
Previous CEO transition costs	-	(2.1)	
Acquisition related charges	(13.1)	(9.6)	
Fair value remeasurements	0.1	(0.4)	
Statutory profit before tax	83.5	72.7	+15%
<i>Group effective adjusted tax rate</i>	<i>24.0%</i>	23.9%	+10bps
Adjusted earnings per share	64.3p	56.4p	+14%
Statutory earnings per share	54.7p	47.5p	+15%

Free cash flow

Year ended 30 September

	2019 £m	2018 £m	
Adjusted operating profit	97.2	84.9	
Depreciation	5.4	4.8	
Increase in working capital	(9.4)	(5.1)	
Previous CEO transition costs paid	(1.3)	(0.8)	
Pension and share schemes, net	0.4	0.5	
Operating cash flow, before acquisition expenses	92.3	84.3	+9%
Interest paid, net	(0.1)	-	
Tax paid	(21.9)	(19.0)	
Capital expenditure	(10.9)	(6.6)	
Proceeds from sale of business	-	4.0	
EBT – share scheme funding	(2.9)	(2.2)	
Free cash flow	56.5	60.5	-7%
<i>Cash conversion</i>	78%	95%	

Net (debt)/cash

Year ended 30 September

	2019 £m	2018 £m
Free cash flow	56.5	60.5
Acquisition cash paid	(77.2)	(20.1)
Deferred consideration	(1.1)	(0.3)
Dividends	(30.1)	(27.0)
	(51.9)	13.1
Net cash brought forward	36.0	22.3
Exchange and other adjustments	0.8	0.6
Net (debt) / cash funds	(15.1)	36.0
Comprising:		
Cash balances	27.0	36.0
Borrowings	(42.1)	-

Acquisitions

Pipeline healthy but remains competitive

Acquisitions are an integral part of the Group's strategy

- £78.3m* spent on acquisitions during the year
- Newly acquired businesses broaden products and services supplied
- Pipeline healthy, but remains competitive and we remain disciplined

* Includes deferred consideration paid during the year of £1.1m

Acquisition spend*

£78.3m



VSP Technologies

£57.2m



Gremtek

£6.9m



Sphere

£6.6m



DMR Seals

£6.5m

Shareholders' funds

Year ended 30 September

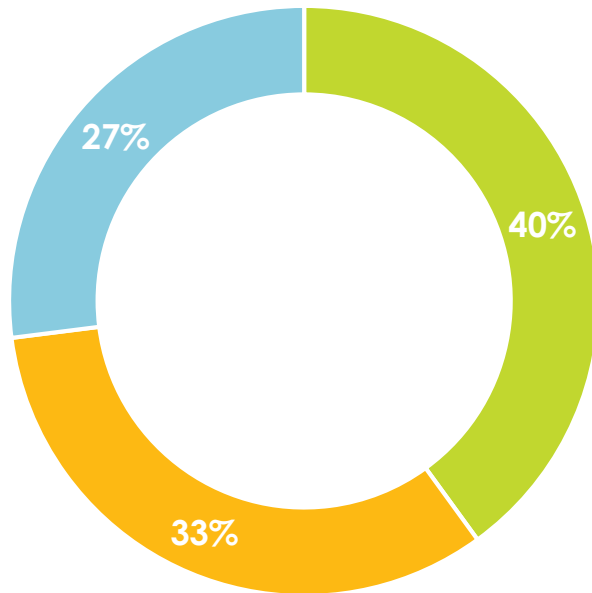
	2019 £m	2018 £m
Tangible and other intangible assets	29.4	25.5
Goodwill and acquisition intangible assets	251.1	182.1
Net working capital	96.6	75.2
Trading capital employed - reported	377.1	282.8
Working capital (% of revenue)	16.5%	15.1%
ROATCE	22.9%	24.5%
Retirement benefit obligations	(17.8)	(10.5)
Acquisition liabilities	(11.3)	(5.6)
Net (debt)/cash funds	(15.1)	36.0
Minority interests and deferred tax, net	(11.6)	(11.5)
Total shareholders' equity	321.3	291.2

