NEWSRELEASE

DIPLOMA PLC

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FOR IMMEDIATE RELEASE

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ANNOUNCEMENT OF HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2020

"Robust H1 performance. Resilient business model responding to COVID-19"

	HY2020 £m	HY2019 £m	
Revenue	**283.6**	260.4	***+9%***
Underlying revenue growth	***1%***	*6%*	
Adjusted operating profit(1)	**49.9**	45.6	***+9%***
Adjusted operating margin(1)	**17.6%**	17.5%	***+10bps***
Adjusted profit before tax(1)	**48.4**	45.5	***+6%***
Statutory operating profit	**42.2**	40.1	***+5%***
Statutory profit before tax	**41.6**	40.1	***+4%***
Free cash flow(2)	**21.8**	14.0	***+56%***
Adjusted earnings per share(1)	**32.3p**	30.5p	***+6%***
Basic earnings per share	**27.4p**	26.4p	***+4%***
Interim dividend per share	**-**	8.5p	***-***

(1) Before acquisition related charges and fair value remeasurements.
(2) Before cash payments on acquisitions and dividends.

Commenting on the results, Johnny Thomson, Diploma's Chief Executive Officer said:

"I am very proud of the way my colleagues have responded to the COVID-19 pandemic. Our decentralised model promotes high quality local leadership and together with the right oversight, this allowed us to quickly focus on the wellbeing of our colleagues. I thank everyone for the fantastic response as we continue to operate all of our businesses, providing essential products and services to our customers. We have also been supplying specific products to help those most in need in the COVID-19 battle and our businesses are actively supporting their local communities.

We had a good first half, delivering a robust performance and progressing well with our strategic objectives. However trading in April has been more challenging as it reflects the economic impact of the COVID-19 pandemic. Diploma has a resilient business model and a strong balance sheet and we have taken decisive actions to protect our cash flows and liquidity, all of which give me confidence in our ability to emerge successfully from this crisis."

Robust first half performance in more challenging markets

- Revenues up 10% on constant currency basis; underlying revenue up 1% reflecting softer industrial environment and impact of COVID-19 pandemic in March as well as against a strong comparative; good contribution of 9% from businesses acquired

- Adjusted operating margin up 10bps to 17.6% (unchanged on a pre-IFRS16 basis)

- Strong adjusted EPS growth of 6% (7% growth on a pre-IFRS16 basis)

Sector trading

- Life Sciences underlying revenues up 2% with strong consumable revenues in Healthcare, but capital revenues impacted from early preparation for the COVID-19 pandemic in hospitals; strong contribution from Environmental businesses

- Seals underlying revenues unchanged on prior comparable period despite strong performance in North American Aftermarket business; challenging Industrial markets in both North America and Europe impacted Industrial OEM businesses. Strong contribution from acquired Seals businesses and in particular VSP Technologies which delivered double-digit like-for-like growth

- Controls underlying revenues unchanged on prior period as larger Aerospace and Motorsport customers closed facilities early in March; good contribution from acquired businesses

Strong balance sheet and cash generation

- Free cash flow up 56%, including £5.1m realised on sale of assets, partly offsetting £6.4m capital expenditure which included large investment in new Kentucky distribution facility for the North American Seals Aftermarket business

- Net bank debt of £29.9m at 31 March 2020 represented 0.2X EBITDA; comprises borrowings of £55.8m, net of available cash funds of £25.9m; £60.0m of committed revolver bank facilities now available to the Group, of which £20.0m drawn at 31 March 2020, providing ca. £66m of available liquidity

- The interim dividend has been suspended, given the current uncertainty; the Directors will review this decision when there is sufficient clarity as to the impact of the COVID-19 pandemic

COVID-19 response

- We have prioritised the wellbeing of our colleagues by focussing our support on their physical and mental health, whether at home or in the workplace. In doing so, we have reviewed our operational working practices, increased working from home, split shifts and introduced new health and safety measures to the workplace. We have also provided Employee Assistance Programmes to all of our colleagues

- We have sought and will continue to seek to preserve jobs. We are taking appropriate steps to flex our working practices in light of the impact of the pandemic on both our colleagues and our business. Consistent with our decentralised operating model we are responding to the unique circumstances of each business

- As we provide essential business-to-business products and solutions, all of our facilities have remained open and continue to operate for our customers. We have also been providing essential products in the battle against COVID-19, such as face shields and components for ventilators

- From a financial perspective, revenues have fallen in April by ca. 28% on an underlying basis and by ca. 16% on an actual basis. At these levels the Group continues to generate good operating profits and cash flows. We have also taken decisive action to mitigate the impact on our business which includes freezing all capital expenditure and discretionary spend and we remain focussed on managing our working capital. Our Executive Directors, Non-Executive Directors and the Executive team have also volunteered a reduction in basic salary/fees of 20% for the duration of the crisis

Outlook

- Highly uncertain outlook in second half while global response to COVID-19 pandemic impacts our businesses in many of our major markets
- The Group has a resilient and proven business model supported by operating in structurally attractive and diverse sectors and geographies and has a strong balance sheet and liquidity position
- The Board remains confident in the Group's future and expects the Group to deliver growth and strong shareholder value creation in the medium term

Note:

1. *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 Announcement to "underlying" revenues or operating profits refer to reported results on a constant currency basis and before any contribution from acquired or disposed businesses. The narrative in this Announcement is based on these alternative measures and an explanation is set out in note 2 to the condensed consolidated financial statements in this Announcement.*
2. *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.*

There will be a presentation of the results to analysts and investors at 9:00am this morning via conference call. Register your attendance at *https://www.speakservecloud.com/register-for-call/9cd34e33-5dd3-4fe4-80e6-01257185a672*. This presentation will be available after the conference call at *https://www.diplomaplc.com/investors/financial-presentations/*. A replay of the audio will be available on the same link after the event.

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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 the Life Sciences, Seals and Controls.

Diploma's businesses are focussed 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. 2,100 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. **16%** p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£2.0bn**.

