DIPLOMA PLC

Half Year Announcement

Six months ended 31 March 2015

11 May 2015

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LIFE SCIENCES

SEALS

CONTROLS

1. Introduction and Overview

The Diploma Investment Case

GDP+ ORGANIC REVENUE GROWTH	We focus on essential products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues
ATTRACTIVE MARGINS	Our attractive operating margins are sustained through the quality of customer service, the depth of technical support and value adding activities
ACQUISITIONS TO ACCELERATE GROWTH	Carefully selected, value enhancing acquisitions accelerate the organic growth and take us into related strategic markets
STRONG CASH FLOW	An ungeared balance sheet and strong cash flow fund our growth strategy while providing healthy and growing dividends
VALUE CREATION	We aim to create value by consistently exceeding 20% ROATCE

CLEARLY DEFINED STRATEGY – CONSISTENT TRACK RECORD

Overview of Half Year

- Businesses acquired in past year added **10%** to revenue; currency movements reduced revenues by **2%**
- Underlying revenue growth of **2%**:
  - Seals - **8%** growth with strong demand in North America
  - Life Sciences – **1%** growth with tougher markets in Canadian Healthcare
  - Controls – decreased by **5%**, reflecting softer European markets and strong comparatives
- Adjusted operating margins remained robust at **18.1%** of revenue; Adjusted PBT and EPS both increased by **6%**
- Acquisition spend of **£35.0m** and encouraging pipeline of opportunities
- Interim dividend increased by **7%** reflecting confidence in Group’s growth prospects

2. Financial Results

Half Year Results
Six Months ended 31 March

	2015	2014	
Revenue	**£163.2m**	£148.6m	*+10%*
Adjusted operating profit	**£29.6m**	£27.8m	*+6%*
Adjusted operating margin	**18.1%**	18.7%	
Adjusted profit before tax	**£29.3m**	£27.6m	*+6%*
Free cash flow	**£12.4m**	£13.0m	*-5%*
Acquisition spend	**£35.0m**	£11.4m	
Net (debt)/cash	**(£14.9m)**	£8.0m	
Adjusted earnings per share	**18.6p**	17.5p	*+6%*
Total dividends per share	**5.8p**	5.4p	*+7%*

Financial Highlights

> Businesses acquired in past year added **10%** to Group revenues; currency movements reduced revenues by **2%**; underlying revenue growth of **2%**

> Adjusted operating margins remained robust at **18.1%**

> Adjusted PBT and EPS both increased by **6%** to **£29.3m** and **18.6p**, respectively

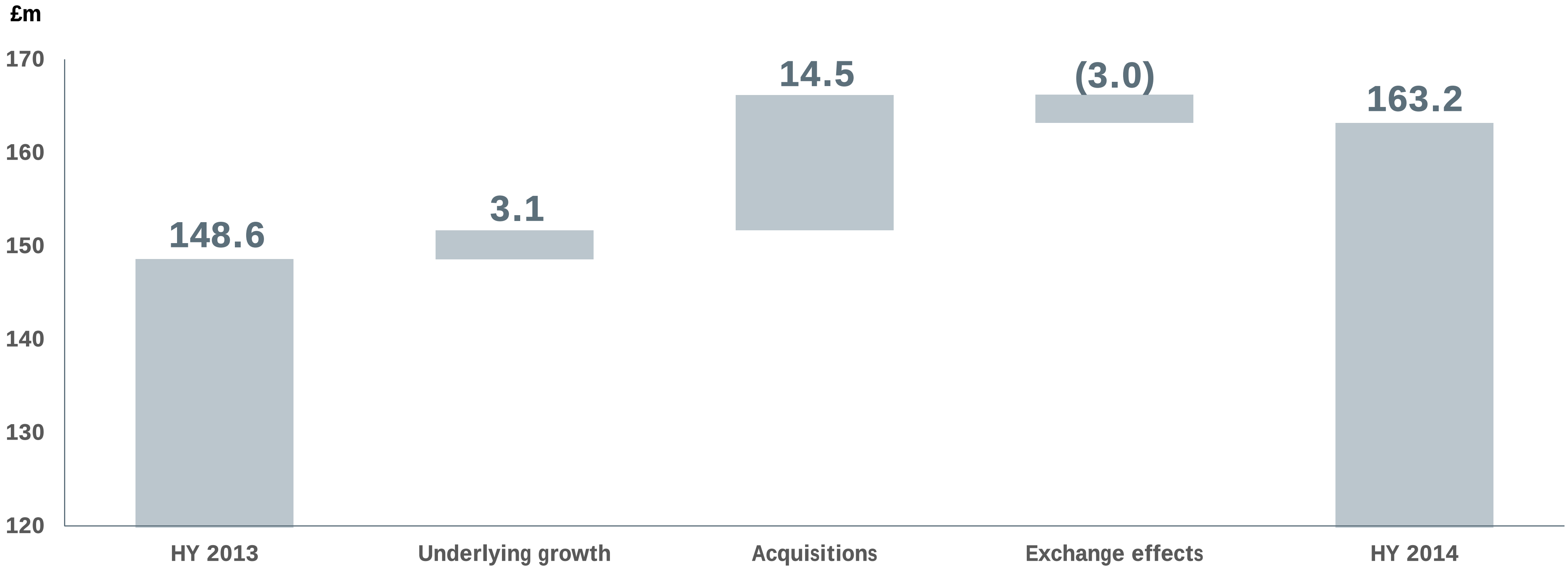
> Free cash flow decreased by **5%** to **£12.4m** after **£2.0m** increase in capex