Business Review

The Group

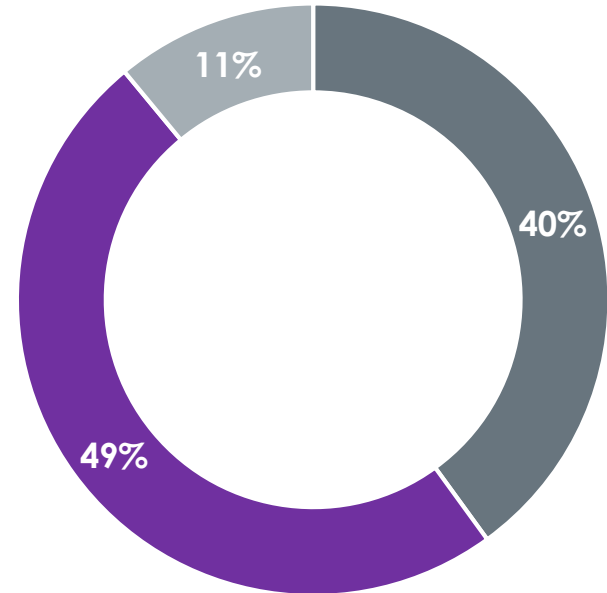
Well diversified by Sector and geography

Revenue by Sector



■ Seals ■ Controls ■ Life Sciences

Revenue by geography*



■ North America ■ Europe ■ Rest of World

*by destination



Seals

Segmentation

North America Aftermarket

30% of revenues

Next day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery.

US MRO

4% of revenues

High quality gaskets and fluid sealing products to end users with critical services in high cost failure applications

US Industrial OEM

27% of revenues

Sealing products, custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

International

39% of revenues

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

Primary growth drivers

General economic growth

Activity and spending levels in Heavy Construction and Infrastructure

Growth in industrial production

MRO expenditure in Mining and process industries

Capital expansion projects at major customers





Seals

Further progress despite softer industrial markets

- Underlying Sector revenue growth of 1%
- Solid growth from International seals and US Aftermarket
- US Industrial OEM revenues weakened by ERP implementation issues
- Good opening contribution from VSP Technologies acquired in July 2019
- Acquisition of DMR Seals in the UK
- Margin solid and unchanged at 17.3%

Full year ended 30 September	2019	2018	
Revenue	£220.6m	£208.0m	+6%
Adjusted operating profit	£38.1m	£36.0m	+6%
Adjusted operating margin	17.3%	17.3%	-



Controls

Segmentation

Interconnect

63% of revenues

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

Specialty Fasteners

21% of revenues

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

Fluid controls

16% of revenues

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

Primary growth drivers

General growth in the industrial economy

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

Equipment installation and maintenance in Food, Beverage and Catering





Controls

Strong performance in positive end markets

- Underlying Sector revenue growth of 9%
- Another excellent year for Specialty Fasteners
- Good contribution from Interconnect, especially in Continental Europe
- Acquisitions of Gremtek (Interconnect France) and FS Cables (CCA)
- Margins +10bps benefiting from operational leverage

Full year ended 30 September	2019	2018	
Revenue	£178.3m	£142.4m	+25%
Adjusted operating profit	£31.6m	£25.0m	+26%
Adjusted operating margin	17.7%	17.6%	+10bps





Life Sciences

Segmentation

Healthcare

85% of revenues

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

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

Environmental

15% of revenues

Environmental analysers, containment enclosures and emission monitoring systems.

Primary growth drivers

Public and private healthcare spending

Population ageing and increasing life expectancy

Health and Safety and Environmental Regulation





Life Sciences

Strong trading and operating leverage

- Underlying Sector revenue growth of 7%
- Good performance across Healthcare and Environmental businesses
- Expanded product lines benefiting performance in Canada
- Acquisition of Sphere in bariatrics (obesity) in Australia
- Very strong margin progression +120bps from leverage and cost control

Full year ended 30 September	2019	2018	
Revenue	£145.8m	£134.7m	+8%
Adjusted operating profit	£27.5m	£23.9m	+15%
Adjusted operating margin	18.9%	17.7%	+120bps

Summary and Outlook

- Another strong set of results
 - Uncertain political and economic environment
 - Resilient and successful business model
 - Optimistic about acquisition pipeline
 - Full year expectations positive and unchanged
-

DIPLOMA PLC

Focus for Growth

Strategy update



Consistently delivering value

Building on strong foundations

- Niche **value-add distribution**
- **People:** passionate, accountable, customer-centric
- Strong positions in **attractive markets**
- **Resilient** business model
- Successful **acquisition history**
- Strong **financial performance** and **balance sheet**

Focus on developing our strengths

Significant growth opportunity

- Strong positions in key local markets
- Underpenetrated in biggest developed economies
- Further penetration with existing product portfolio
- Adjacent product opportunities
- Broadening end segment representation
- Acquisition opportunities in largely fragmented markets