Further information on Diploma PLC can be found at www.diplomaplc.com
LEI: 2138008OG17VYG8FGR19

HALF YEAR REVIEW TO 31 MARCH 2020

Group revenues benefitted from a strong contribution from acquisitions and on a constant currency basis increased by 10% to £283.6m (2019: £260.4m) over the prior comparable period. The outbreak of the COVID-19 pandemic had a significant impact on trading activity in the last two weeks of the period which, together with a softer industrial environment during the period, contributed to underlying revenues increasing by 1% against the prior period. Acquisitions completed in the last year contributed 9% to reported revenues and there was a 1% currency headwind from a modest strengthening of UK sterling against most major currencies.

In the Life Sciences Sector, reported and underlying revenues increased by 2% over the comparable period, benefitting from strong growth in consumable revenues in both the Canadian and Australian clinical diagnostic businesses. Revenues in the combined Surgical business and Endoscopy businesses in Canada were held back by the decline in the more mature surgical smoke market but reported strong growth in the Surgical Specialty and GI Endoscopy market. Both businesses were significantly impacted by postponed installations of capital equipment and instruments as hospitals prepared early in March for the COVID-19 pandemic. In the Seals Sector, reported revenues increased by 20% reflecting a strong contribution from acquisitions completed during the past year and in particular VSP Technologies which delivered double-digit growth on a like-for-like basis. Underlying revenues remained unchanged from the comparable period last year reflecting softer industrial manufacturing markets, both in North America and Europe. In addition competitive pricing in the US Industrial OEM business, in part driven by trade disputes, impacted revenues in this Sector. The Controls Sector reported revenues 1% ahead of the comparable period, with underlying revenues remaining unchanged. Trading activity in most of the Controls businesses, which are predominantly based in Europe, was impacted early in March by the COVID-19 pandemic as large Aerospace and Motorsport customers in particular, began refusing deliveries and postponing orders. This led to a sharp deterioration in revenues in March across the Controls Sector.

Adjusted operating margins at 17.6% (2019: 17.5%) remained broadly in line with the comparable period and 20bps below that reported in the last full financial year. A combination of a small improvement in the gross margin and tight management of operating expenditure, offset the impact of negative leverage from weaker underlying revenues and further revenue investment in the new distribution facility being developed in Kentucky for the North American Seals Aftermarket business.

Free cash flow increased by 56% to £21.8m (2019: £14.0m) in the first half of the year, which included £5.1m of proceeds realised on the sale of a property and a small non-strategic investment in a Chinese supplier and after record capital expenditure of £6.4m (2019: £3.5m). This included ongoing investment in the new North American Seals Aftermarket distribution facility in Kentucky, which is expected to go live later in this calendar year.

At 31 March 2020, the Group had net bank debt of £29.9m, compared with £15.1m at 30 September 2019. Net bank debt comprising borrowings of £55.8m, net of available cash funds of £25.9m and representing 0.2X EBITDA against a banking covenant, which excludes lease liabilities under IFRS16, of 2X EBITDA. At the date of this Report, the Group has committed revolving bank facilities of £60m which expire on 30 June 2022.

The Group also received confirmation in April 2020, from the Bank of England, that subject to satisfactory documentation, the Group is eligible for up to £225m of cash facilities under HM Treasury's Covid Corporate Financing Facility. This facility can be drawn in the form of Commercial Paper and expires on 30 June 2021.

Diploma has a robust balance sheet and a proven track record of strong cash generation which the Group seeks to reinvest in both organic growth and acquiring new businesses to accelerate growth. During the past twelve months the Group has invested ca. £85m in acquiring new businesses. However the current environment has prevented us from pursuing acquisition opportunities, but we remain optimistic about acquiring some quality businesses, once the COVID-19 pandemic is over and we return to a more stable business environment.

RESULTS AND DIVIDENDS

In the six months ended 31 March 2020, Group revenues increased by 9% to £283.6m (2019: £260.4m). Adjusted operating profit increased by 9% to £49.9m (2019: £45.6m) and adjusted operating margins improved to 17.6% (2019: 17.5%). Statutory operating profit increased by 5% to £42.2m. Underlying revenues increased by 1%, which is after adjusting for the incremental contribution from acquisitions and for translational currency effects.

Adjusted profit before tax increased by 6% to £48.4m (2019: £45.5m) and adjusted earnings per share ("EPS") also increased by 6% to 32.3p (2019: 30.5p). On a statutory basis, profit before tax was £41.6m (2019: £40.1m) and basic EPS were 27.4p (2019: 26.4p). Statutory profit before tax and basic EPS are after including a profit of £1.1m realised on the sale and leaseback of a property.

The Group's cash flow from operating activities increased by £12.9m to £43.0m (2019: £30.1m), which included a credit of £3.6m on adoption of IFRS16. On a like-for-like basis the increase in cash flow from operations was 31% (+£9.3m) reflecting a combination of stronger operating profit and a smaller investment in working capital of £13.1m, compared with £16.9m last year.

The Group continues to follow a progressive dividend policy which targets dividend cover towards two times on an adjusted EPS basis. However, in light of the COVID-19 pandemic, the Directors have decided to suspend the interim dividend (2019: 8.5p per share). While the balance sheet remains strong, the Directors believe this is currently in the Company's best interests, balancing all our stakeholders' interests against a background of significant uncertainty as to the eventual impact and duration of the disruption caused by the COVID-19 pandemic. The Directors recognise the importance of dividends to our shareholders and the Directors will review this decision when there is sufficient clarity as to the actual impact of the COVID-19 pandemic on the Group's trading activity and financial position.

OPERATING REVIEW

Life Sciences

The Life Sciences businesses are suppliers of consumables, instrumentation and related services to the Healthcare and Environmental industries.

	Half Year	
	2020	**2019**
Revenue	**£72.4m**	£71.1m
Adjusted operating profit	**£14.0m**	£13.0m
Adjusted operating margin	***19.3%***	*18.3%*

Reported revenues increased by 2% over the prior comparable period. Underlying revenues also increased by 2% after adjusting for the small acquisition of Sphere Surgical completed in September last year and for currency movements on translation of results to UK sterling. The adjusted operating margin increased by 100bps to 19.3%, reflecting tight control and management of operating costs. This more than offset a slightly weaker gross margin caused by transactional currency losses in the Healthcare businesses because of a weaker Canadian and Australian dollar, principally against the US dollar.