> Acquisition spend of **£35.0m**

> Net debt of **£14.9m** at the end of March 2015

> Interim dividend increased by **7%** to **5.8p** reflecting confidence in Group's growth prospects

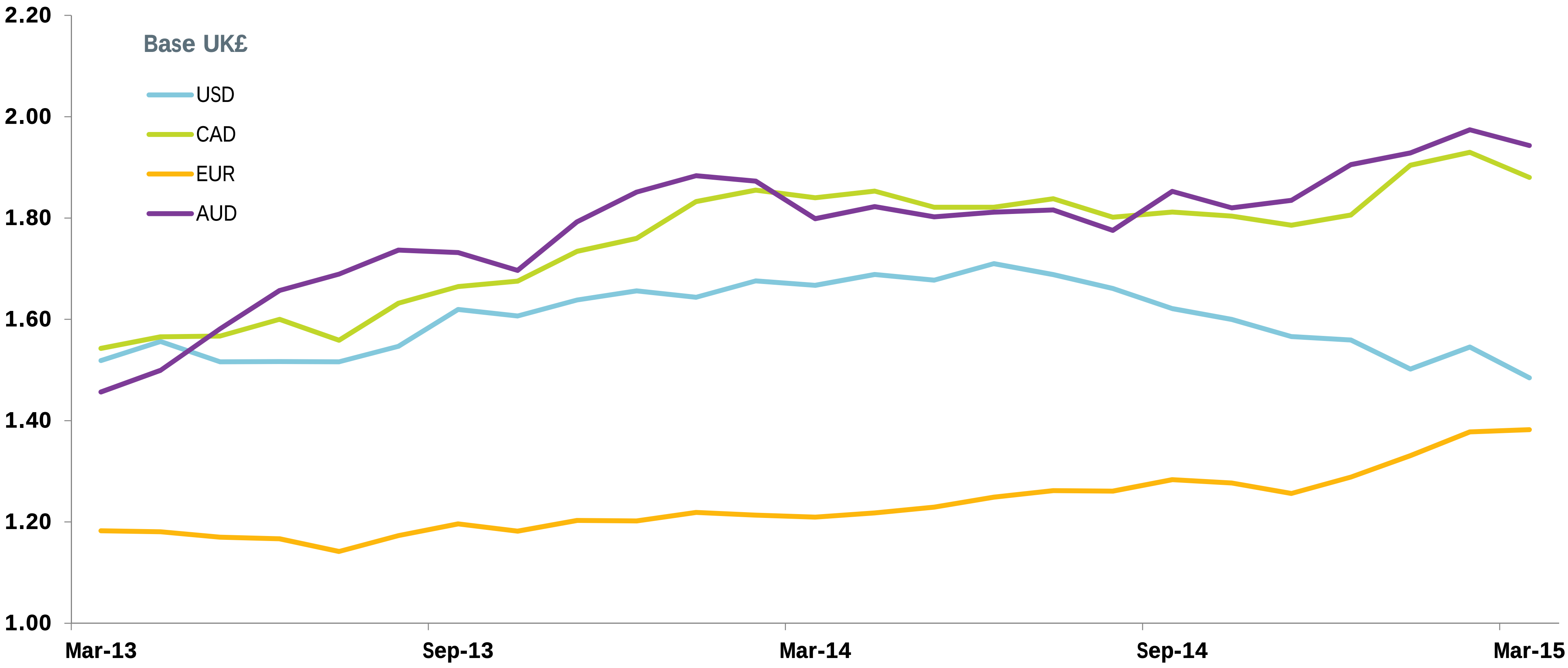
Revenue Bridge



> Acquisitions added 10% to revenues; currency movements reduced revenues by 2%; underlying revenue growth of 2%