Ambition: double-digit growth

Large market potential

Global Gaskets

\$20bn

Global Seals

\$40bn

General
Surgery

\$22bn

In Vitro
Diagnostics

\$52bn

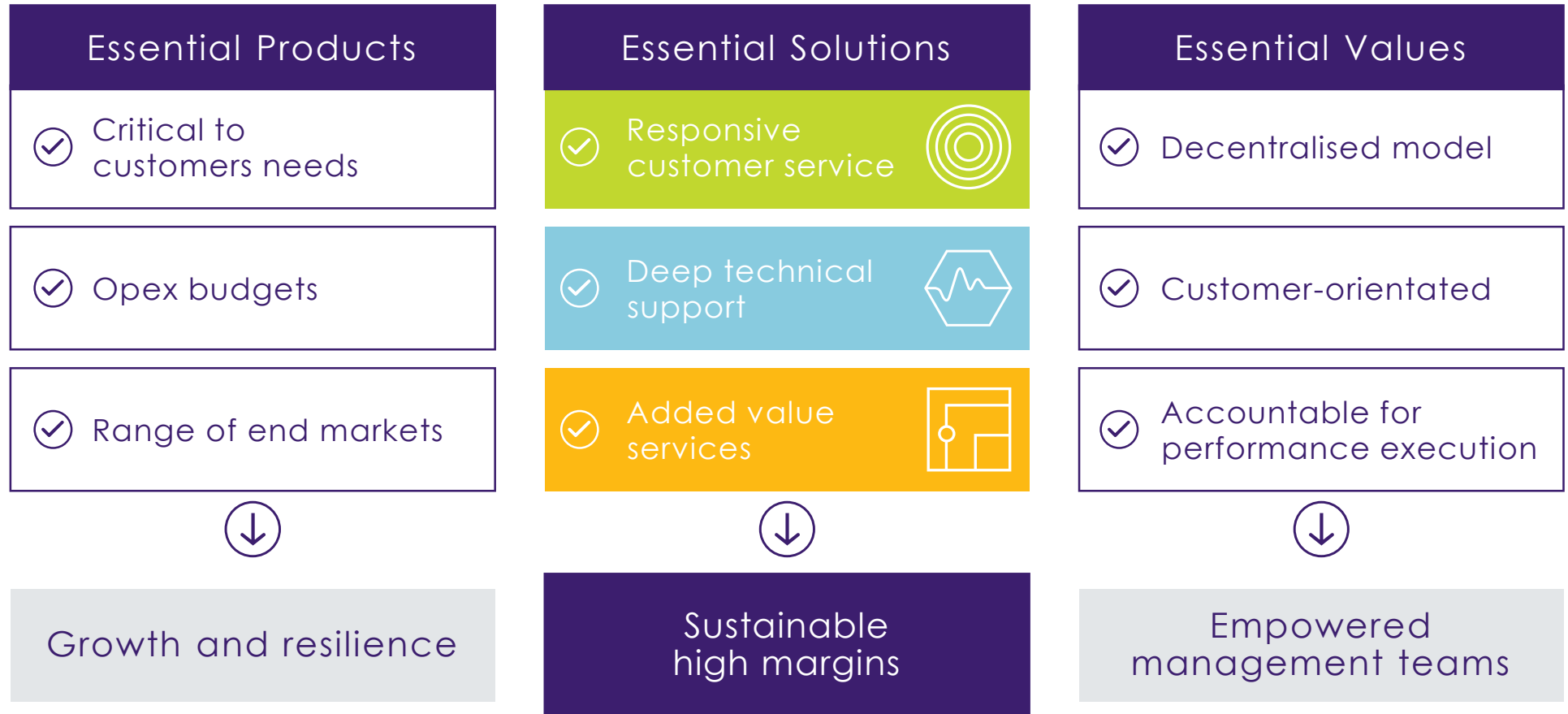
Specialty