The DHG group of ***Healthcare*** businesses which represented 85% of the Sector revenues, reported underlying revenue growth of 2% over the prior year comparable period, reflecting strong growth in recurring consumable product revenues.

In Canada, underlying revenues increased by 4% over the comparable period which reflected strong growth in Somagen driven by a substantial market uptake for their cancer screening products, as well as continued growth in the reproductive segment. The AMT Surgical division of the combined AMT/Vantage business saw revenues decline as the division shifts its portfolio away from the mature and increasingly competitive and commoditised Surgical Smoke market to the growing Surgical Specialty market. This new Surgical Specialty business grew strongly, reflecting good progress in portfolio diversification. The Vantage division delivered further growth in GI Endoscopy revenues driven by placements of new technology endoscope instruments and corresponding "cost per procedure" future revenue streams.

In Australasia, the Abacus dx business reported solid revenue growth from a combination of consumables revenue growth and good service revenue growth following strong capital sales in the second half of last year. During the period, Abacus dx secured several major long term supply contracts in the Australian private laboratory sector positioning it well for future consumable revenue streams. The BGS Surgical business grew revenues by 29%, following the acquisition of Sphere Surgical in September last year which added a bariatric product portfolio to the existing Surgical business. Sphere Surgical delivered solid growth in bariatric surgical revenues in line with our expectations. BGS's historical smoke evacuation and electrosurgery businesses stabilised after a decline last year and reported modest revenue growth.

In Europe, the TPD business which spans the Laboratory, Medical and Biotechnology segments, delivered underlying revenues down 9%, reflecting reduced activity in the Biotech division because of delayed capital installations and the loss of a major blood banking contract tender. The Clinical and Medical divisions showed good growth from portfolio development and increased market penetration. TPD's outlook remains positive with product pipeline development continuing with three new suppliers and a restructured commercial presence in the UK market.

The a1-Group of ***Environmental*** businesses which represent ca. 15% of Life Sciences revenues, reported a 3% increase in underlying revenues over the prior year period.

A1-CBISS had a strong first half with revenue growth of 8% over the prior comparable period, reflecting particularly strong growth in continuous emissions monitoring systems ("CEMS") in the UK market. In addition, demand for contract services remains strong in the UK CEMS market. Revenues in the European a1-envirosciences business based in Germany were broadly unchanged from the comparable period last year. The a1-enviromental division, which is a specialist supplier of analysers to testing laboratories, reported solid revenue growth and has strong forward bookings across all geographies. However, the a1-safetech division, which is a specialist supplier of containment solutions for chemical, petrochemical, environmental, research and pharmaceutical analysis applications, saw a sharp decline compared with the prior year following reduced demand in France.

The onset of the COVID-19 pandemic in mid-March led to a significant downturn in revenues for most businesses in the Life Sciences Sector. Each of the businesses suffered from delayed or postponed installations of capital equipment and instruments because of customers limiting access to their sites. Encouragingly, future order books for capital sales remain strong across all businesses.

Seals

The Seals businesses are suppliers of seals, gaskets, filters, cylinders, components and kits for heavy mobile machinery and specialised industrial equipment.

	Half Year	
	2020	**2019**
Revenue	**£123.0m**	£102.4m
Adjusted operating profit	**£20.1m**	£17.1m
Adjusted operating margin	***16.3%***	*16.7%*

Reported revenues increased by 20% over the prior comparable period with strong contributions being made by businesses acquired during the past twelve months and in particular VSP Technologies, acquired in July last year. However underlying revenues remained unchanged from the comparable period after adjusting for the contribution from the newly acquired businesses and for currency movements on translation of results to UK sterling. Adjusted operating margins reduced by 40bps to 16.3%, despite stronger gross margins earned in the North American Seals businesses, largely driven by further selling price increases in the Aftermarket businesses and stronger gross margins contributed by VSP Technologies. However, the benefit from these stronger gross margins was more than offset by a combination of negative leverage from weak underlying revenues and further investment in setting up the new Aftermarket distribution facility in Kentucky.

The ***North American Seals*** businesses, which accounted for 49% of Sector revenues, reported underlying revenues 3% below the comparable period. Robust growth in the domestic Aftermarket repair business was more than offset by softer activity in the US manufacturing sectors, which particularly impacted both HKX and the US Industrial OEM business.

The North American Aftermarket business reported underlying revenues broadly unchanged on the prior comparable period, despite a strong heavy equipment repair market. The core domestic Hercules US business experienced continued strong demand, with revenues increasing 6% against the comparable period, as heavy mobile equipment continued to come out of warranty. In addition, further inroads were made into the Rental Repair market due to Hercules product development plans providing improved offerings specific to the sector. In Canada, revenue was marginally below the comparable period, despite strong repair market revenues, reflecting reduced trading activity with distributors who support general industry and mining industries. Latin America revenues increased due to the addition of new distributors and expanded product lines. Revenue from the Rest of World reduced as sealing product sales declined to Asian cylinder manufacturers due to reduced demand in the US and Canada. HKX revenues also declined sharply against the comparable period because of the absence of new excavator equipment, as OEMs reduced production following cyclical highs in 2018 and 2019.

Sales of new manlift, aerial work platform, and skidsteer loader seal products contributed to growth in new niche markets and machined seals continued to be a successful complementary product offering to the repair industry for non-standard sized seal products. The Hercules US E-commerce platform remained robust and now accounts for 29% of Aftermarket revenues.

Activity increased during the year on the US$10m project to set up a new highly automated distribution facility based in Louisville, Kentucky which will replace the existing distribution facility in Clearwater, Florida. Warehousing infrastructure is complete with software and carousel automation now being evaluated and tested. Movement restrictions caused by the COVID-19 pandemic have led to the "go-live" date being pushed back to later in this calendar year. During the first half of the year ca. £0.4m of one-off/dual running costs have been charged to adjusted operating profit and £3.4m of contingency inventory has been delivered to the new facility.