Foreign Exchange

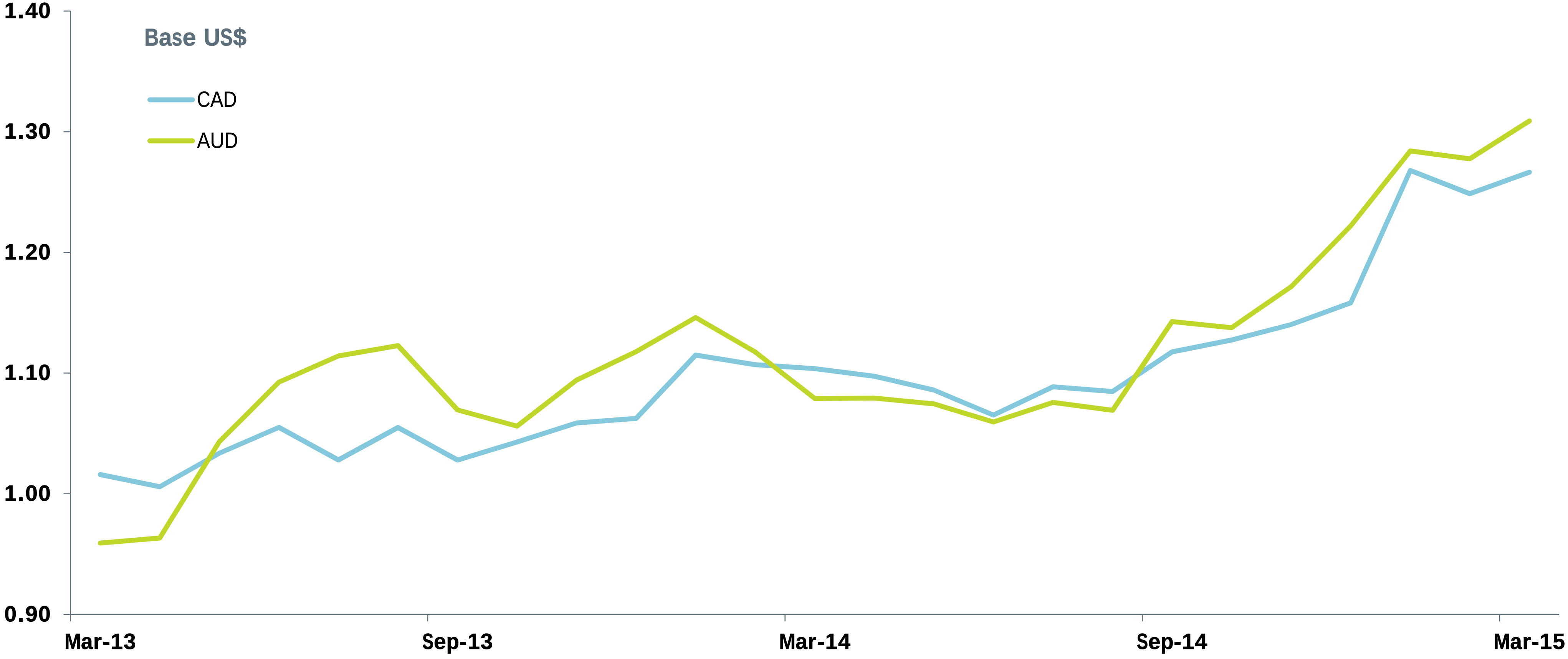
Translational Impact



> Strengthening of UK£ continues to impact results on translation

Foreign Exchange

Transactional Impact



> Healthcare gross margins impacted by weakening CAD and AUD against US$

Acquisitions

- > Acquisitions are an integral part of the Group's growth strategy
- > £35.0m spent on acquisitions during the year:
  - > £11.0m on 80% of TPD – extends Healthcare business into new geographic market
  - > £22.7m on 100% of Kubo - building a stronger European Seals business
  - > £1.3m on minority shareholdings, deferred consideration and acquisition expenses
- > Expenditure of £35.0m is over double that completed in the full 2014 financial year
- > Acquisition pipeline remains encouraging and the Group will continue to focus on bringing these opportunities to completion

Adjusted Operating Margin

+ Operational leverage in Seals

+ Tight control of operating costs across the Group

Adjusted operating margin

18.1%

– Transactional currency effects in Healthcare businesses

– Reverse operational leverage in Controls

– Acquisitions joining the Group with lower initial operating margins

Profit Before Tax

Six Months ended 31 March

	2015 £m	2014 £m	
Revenue	**163.2**	148.6	*+10%*
Adjusted operating profit	**29.6**	27.8	*+6%*
Adjusted operating margin (%)	*18.1%*	*18.7%*	
Net interest expense	**(0.3)**	(0.2)	
Adjusted profit before tax	**29.3**	27.6	*+6%*
Acquisition related charges	**(3.7)**	(3.4)	
Fair value remeasurements	**0.4**	-	
Reported profit before tax	**26.0**	24.2	*+7%*