Fasteners

\$6.5bn

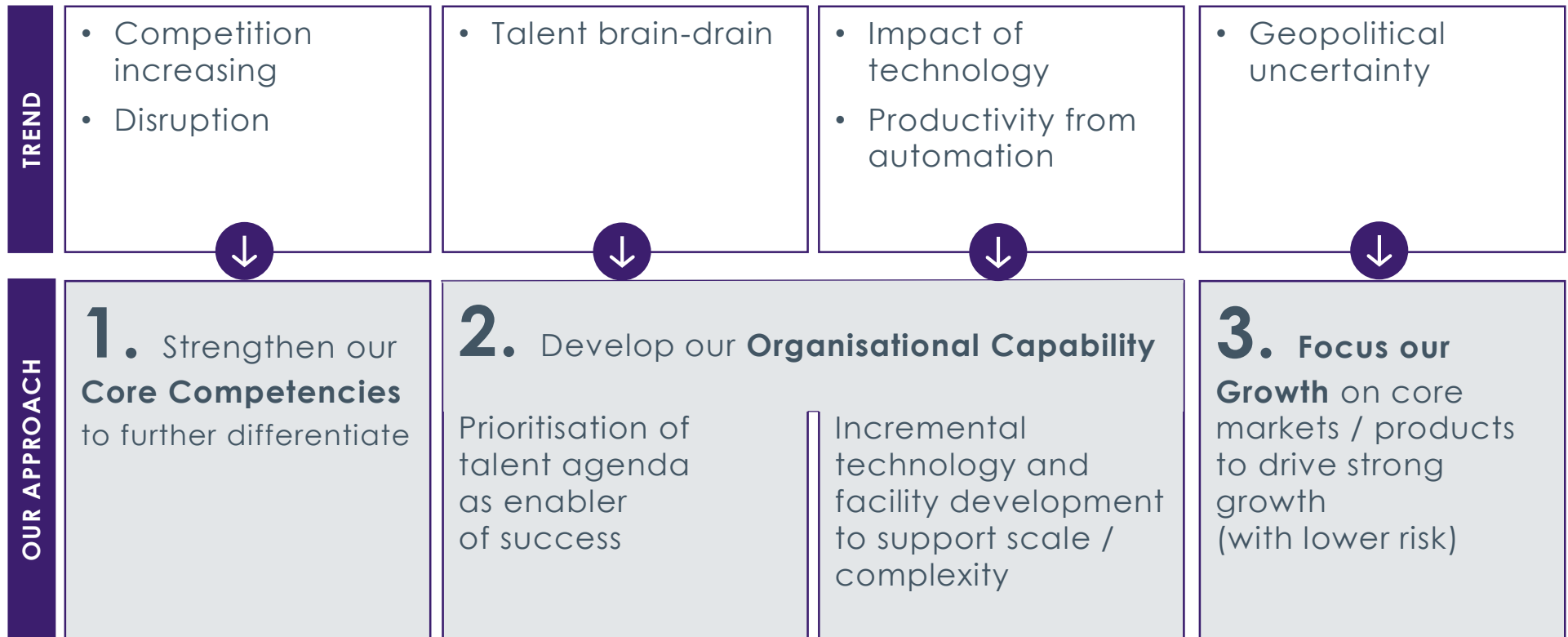
Interconnect
Global

\$18bn

Value-add proposition



Our markets are evolving...



Focus on core to sustain success

Our Group is evolving...