The US Industrial OEM business reported revenues down 6% reflecting continued headwinds with US manufacturing and pricing pressures from large OEM customers. As US manufacturing companies strive to reduce costs, multiple customers have required price concessions and/or have re-sourced to less value-added supply partners. Partially offsetting these reductions, new specialty compounds continue to add significant revenue and further growth opportunities with existing and potential customers. These opportunities include Fuel handling, Medical, Fluid filtration and Automotive applications. Enhanced product offerings have provided increased revenues in commercial and residential Irrigation and in the industrial Chemical Spray technology industries. The newly appointed senior leadership team continue to pursue further growth opportunities now the operational base is stable.

In the **MRO** sector, which accounted for 16% of Sector revenues, VSP Technologies reported growth of 13% on a like-for-like basis against the same period in the prior year. This growth has been supported by significant market share gains in its Industrial sector which reported revenue gains of almost 30% compared to the same period last year. The first quarter industrial plant outage season was also much stronger, reflecting some projects that were substantially larger than the amount of work historically conducted at the same facilities during shutdowns. The Transportation sector reported solid growth, supported by revenue gains from completed tank builds and further development of its global distribution arrangement with a major European based business, to service the Asian and European markets. The Transportation Rail division delivered relatively modest growth in the first half of the year as OEM tank car builds receded as oil prices declined. The growth achieved in this division reflected increased sales to new shippers signed into the RideTight® gasket management programme during the past six months. During the first half of FY2020, VSP Technologies delivered ca. US$5m in documented cost savings to its overall customer base. This achievement represents a ca. 19% return to customers as a result of training that helps to reduce labour and material costs and improves operational efficiencies through engineering support provided by VSP Technologies.

The ***International Seals*** businesses, which accounted for 35% of Sector revenues, reported a 7% increase in revenues with a good contribution from the businesses acquired during the last year. Underlying revenues were broadly flat, after adjusting for the acquisitions of DMR Seals in September 2019 and PumpNSeal in January 2020 and adjusting for currency movements on translation of results to UK sterling.

FPE Seals and M Seals, with their principal operations in the UK, Scandinavia and the Netherlands, together delivered underlying growth of 1% on a constant currency basis and after adjusting for the acquisition of DMR Seals. In the UK, both FPE Seals and M Seals reported reduced revenues compared with the prior period, reflecting weaker industrial and construction markets. Revenue growth from businesses in the UK Oil & Gas market remained solid in the first half of the year, however signs of reduced activity were seen towards the end of the first half, corresponding with the weakening in the global oil price. DMR Seals, acquired in September 2019, reported good growth on a like-for-like basis and extended the bespoke machined seals capability within the International Seals Sector. M Seals delivered strong underlying growth of 9% in its Scandinavian business with robust growth into the Wind Power sector, both in Europe and in China. The business also benefitted from increased business gained in Denmark from repeat and new project activity across the Energy, Food, Pharmaceutical and Medical sectors.

Kubo's underlying revenues were unchanged from the prior period as an increasingly stronger Swiss franc against the Euro, again impacted customers that export Swiss manufactured industrial equipment. Kubo's diverse customer base provides good resilience with the Food, Pharmaceutical and Medical sectors all performing well in Switzerland. In Austria, the business successfully relocated to a new, expanded facility and renewed a large contract with a key customer. The Kentek business reported a reduction in revenues of 2% in Euro terms. The Russian business, which account for ca. 65% of Kentek's trading activities, benefitted from a new sales branch opened in the Far East of Russia and from increased activity in the agriculture and construction markets. However a set of rolling disruptive strikes in key Finnish manufacturing industries during much of the first half of the year led to reduced revenues in Kentek's Finnish business. The TotalSeal business in Australia and New Caledonia reported a reduction in underlying revenues against a strong comparable period last year which benefitted from a large international project. New contractual conditions and cost reduction initiatives at a key nickel mining customer in New Caledonia also impacted revenues. In January 2020, PumpNSeal based in Perth, Australia, was acquired, providing further critical mass to the Australian business by introducing new complementary customers and suppliers. PumpNSeal has performed strongly since acquisition.

Controls

The Controls businesses are suppliers of specialised wiring, cable, connectors, fasteners and control devices for technically demanding applications.

	Half Year	
	2020	**2019**
Revenue	**£88.2m**	£86.9m
Adjusted operating profit	**£15.8m**	£15.5m
Adjusted operating margin	***17.9%***	*17.8%*

Reported revenues increased by 1% against a strong prior year comparable period and remained broadly unchanged on an underlying basis, after adjusting for the acquisition of CR Systems this year and for Gremtek acquired in October 2018 and for currency movements.

The adjusted operating margin also remained broadly unchanged at 17.9%, with operating costs remaining tightly controlled to match a weaker trading environment across the Sector. Gross margins also remained consistent with those achieved last year.

The ***Interconnect*** businesses accounted for 62% of Sector revenues. These businesses supply high performance wiring, cable, harness components and connectors, used in technically demanding applications, often in harsh environments. Interconnect underlying revenues were 1% below the comparable period last year, with solid growth from the IS-Group, offset by weaker revenues in the CCA Group (Cablecraft and FS Cables) and Filcon.

The IS-Group delivered underlying growth of 3% with both Gremtek and IS-Sommer performing strongly and offsetting slightly weaker growth in the UK markets. Last year UK revenues benefitted from the stock build across the UK sector in advance of the expected Brexit date at 31 March. The UK business saw strong demand in its domestic Defence market customers which helped offset weaker demand in the Industrial and Export markets. Key projects in the UK included supplying harness components into armoured vehicles and cables for naval communications. IS-Sommer performed well in the Energy sector, benefitting from access granted by its key supplier last year to additional territories in Germany which have now converted to IS-Sommer. The stronger performance in the Energy market helped compensate for both generally weaker Industrial markets and lower Motorsport activity in the first half of the year. In France, Gremtek reported robust revenue growth in the Automotive sector and will benefit from additional sales resource focussed on selling existing IS-Group products into the French market. However activity weakened towards the end of the period as key customers closed their businesses in response to the COVID-19 pandemic. The US Motorsport business reported reduced revenues from weak demand from all its Motorsport customers.