Taxation and Earnings per Share

Six Months ended 31 March

	2015	2014	
Adjusted profit before tax	**£29.3m**	£27.6m	
Reported taxation	**(7.3)**	(7.2)	
Adjustments	**(0.6)**	(0.5)	
Adjusted tax	**(7.9)**	(7.7)	
Effective adjusted tax rate	*27.0%*	*27.9%*	
Earnings per share			
Adjusted	**18.6p**	17.5p	+6%
Basic (Reported)	**16.2p**	14.9p	+9%

Free Cash Flow

Six Months ended 31 March

	2015 £m	2014 £m	
Adjusted operating profit	**29.6**	27.8	
Depreciation	**1.4**	1.2	
Working capital	**(6.8)**	(6.6)	
Pension and share schemes, net	**0.2**	0.2	
Operating cash flow, before acquisition expenses	**24.4**	22.6	*+8%*
Interest paid, net	**(0.2)**	(0.1)	
Tax paid	**(7.3)**	(7.0)	
Capital expenditure, net	**(2.8)**	(0.7)	
Purchase of own shares by EBT	**(0.7)**	-	
Notional purchase of own shares	**(1.0)**	(1.8)	
Free cash flow	**12.4**	13.0	*-5%*

Net Debt
Six Months ended 31 March

	2015 £m	2014 £m
Free cash flow	**12.4**	13.0
Acquisition cash paid	**(34.7)**	(11.3)
Deferred consideration	**(0.3)**	(0.1)
Dividends	**(13.3)**	(12.2)
	(35.9)	(10.6)
Cash brought forward	**21.3**	19.3
Exchange adjustments	**(0.3)**	(0.7)
Net (Debt)/Cash at 31 March	**(14.9)**	8.0

Shareholders' Funds

	31 Mar 2015 £m	30 Sept 2014 £m
Goodwill	**91.3**	80.2
Acquisition intangible assets	**43.1**	28.6
Tangible assets and investments	**24.2**	14.6
Net working capital	**66.3**	54.2
Trading capital employed - reported	**224.9**	177.6
Retirement benefit obligations	**(8.1)**	(4.3)
Deferred tax, net	**(5.3)**	(3.3)
Acquisition liabilities	**(6.1)**	(4.0)
Net (debt)/cash	**(14.9)**	21.3
Minority interests	**(4.7)**	(2.9)
Total shareholders' equity	**185.8**	184.4

3. Business Review

Our Sectors
Revenue by Sector and Destination

LIFE SCIENCES

30% of group revenues

334 employees

67% Canada
19% Europe
14% Rest of World

SEALS

39% of group revenues

604 employees

68% North America
24% Europe
8% Rest of World

CONTROLS

31% of group revenues

312 employees

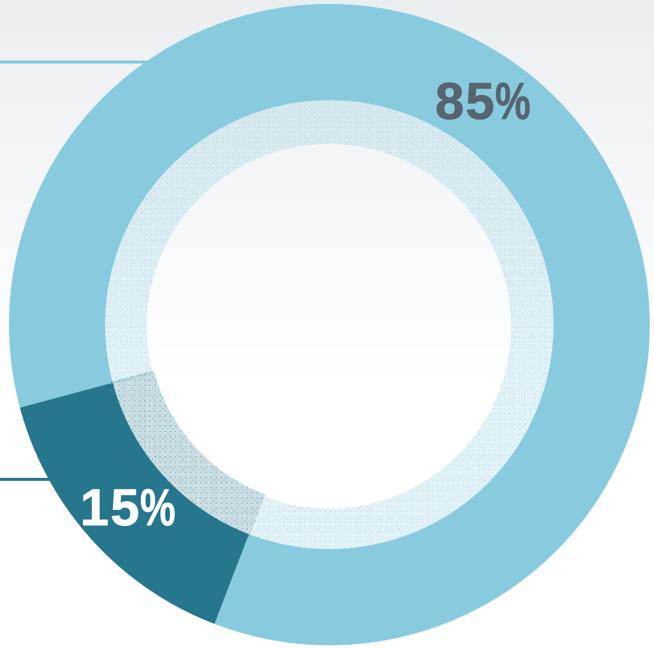
58% UK
34% Continental Europe
8% Rest of World

FY2014 figures

Life Sciences
Segmentation

Healthcare

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



Environmental

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

85% OF REVENUES FROM STEADILY GROWING HEALTHCARE MARKETS

Life Sciences
Operating Results

Six Months ended 31 March	2015	2014	
Revenue	**£52.0m**	£46.6m	*+12%*
Adjusted operating profit	**£10.3m**	£10.6m	*-3%*
Adjusted operating margin	**19.8%**	22.7%	

> Underlying revenues increased by 1% after adjusting for currency and acquisitions

> TPD added 14% to revenues but with lower initial operating margins; currency movements reduced revenues by 3%

> Gross margins in Healthcare businesses impacted on transactional basis by currency as C$ and A$ weakened further against US$ and hedging protection diminished