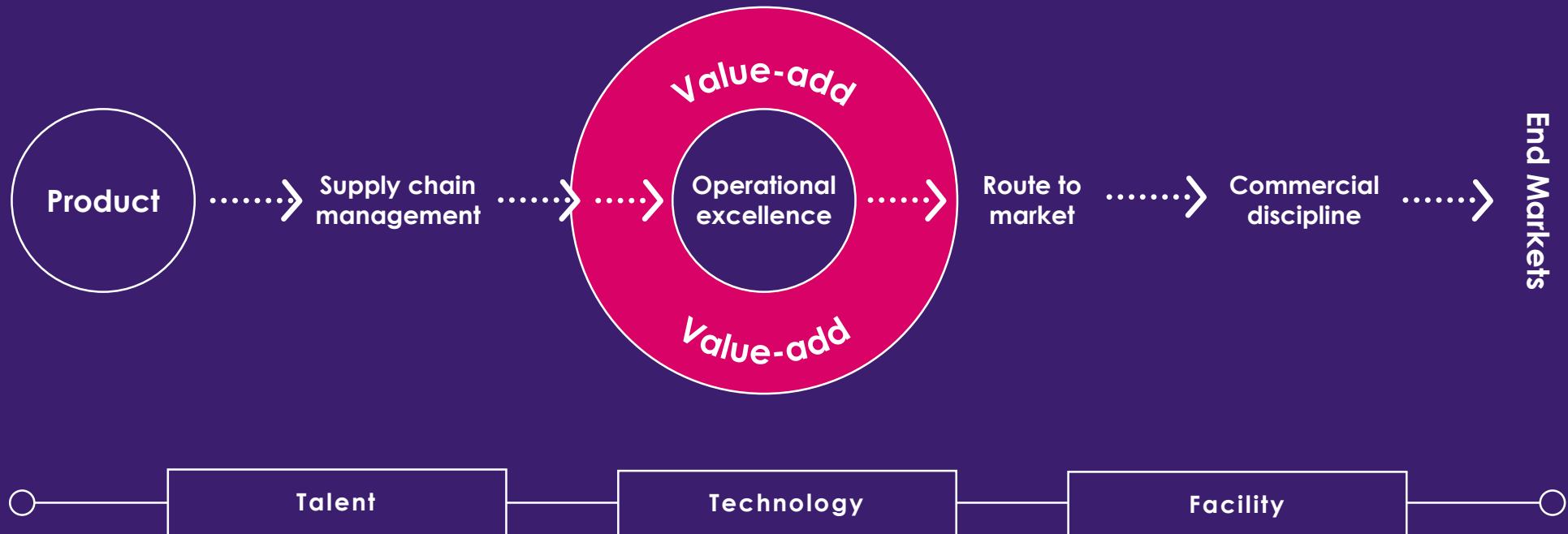


Our approach will be....

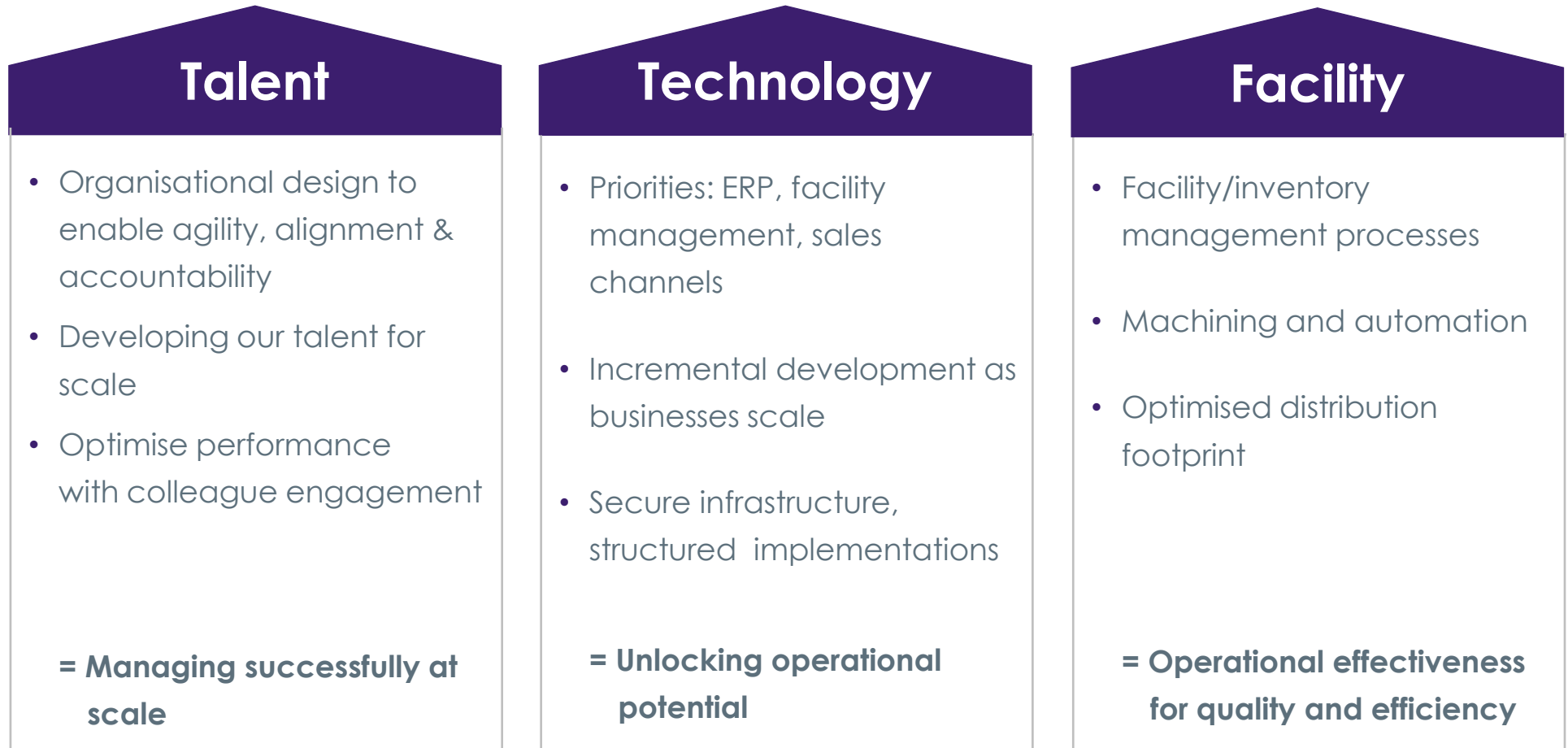
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- The list contains three items, each preceded by a downward arrow icon in a circle. The items are: 1. Strengthen our Core Competencies, 2. Develop our Organisational Capability, and 3. Focus our Growth.
1. Strengthen our **Core Competencies**
 2. Develop our **Organisational Capability**
 3. Focus our **Growth**