The CCA Group reported a 7% reduction in underlying revenues with both businesses impacted by weaker demand from the UK construction markets and a significant delay in awarding new rail projects under Control Period 6 – the new five-year funding cycle. Cablecraft achieved further robust growth from its new E-commerce platform launched last year. FS Cables reported modest growth from its OEM customers and has developed an encouraging project pipeline, although this is likely to be impacted by lockdown during the COVID-19 pandemic. Filcon reported revenues down by 9% against a strong comparative period, but again reflecting weak demand from Motorsport customers and softer Industrial markets in Germany.

The Clarendon ***Specialty Fasteners*** business accounted for 23% of Sector revenues. This business supplies specialty aerospace-quality fasteners to the Civil Aerospace, Motorsport and Industrial & Defence markets. Clarendon continued to perform strongly in the first five months of the period, however revenues were significantly impacted by the COVID-19 pandemic in March which limited underlying revenue growth to 4% in the first half of the year, compared with the prior year period. The UK business reported a decline in revenues of 1% largely reflecting a reduction in Motorsport activity with F1 teams limiting their spend, ahead of a major engine upgrade year planned for 2021, but now deferred until 2022. Revenues from the Civil Aerospace sector were broadly unchanged, following a number of years of buoyant growth in a sector where Clarendon has successfully broadened its customer base across Europe and Asia. However the outbreak of the COVID-19 pandemic led to closures of key customer facilities, combined with orders being postponed until later in the year. Clarendon's US business delivered strong double-digit growth in both Civil Aerospace and Space and Urban Air Mobility markets from new customers gained last year.

In December 2019, Clarendon acquired CR Systems, based in Germany, which both extended Clarendon's presence into Continental Europe and provides complementary manufactured fastener products to support Clarendon's Civil Aerospace customers globally. CR Systems has performed well since acquisition and in line with our expectations.

The Hawco Group of ***Fluid Controls*** businesses accounted for 15% of Sector revenues and supplies temperature, pressure and fluid control products, with a high proportion of its products being supplied to the Food and Beverage industry. Hawco Group revenues decreased by 2% in a challenging UK manufacturing sector. Good growth in the Refrigerated Transport Home Delivery market, offset a decline in revenues to other OEM Refrigeration customers largely because of the absence of the Brexit stock build seen in the comparable period last year. Abbeychart revenues benefitted from new projects commenced with both Coffee and Soft Drink equipment manufacturers, which helped offset weaker sales to the Vending sector as operators replaced older machines leading to reduced Aftermarket spare part revenues.

FINANCE

Free cash flow

The Group generated free cash flow of £21.8m (2019: £14.0m) during the Half Year. This included £5.1m (2019:£Nil) of cash proceeds received on the sale and leaseback of the IS-Group's facility in Germany and the sale of a small non-strategic investment in a Chinese supplier. Free cash flow is before spending on acquisitions or distributions to shareholders.

Operating cash flow increased by £12.9m to £43.0m (2019: £30.1m) compared with last year, which included a £3.6m credit which has arisen on adoption of IFRS16, as explained in note 16 to the consolidated financial statements. On a like-for-like basis, operating cash flow increased by £9.3m reflecting a combination of stronger adjusted operating profit, a smaller investment in working capital and the absence of a £1.3m settlement agreement with the former CEO last year.

The investment in working capital reduced by £3.8m to £13.1m (2019: £16.9m), compared with last Half Year, but remains consistent with historical trends that sees a higher investment in the first half of the year, which largely unwinds in the second half. The increase in inventories of £5.4m included a £3.4m contingency inventory build in the new US Seals Aftermarket distribution facility in Kentucky, in advance of going live later this calendar year. The increase of £7.7m in receivables, net of payables, largely reflects the impact on payables and accruals from many of the Group's businesses reducing their inventory procurement and significantly reducing operating expenditure in March reflecting the impact of reduced trading activity caused by the COVID-19 pandemic.

The additional contingency inventory build in the new Kentucky facility, together with a slight weakening in "rolling" revenues over the past year, has led to the Group's metric of working capital to revenue increasing to 17.6% (2019: 17.0%), which compares with an average of ca. 16% over the past five years.

Tax payments in the first half of the year increased by £3.5m to £13.1m (2019: £9.6m) compared with last Half Year. The increase largely arose from the impact of a recent legislative change in the timing of UK quarterly tax payments; this required the UK group of companies to make additional quarterly tax payments of ca. £2m in aggregate. In addition, last year's tax payments benefitted from the phasing of Australian tax payments towards the second half of the year. As a result the underlying cash tax rate increased to 26% (2019: 21%). The Group also funded the Company's Employee Benefit Trust with £2.5m (2018: £2.9m) in connection with the Company's long term incentive plan.

Capital expenditure increased by £2.9m against the comparable period last year to £6.4m (2019: £3.5m) in the Half Year ended 31 March 2020. This increase primarily reflected the ramp up of investment in the new distribution facility in Kentucky which, when complete later this year, will replace the existing facility in Clearwater. During the period a further £2.2m was invested in this facility comprising largely of a new highly technical picking carousel, increasing the capital investment in this project to £5.4m. A further £1.3m was invested in the Seals businesses, including £0.6m on setting up a new specialist gasket manufacturing facility within VSP Technologies existing facility in Virginia and £0.4m on implementing new IT ERP platforms in FPE Seals and Kubo, which are expected to go live in the second half of the year. In Life Sciences, the Healthcare businesses spent £1.7m on acquiring new field equipment for placement in hospitals and diagnostic laboratories, including £0.8m on endoscopy equipment in connection with "cost per procedure" contracts. In Controls, £0.7m was spent on refurbishing and refitting a new facility for Clarendon Specialty Fasteners which they relocated to in December 2019. This facility will shortly be sold for £1.5m of cash proceeds and leased back to the business. Each of the Sectors also continued to invest in upgrading and maintaining existing IT environments and on new warehouse tooling.