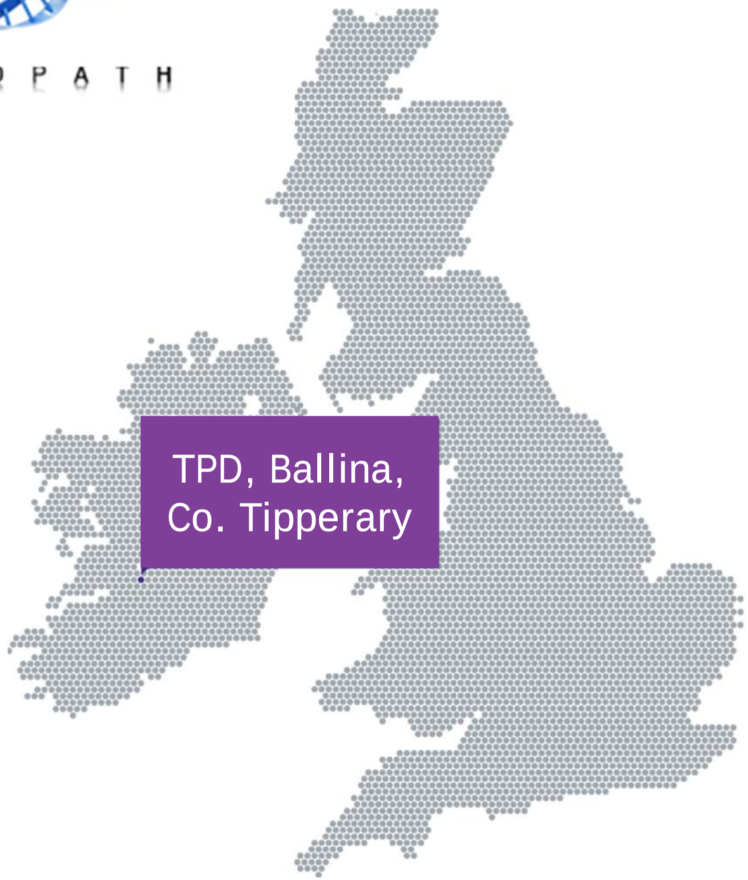
> Operating costs managed tightly

Life Sciences
Sector Developments

- In **Healthcare**, Canadian businesses faced tougher markets, with hospitals increasing focus on controlling costs and taking initiatives to centralise functions within regions
- Consumable and service revenues have remained robust, but capital revenues have under-performed due to budget delays
- DHG in Australia faced similar pressures to Canada but continued to deliver strong revenue growth with smoke evacuation the main driver
- Acquisition of TPD extends DHG into Ireland and the UK and adds important new products and suppliers.
- In **Environmental** businesses, strong growth in service which now account for 35% of revenues

LIFE SCIENCES

TPD Acquisition

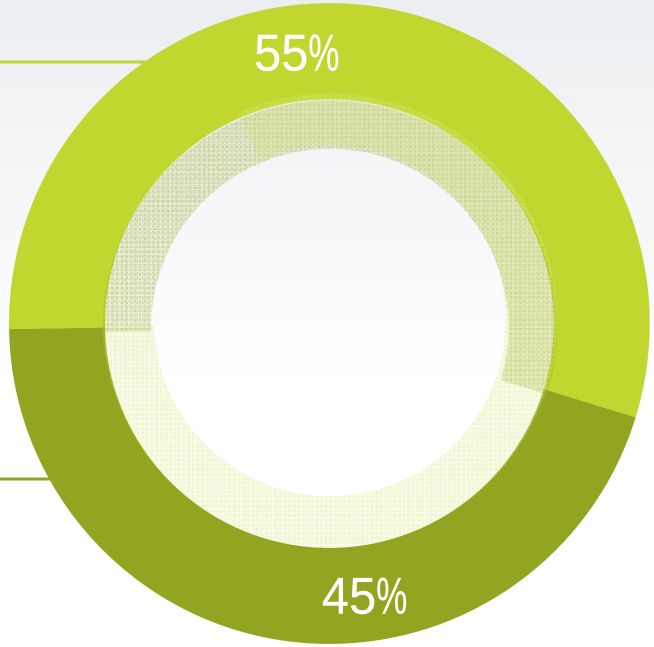


- DHG acquired 80% of Technopath Distribution ("TPD") in October 2014; owner managers retain 20% with put and call options
- TPD is an established supplier to Biotech, Clinical and Medical markets in Ireland and the UK with revenues of ca. €15m
- TPD shares key suppliers with DHG in Canada and also adds new products and suppliers
- Important first step in building DHG presence and critical mass in Ireland and the UK
- Strong performance since acquisition with double digit revenue growth in H1