Focus on core to sustain success

1. Strengthen our Core Competencies

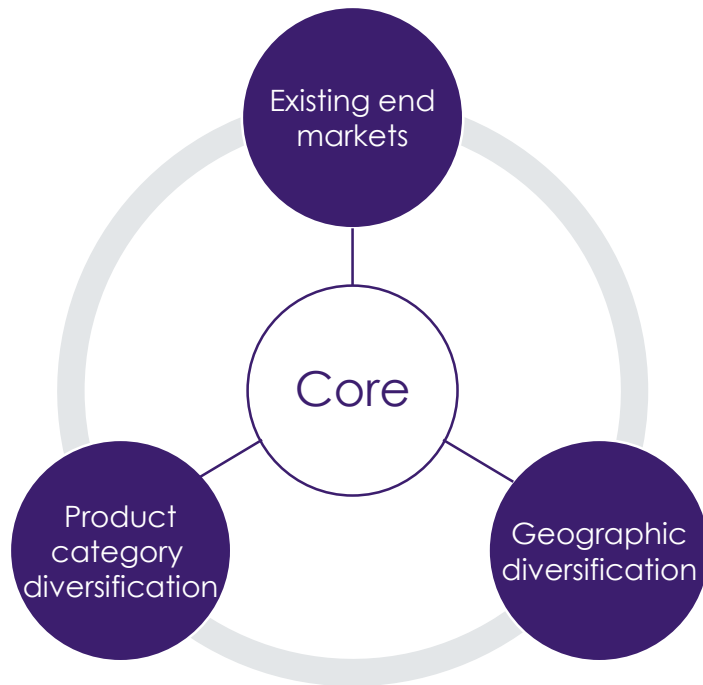


2. Develop our Organisational Capability



Capability to execute Core Competencies at scale

3. Focus our Growth



Ambition: double-digit growth



Structural trends in our Sectors

Under-penetrated in large core markets

Pragmatically **taking advantage of scale**

Highly fragmented markets with **acquisition opportunities**

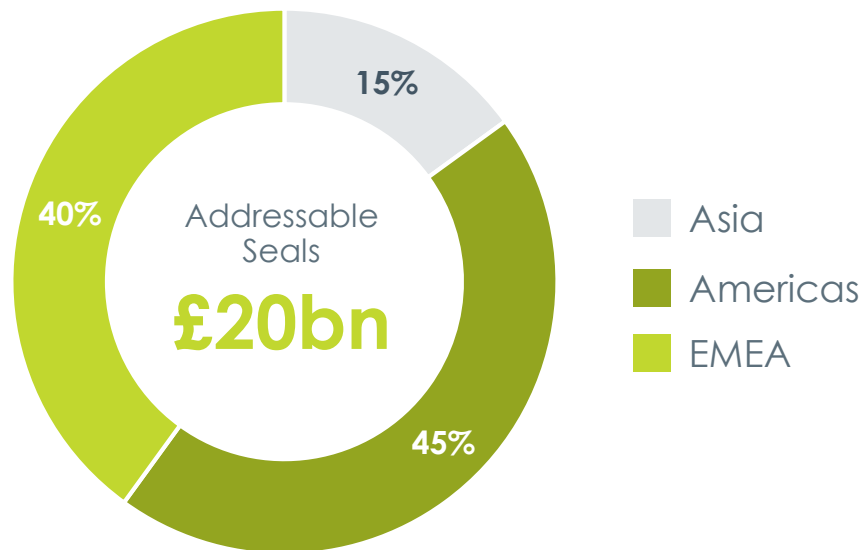
Significant **adjacent product opportunity**

All Sectors have potential for **attractive returns**

Seals



Addressable market



Market Growth = GDP

Diploma market share = 3%

- Structural growth opportunities
- Further North America penetration
 - Louisville facility: broader US Aftermarket reach
 - Aftermarket scale advantages
- Focus on core developed international economies
- Product adjacencies open new markets
 - Gaskets (VSP)
- Scaling opportunities
 - US Industrial OEM

Significant growth opportunities

Controls



- Underpenetrated European market
 - Foothold for Interconnect in France (Gremtek)
 - Developing Interconnect Germany (Sommer)
- Longer term: open US market
- Significant product adjacencies
- Scaling opportunities
 - Now 4 principle business units: ISG, Fasteners, CCA, Fluid Controls