During the Half Year, £13.6m (2019: £7.5m) was spent on acquisitions and £23.4m (2019: £20.5m) was paid in dividends to ordinary and minority shareholders. Acquisition expenditure included £9.1m on acquiring CR Systems, a supplier of specialty fasteners based near Stuttgart, in Germany and £4.3m on acquiring PumpNSeal, a supplier of seals, based in Perth, Australia.

Net bank debt

At 31 March 2020, the Group's net bank debt had increased by £14.8m to £29.9m compared with net bank debt of £15.1m at 30 September 2019. Net bank debt of £29.9m comprised borrowings of £55.8m, less cash funds of £25.9m; net bank debt comprised a term loan of £35.8m and borrowings under the revolver facility of £20.0m. Shortly after the period end the Group exercised its accordion option over £30m of facilities to guard against the uncertainties arising in connection with the COVID-19 pandemic. At the date of this Report, the Group has committed revolving bank facilities of £60m which expire on 1 June 2022. The term loan is repayable on 7 July 2021 and has an option to extend repayment by a further year. At 31 March 2020 net bank debt of £29.9m represented 0.2X EBITDA against a banking covenant of 2X EBITDA.

The Group also received confirmation in April 2020, from the Bank of England, that subject to satisfactory documentation, the Group is eligible for up to £225m of cash facilities under HM Treasury's Covid Corporate Financing Facility. This facility can be drawn in the form of Commercial Paper and expires on 30 June 2021. The Group does not believe it will need to utilise this facility but has the flexibility if revenues are substantially impacted by an extended lockdown caused by the COVID-19 pandemic.

The Directors have assessed the relevant factors surrounding going concern, and in particular the risks on the Group's business model by the COVID-19 pandemic. The full extent of the potential impact to the Group's business, operations, and the global economy as a whole is not yet clear, but the Group has carried out an assessment of its projected trading for the eighteen month period through to the year ending 30 September 2021. This assessment incorporated a reasonable worse case downside scenario which demonstrates that the Group has sufficient liquidity, resources and covenant headroom to continue in operation for the foreseeable future. The condensed consolidated financial statements have therefore been prepared on a going concern basis.

IFRS16 – Leases

The Group adopted IFRS16 - Leases from 1 October 2019. This has led to the Group recognising £33.0m of "Leases - right of use assets" on the Consolidated Statement of Financial Position and corresponding "Lease liabilities" of £34.6m at 31 March 2020. These leases comprise assets held under operating leases where the rent is paid each year over the term of the lease. This rent was previously charged as an operating expense in the Consolidated Income Statement. Lease liabilities are excluded from the calculation of the Group's debt covenants. The impact on adjusted operating profit, adjusted operating margin, adjusted profit before tax and adjusted EPS is not material and is set out in Note 16 to the condensed consolidated financial statements.

Exchange rates

A significant proportion of the Group's revenues (ca. 80%) are derived from businesses located outside the UK, principally in the US, Canada, Australia and Northern Europe. Since 30 September 2019, UK sterling has generally strengthened against the major currencies in which the Group operates, until the outbreak of the COVID-19 pandemic in March when UK sterling sharply depreciated against the US dollar and Euro. Compared with the first half of last year, the average UK sterling exchange rate has remained broadly unchanged against most major currencies. The impact from translating the results of the Group's overseas businesses into UK sterling has led to a small reduction in Group revenues and Group adjusted operating profit by £2.1m and £0.6m respectively, compared with the same period last year.

On a transactional currency basis, the impact on the UK businesses' adjusted operating profits from currency movements has been slightly negative, compared with last half year, reflecting the impact of slightly stronger UK sterling for most of the period on revenues billed in US dollars and Euros.

The margins in the Healthcare businesses (which account for ca. 20% of Group revenues) are impacted by movements in the Canadian and Australian dollars, relative to the currencies in which the Healthcare businesses purchase their products, primarily US dollars and Euros. During the first half of the year the exchange rates of both the Canadian and Australian dollars have weakened against the US dollar, but slightly strengthened against the Euro. The net impact on the gross margin in the Healthcare business has been a reduction of 180bps, compared with last half year, after taking account of existing foreign currency hedges.

The Group continues with its policy of mitigating transactional currency exposures across all of the Group's businesses by purchasing currency hedging contracts to meet up to 80% of its currency commitments for periods up to 18 months, where it is considered appropriate.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties which may have the largest impact on performance in the second half of the year are the same as those described in detail in pages 28-31 of the 2019 Annual Report & Accounts. In summary these are:

- Strategic risks – downturn/instability in major markets, supplier concentration/loss of key suppliers and customer concentration/loss of key customers;
- Operational risks – cybersecurity/information technology/business interruption, loss of key personnel and product liability;
- Financial risks – foreign currency, transactional and translation; and
- Accounting risk – inventory obsolescence.

The Directors confirm that, with the exception of the COVID-19 pandemic, the principal risks and uncertainties and the processes for managing them have not changed since publication of the 2019 Annual Report & Accounts and that they remain relevant for the second half of the financial year.

The Directors have also considered the risks on the Group's liquidity and viability in connection with the COVID-19 pandemic. The full extent of the potential impact on our business, operations and the global economy as a whole is not yet clear, but Group Executive management continues to work closely with all the Group's businesses to manage their response to the COVID-19 pandemic as effectively as possible. The Directors are confident that the COVID-19 pandemic will not impact the ongoing viability of the Group.

OUTLOOK

Following a robust first half performance, the outlook for the second half of the year remains highly uncertain while actions taken in response to the COVID-19 pandemic continue to impact our businesses in many of our major markets.

The Group has a resilient and proven business model supported by operating in structurally attractive and diverse sectors and geographies. It also has an accountable, commercial and agile culture which is responding admirably to this challenge. In this uncertain period the Group has a robust financial position, with a strong balance sheet and liquidity position as well as covenant headroom and is acting to conserve cash so that the Group remains well positioned for long term success.

Acquisitions will continue to be an integral part of the Group's growth strategy and although the current environment has prevented us from pursuing acquisition opportunities, we remain optimistic about acquiring some quality businesses, once the pandemic is past and we return to a more stable business environment.