Seals
Segmentation

Aftermarket

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



Industrial OEMs

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

TWO RESILIENT REVENUE STREAMS

Seals
Operating Results

Six Months ended 31 March	2015	2014	
Revenue	**£64.8m**	£54.9m	*+18%*
Adjusted operating profit	**£12.0m**	£9.3m	*+29%*
Adjusted operating margin	**18.5%**	16.9%	

- Underlying revenues increased by 8% after adjusting for currency and acquisitions:
  - Aftermarket businesses up by 7%
  - Industrial OEM businesses up by 9%
- Acquisitions (principally Kentek and Kubo) added 9% to revenues with lower initial operating margins
- Resilient gross margins across the Seals businesses; operating margins increased by 160 bps due to increased operating leverage

Seals
Sector Developments - Aftermarket

- Strong growth in core Hercules business in North America, with growing US economy and less severe winter weather
- Weaker markets for HKX in Canada and Latin America
- In Europe, FPE Seals delivered good underlying growth and also benefited from:
  - AB Seals acquisition
  - Transferred responsibility of Bulldog branded products
- New 34,000 sq.ft. facility under construction and due to complete in H2; will form the operational hub for FPE Seals in Europe
- Kentek has proved very resilient in challenging market conditions; St Petersburg operations relocated to new and improved facility

SEALS

Seals

Sector Developments - Industrial OEMs

- In North America, RT Dygert, All Seals and J Royal performed well in positive US industrial economy and increased underlying revenues by 10%
- Growth driven by new products supplied to existing and new customers - after prior year investments in higher level approvals and technical sales resource
- In Europe, M Seals delivered good underlying revenue growth driven by further penetration of the market in Sweden and a recovery in sales to Chinese wind power customers
- M Seals in the UK was boosted by a full contribution from the Ramsay Services acquisition
- Acquisition of Kubo Group in March 2015 extends Seals business into Switzerland and Austria

SEALS

Kubo Acquisition

KUBO

- Acquired Kubo Group in March 2015 for net cash consideration of £22.7m
- Long established leading supplier of seals, O-Rings, gaskets and moulded rubber parts
- Large and diverse base of industrial customers in Switzerland and Austria
- Kubo specialises in high value products for harsh environments and complex applications
- Kubo opens up cross-selling opportunities for Diploma’s other Industrial OEM Seals businesses
- Kubo’s high precision manufactured parts extend product line

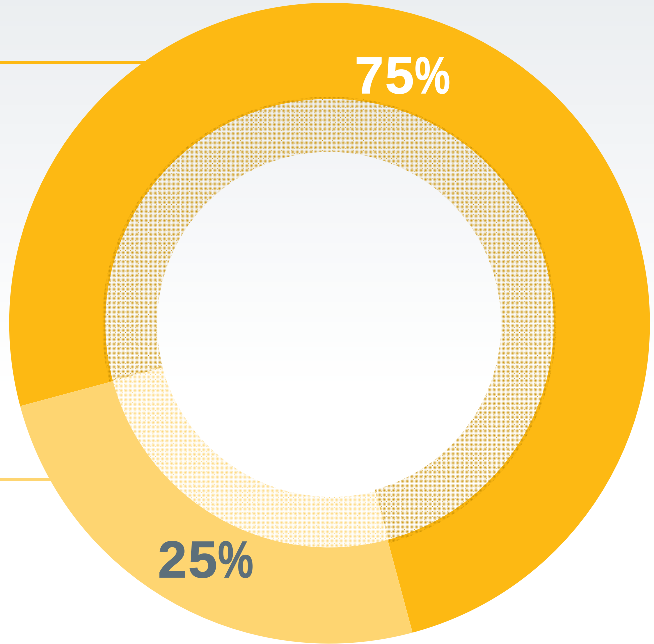
Controls
Segmentation

Interconnect

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

Fluid Controls

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



A BROAD RANGE OF SPECIALISED, HIGH PERFORMANCE PRODUCTS

Controls
Operating Results

Six Months ended 31 March	2015	2014	
Revenue	**£46.4m**	£47.1m	*-1%*
Adjusted operating profit	**£7.3m**	£7.9m	*-8%*
Adjusted operating margin	**15.7%**	16.8%	

- > Underlying revenues decreased by 5% after adjusting for currency and acquisitions
- > Acquisition of SFC added 5% to revenues; weaker Euro reduced revenues by 1% on translation
- > Gross margins remained stable across Controls businesses
- > Operating costs as a percentage of revenue have increased due to reverse operating leverage

Controls
Sector Developments

- In **Interconnect**, revenues from UK operations broadly flat with growth initiatives to broaden the product range offsetting softer Industrial markets
- In Germany, some improvement in Q2 to weak industrial markets, but delayed customer orders in Medical and Defence markets held back demand.
- Specialty Fasteners benefitted from the acquisition of SFC, but underlying revenues decreased against very strong comparatives in Motorsport and Civil Aerospace
- In **Fluid Controls**, reduced capital spend by major food retailers gave a strong headwind for refrigeration sales
- Good growth from Contractor segment with sales of consumables to facilities management companies and air-conditioning contractors