Interconnect addressable market

Europe

Market Share

\$1.3bn**7%**

Cabling addressable market

Europe

Market Share

\$800m**4%**

Specialty fastener addressable market

Europe

Market Share

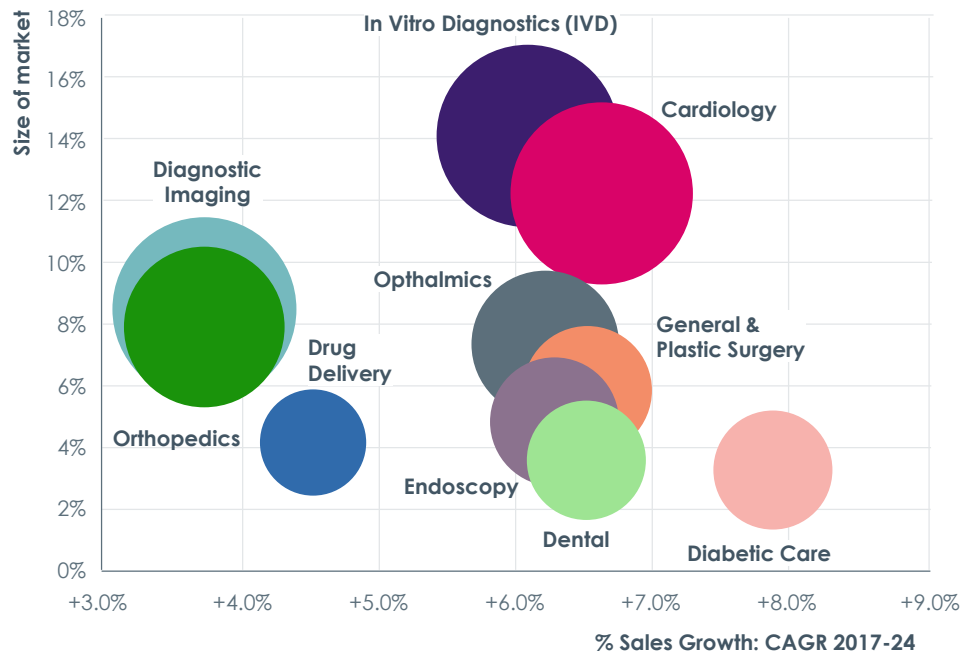
\$650m**8%**

Growth potential in Europe and adjacent products

Life Sciences



Top 10 Device Areas



Note: Size of Bubble = WW Sales in 2024

Source: Evaluate, September 2018

- High growth budget segments
 - Diagnostics, preventative, speciality surgical
 - Niche, innovative, technology based solutions beyond mass market
- Focus on distributor model markets
- Complementary products in core markets
- Product life cycle management
- Scaling opportunity

Growth driven by complementary product ranges

Acquisitions

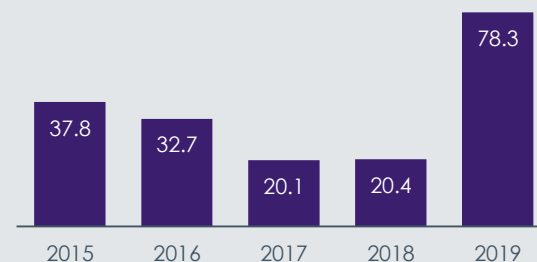
Market

- Fragmented markets
- Adjacent product range
- Industrial cycle creates opportunity

Key target attributes

- Value-add servicing component
- Organic growth potential
- Capable and established management teams

Acquisition spend (£m)



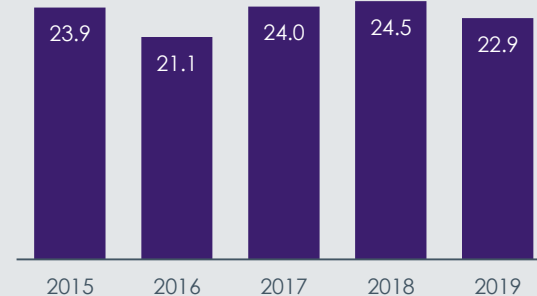
Proactive pipeline

- Core developed markets
- Market mapping and targeting
- Right resourcing model

Financials

- Disciplined bolt-on strategy
- Net debt/EBITDA <2x
- Valuation criteria: 20%+ ROATCE

ROATCE (%)



Environmental, Social, Governance (ESG)