This background provides the Board with confidence in the Group's future and expects the Group to deliver growth and strong shareholder value creation in the medium term.

JD Thomson
Chief Executive Officer 11 May 2020

Responsibility Statement of the Directors in respect of the Half Year Report 2020

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU; and
- the Half Year Report includes a fair review of the information required by:

  a) DTR4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b) DTR4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report & Accounts that could do so.

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*. Since the publication of the Annual report & Accounts on 5 December 2019, Barbara Gibbes has joined the Company on 2 March 2020 as CFO Designate and will become CFO on 22 June 2020, when Nigel Lingwood will retire from the Board. In addition, Geraldine Huse was appointed as a non-Executive Director on 20 January 2020.

By Order of the Board

JD Thomson
Chief Executive Officer
11 May 2020

NP Lingwood
Group Finance Director
11 May 2020

Condensed Consolidated Income Statement
For the six months ended 31 March 2020

	Note	**Unaudited 31 March 2020 £m**	Unaudited 31 March 2019 £m	Audited 30 Sept 2019 £m
Revenue	3	**283.6**	260.4	544.7
Cost of sales		**(180.3)**	(166.7)	(347.7)
Gross profit		**103.3**	93.7	197.0
Distribution costs		**(7.4)**	(6.4)	(12.7)
Administration costs		**(53.7)**	(47.2)	(100.2)
Operating profit	3	**42.2**	40.1	84.1
Profit on disposal of property		**1.1**	-	-
Financial expense, net	4	**(1.7)**	-	(0.6)
Profit before tax		**41.6**	40.1	83.5
Tax expense	5	**(10.3)**	(9.9)	(21.1)
Profit for the period		**31.3**	30.2	62.4
Attributable to:				
Shareholders of the Company		**31.1**	29.9	61.9
Minority interests		**0.2**	0.3	0.5
		31.3	30.2	62.4
Earnings per share				
Basic and diluted earnings	6	**27.4p**	26.4p	54.7p

Alternative Performance Measures (note 2)	Note	**31 March 2020 £m**	31 March 2019 £m	30 Sept 2019 £m
Operating profit		**42.2**	40.1	84.1
Add: Acquisition related charges	9	**7.7**	5.5	13.1
Adjusted operating profit	3	**49.9**	45.6	97.2
Deduct: Interest expense	4	**(1.5)**	(0.1)	(0.7)
Adjusted profit before tax		**48.4**	45.5	96.5
Adjusted earnings per share	6	**32.3p**	30.5p	64.3p

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 March 2020

	Unaudited 31 March 2020 £m	Unaudited 31 March 2019 £m	Audited 30 Sept 2019 £m
Profit for the period	**31.3**	30.2	62.4
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial losses in the defined benefit pension scheme	**-**	-	(7.2)
Deferred tax on items that will not be reclassified	**-**	-	1.3
	-	-	(5.9)
Items that may be reclassified to the Consolidated Income Statement			
Exchange rate (losses)/gains on foreign currency net investments	**(8.1)**	(4.2)	6.2
Minority interests share of foreign exchange losses	**-**	(0.1)	-
Gains/(losses) on fair value of cash flow hedges	**1.7**	(0.1)	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	**-**	-	(0.7)
Deferred tax on items that may be reclassified	**(0.5)**	-	-
	(6.9)	(4.4)	5.9
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**24.4**	25.8	62.4
Attributable to:			
Shareholders of the Company	**24.2**	25.6	61.9
Minority interests	**0.2**	0.2	0.5
	24.4	25.8	62.4

Condensed Consolidated Statement of Changes in Equity
For the six months ended 31 March 2020

	Share capital	Transl. reserve	Hedging reserve	Retained earnings	Share -holders' equity	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 October 2018 (audited)	5.7	29.8	0.5	255.2	**291.2**	3.1	**294.3**
Total comprehensive income	-	(4.2)	(0.1)	29.9	**25.6**	0.2	**25.8**
Share-based payments	-	-	-	0.4	**0.4**	-	**0.4**
Tax on items recognised directly in equity	-	-	-	-	**-**	-	**-**
Notional purchase of own shares	-	-	-	(2.9)	**(2.9)**	-	**(2.9)**
Dividends	-	-	-	(20.2)	**(20.2)**	(0.3)	**(20.5)**
At 31 March 2019 (unaudited)	**5.7**	**25.6**	**0.4**	**262.4**	**294.1**	**3.0**	**297.1**
Total comprehensive income	-	10.4	(0.2)	26.1	**36.3**	0.3	**36.6**
Share-based payments	-	-	-	0.4	**0.4**	**-**	**0.4**
Tax on items recognised directly in equity	-	-	-	0.1	**0.1**	**-**	**0.1**
Notional purchase of own shares	-	-	-	-	**-**	**-**	**-**
Dividends	-	-	-	(9.6)	**(9.6)**	**-**	**(9.6)**
At 30 September 2019 (audited)	**5.7**	**36.0**	**0.2**	**279.4**	**321.3**	**3.3**	**324.6**
Total comprehensive income	-	(8.1)	1.2	31.1	**24.2**	0.2	**24.4**
Share-based payments	-	-	-	0.4	**0.4**	-	**0.4**
Tax on items recognised directly in equity	-	-	-	-	**-**	-	**-**
Purchase of own shares	-	-	-	(2.5)	**(2.5)**	-	**(2.5)**
Dividends	-	-		(23.2)	**(23.2)**	(0.2)	**(23.4)**
At 31 March 2020 (unaudited)	**5.7**	**27.9**	**1.4**	**285.2**	**320.2**	**3.3**	**323.5**