CONTROLS

Current Trading and Outlook

- The Group has a strong and proven business model and growth strategy which aim to deliver:
  - “GDP plus” levels of organic revenue growth
  - Carefully selected acquisitions to accelerate growth to target double digit levels
- In the first half, Diploma has delivered a robust performance with a significant contribution from acquisitions completed during the last year
- Headwinds to organic growth remain in certain key markets
- However, the acquisition pipeline remains encouraging and the Group will continue to focus on bringing these opportunities to completion

4. Appendix

Group Overview - Sectors

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

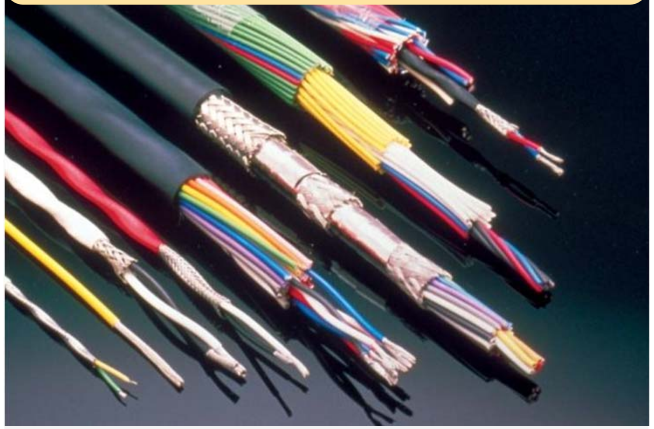
LIFE SCIENCES

ca.30%
of revenues

SEALS

ca.40%
of revenues

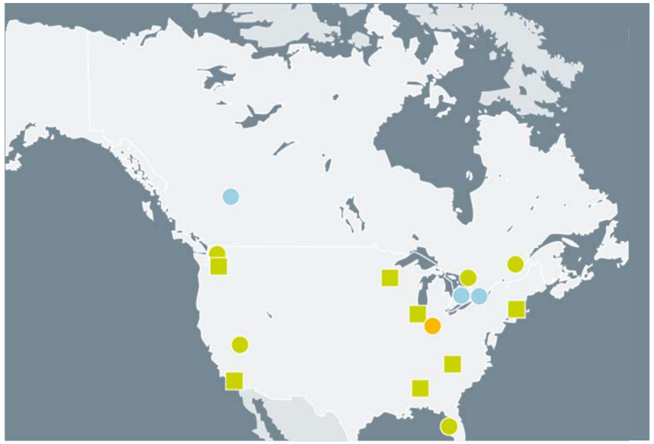
CONTROLS

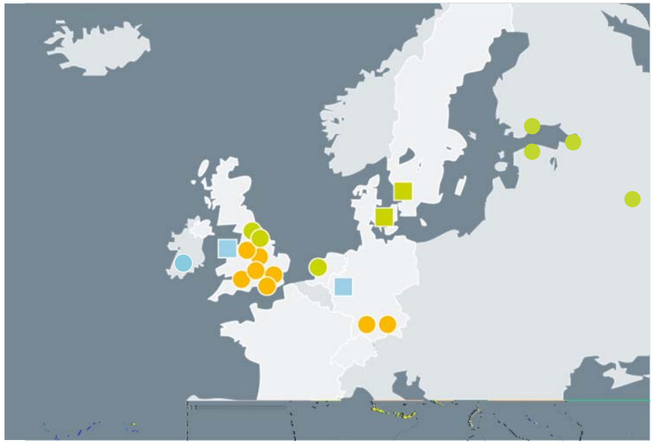


ca.30%
of revenues

A BALANCED AND DIVERSE PORTFOLIO OF BUSINESSES BY SECTOR

Group Overview - Geography





North America

49%
of revenues[1]
26% US
23% Canada

Europe

43%
of revenues[1]
23% UK
20% Continental Europe

Rest of World

8%
of revenues[1]