Financial model

Revenue Growth

10% +

Adj. Operating Margin

17% +

FCF Conversion

c.90%

Net Debt / EBITDA

< 2x

Dividend Cover

2x_{adj} EPS

ROATCE

20% +

Consistent compounding value creation

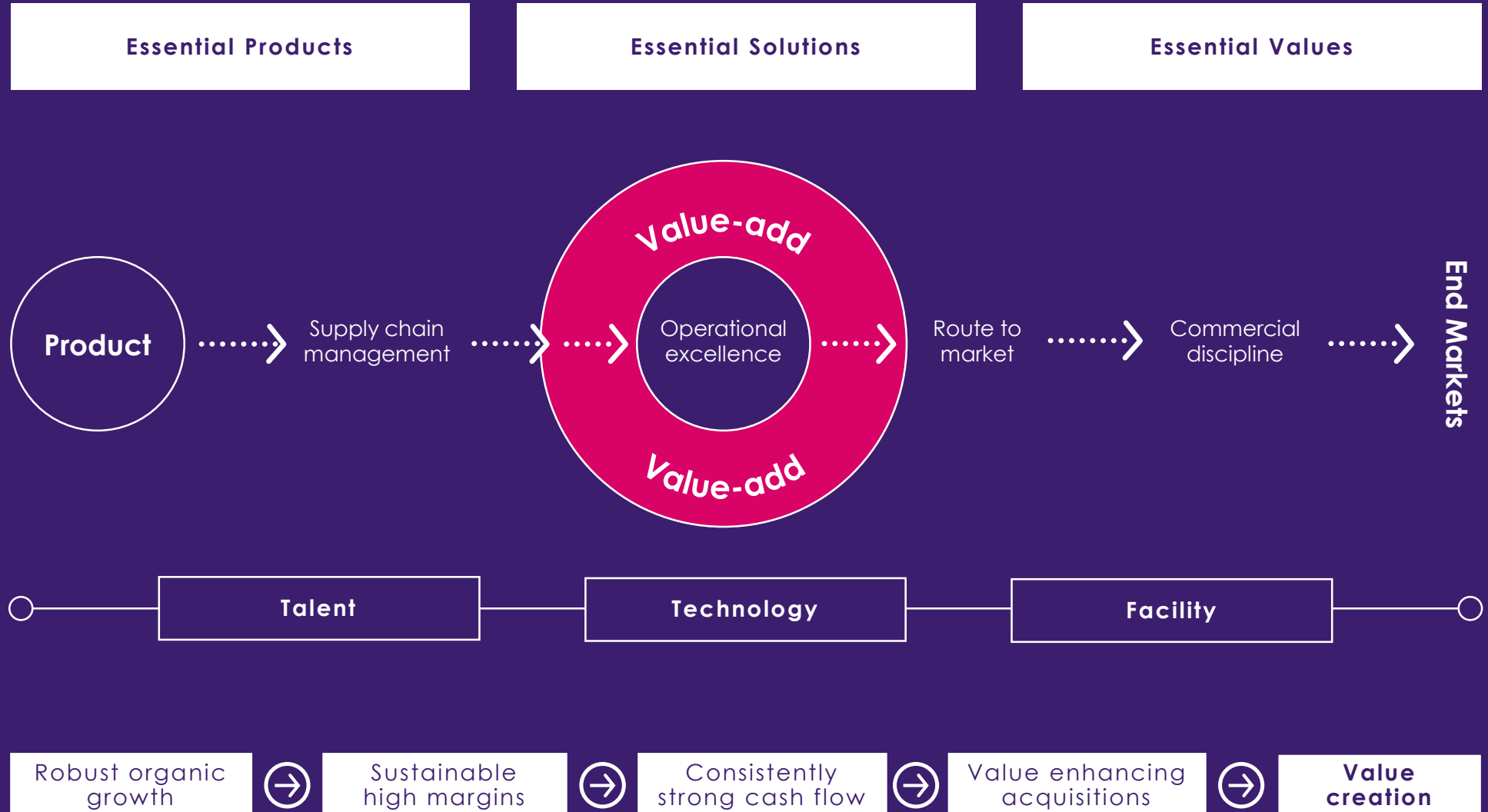
Consistently delivering value

- Retain high quality, resilient fundamentals of the business model
- Focus on our core competencies
- Focused organisational development
- Focused growth strategy
- Considerable growth runway at sustainably high margins

Consistent and sustainable shareholder value creation

Appendix

DIPLOMA: CONSISTENTLY DELIVERING VALUE



Financial KPIs

Five year trends

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

Average over five years:

CAGR revenue growth

12% p.a.

Adjusted operating margin

18%

ROATCE

23%

Free cash flow conversion

98%

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Consistently delivering value