Life Sciences
- Healthcare
- Environmental

Seals
- Aftermarket
- Industrial OEM

Controls
- Controls

[1]By destination, FY2014 figures

Our Business Model

Essential Products
= recurring income and stable revenue growth

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

Essential Solutions
= sustainable and attractive margins

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

Essential Values
= agility and responsiveness

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

WE WANT TO MAKE OURSELVES ESSENTIAL TO OUR CUSTOMERS

Our Growth Strategy

ACQUIRE

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

BUILD

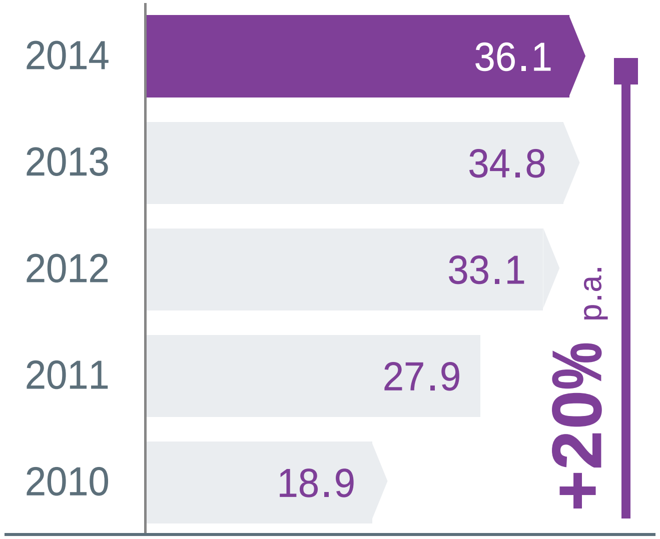
- Investment to build a solid foundation for growth:
  - New facilities and IT systems
  - Increased working capital
  - Strengthened management

GROW

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

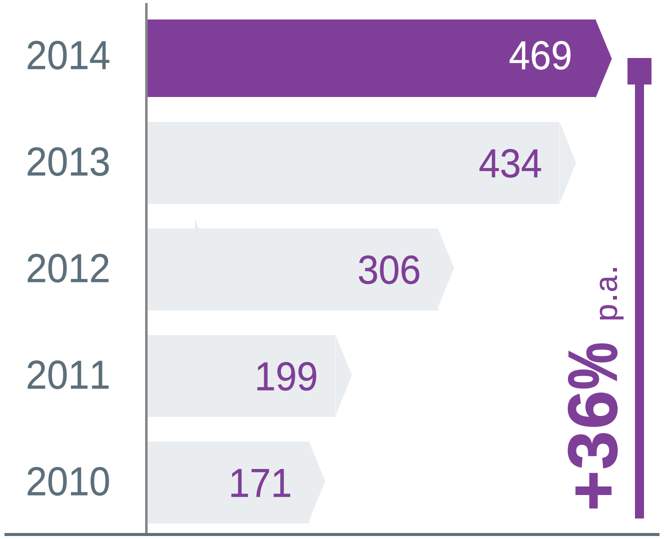
Our Corporate Objectives

STRONG DOUBLE-DIGIT EPS GROWTH



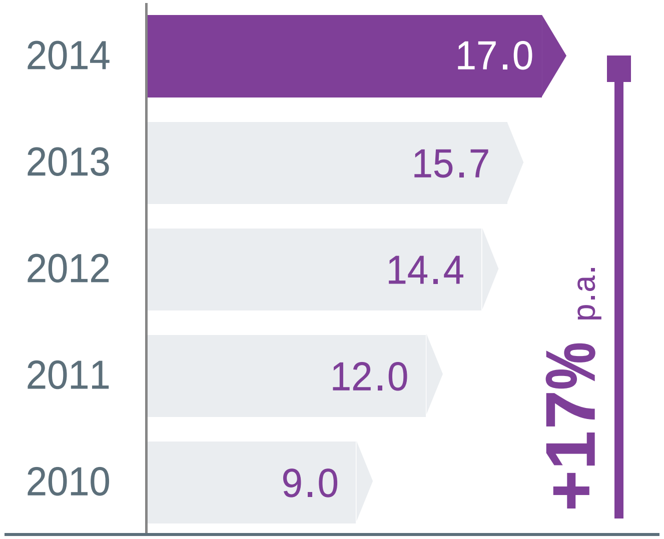
Adjusted EPS in pence

UPPER QUARTILE TSR GROWTH



TSR index, end Sept 2009 = 100

PROGRESSIVE DIVIDEND GROWTH



Dividends in pence

TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS

Financial KPIs

Five Year Trends

	2010	2011	2012	2013	2014
Revenue	£183.5m	£230.6m	£260.2m	£285.5m	£305.8m
Total growth	*+15%*	*+26%*	*+13%*	*+10%*	*+7%*
Organic growth	*+11%*	*+17%*	*+6%*	*+4%*	*+8%*
Operating margin	17.5%	19.6%	20.3%	19.0%	18.5%
Working capital (% revenues)	15.4%	16.1%	16.5%	16.7%	17.2%
Free cash flow	£29.8m	£25.0m	£32.7m	£31.6m	£37.8m
% of PAT	*131%*	*78%*	*87%*	*80%*	*91%*
ROATCE	22.1%	25.4%	26.6%	25.8%	25.8%

Average over five years:

CAGR REVENUE GROWTH	OPERATING MARGINS	ROATCE	FREE CASH FLOW CONVERSION
14% p.a.	18-19%	25%	93%

DIPLOMA PLC

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