Condensed Consolidated Statement of Financial Position
As at 31 March 2020

	Note	**Unaudited 31 March 2020 £m**	Unaudited 31 March 2019 £m	Audited 30 Sept 2019 £m
Non-current assets				
Goodwill	9	**159.1**	128.3	155.0
Acquisition intangible assets	9	**95.5**	50.9	96.1
Other intangible assets		**2.9**	2.3	2.7
Investment		**-**	0.7	-
Property, plant and equipment		**28.2**	22.9	26.7
Leases - right of use of assets	11	**33.0**	-	-
Deferred tax assets		**0.5**	0.5	0.5
		319.2	205.6	281.0
Current assets				
Inventories		**108.0**	98.4	102.6
Trade and other receivables		**98.8**	85.2	91.1
Cash and cash equivalents	8	**25.9**	22.0	27.0
		232.7	205.6	220.7
Current liabilities				
Trade and other payables		**(88.5)**	(84.7)	(90.2)
Current tax liabilities		**(4.5)**	(6.0)	(6.9)
Other liabilities	12	**(15.5)**	(4.6)	(10.8)
Lease liabilities	11	**(6.3)**	-	-
Bank borrowings	8	**-**	-	-
		(114.8)	(95.3)	(107.9)
Net current assets		**117.9**	110.3	112.8
Total assets less current liabilities		**437.1**	315.9	393.8
Non-current liabilities				
Retirement benefit obligations		**(17.9)**	(10.3)	(17.8)
Bank borrowings	8	**(55.8)**	-	(42.1)
Lease liabilities	11	**(28.3)**	-	-
Other liabilities	12	**(0.6)**	-	(0.5)
Deferred tax liabilities		**(11.0)**	(8.5)	(8.8)
Net assets		**323.5**	297.1	324.6
Equity				
Share capital		**5.7**	5.7	5.7
Translation reserve		**27.9**	25.6	36.0
Hedging reserve		**1.4**	0.4	0.2
Retained earnings		**285.2**	262.4	279.4
Total shareholders' equity		**320.2**	294.1	321.3
Minority interests		**3.3**	3.0	3.3
Total equity		**323.5**	297.1	324.6

Condensed Consolidated Cash Flow Statement
For the six months ended 31 March 2020

	Note	**Unaudited 31 March 2020 £m**	Unaudited 31 March 2019 £m	Audited 30 Sept 2019 £m
Cash flow from operating activities	7	**43.0**	30.1	92.3
Interest paid, net		**(0.7)**	(0.1)	(0.1)
Tax paid		**(13.1)**	(9.6)	(21.9)
Net cash from operating activities		**29.2**	20.4	70.3
Cash flow from investing activities				
Acquisition of businesses (including expenses)		**(13.6)**	(6.4)	(77.2)
Deferred consideration paid	12	**-**	(1.1)	(1.1)
Proceeds from sale of property and investment		**5.1**	-	-
Purchase of property, plant and equipment		**(6.4)**	(2.9)	(9.7)
Purchase of other intangible assets		**-**	(0.6)	(1.2)
Net cash used in investing activities		**(14.9)**	(11.0)	(89.2)
Cash flow from financing activities				
Dividends paid to shareholders	13	**(23.2)**	(20.2)	(29.8)
Dividends paid to minority interests		**(0.2)**	(0.3)	(0.3)
Lease repayments	11	**(3.6)**	-	-
Purchase of own shares by Employee Benefit Trust		**(2.0)**	(1.2)	(1.2)
Notional purchase of own shares on exercise of options		**(0.5)**	(1.7)	(1.7)
Proceeds from bank borrowings, net	8	**14.0**	-	41.1
Net cash used in financing activities		**(15.5)**	(23.4)	8.1
Net decrease in cash and cash equivalents	8	**(1.2)**	(14.0)	(10.8)
Cash and cash equivalents at beginning of period		**27.0**	36.0	36.0
Effect of exchange rates on cash and cash equivalents		**0.1**	-	1.8
Cash and cash equivalents at end of period		**25.9**	22.0	27.0

Alternative Performance Measures (note 2)		**31 March 2020 £m**	31 March 2019 £m	30 Sept 2019 £m
Net decrease in cash and cash equivalents		**(1.2)**	(14.0)	(10.8)
Add:	Dividends paid to shareholders and minority interests	**23.4**	20.5	30.1
	Acquisition of businesses	**13.6**	6.4	77.2
	Deferred consideration paid	**-**	1.1	1.1
	Proceeds from bank borrowings, net	**(14.0)**	-	(41.1)
Free cash flow		**21.8**	14.0	56.5
Cash and cash equivalents		**25.9**	22.0	27.0
Bank borrowings		**(55.8)**	-	(42.1)
(Net bank debt)/cash funds		**(29.9)**	22.0	(15.1)

Notes to the Condensed Consolidated Financial Statements
For the six months ended 31 March 2020

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

Diploma PLC (the "Company") is a public limited company registered and domiciled in England and Wales. The condensed set of consolidated financial statements (the "financial statements") for the six months ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as "the Group").

The condensed information presented for the financial year ended 30 September 2019 does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. Those statutory accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The figures for the six months ended 31 March 2019 were extracted from the 2019 Half Year Report, which was unaudited.

The Group's audited consolidated financial statements for the year ended 30 September 2019 are available on the Company's website (*www.diplomaplc.com*) or upon request from the Company's registered office at Diploma PLC, 12 Charterhouse Square, London, EC1M 6AX.

1.1 Statement of compliance
The financial statements included in this Half Year Announcement for the six months ended 31 March 2020 have been prepared on a going concern basis and in accordance with IAS34*, Interim Financial Reporting* as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 30 September 2019.

The Half Year financial statements were approved by the Board of Directors on 11 May 2020; they have not been audited by the Company's auditor.

1.2 Significant accounting policies
The accounting policies applied by the Group in this set of financial statements are the same as those applied by the Group in its audited consolidated financial statements for the year ended 30 September 2019, except for the amount included in the Half Year Report in respect of taxation and the application of two new accounting standards that have become effective during the period.

IFRS16 'Leases' was adopted by the Group with effect from 1 October 2019 using the modified retrospective approach and the amounts as at, and for the six months ended 31 March 2019 and the year ended 30 September 2019 have not been restated.

IFRS16 replaced IAS17 and a single lessee accounting model that requires the recognition of an asset (Leases - right of use of asset) and a corresponding liability for all operating leases with terms over twelve months. The liability is measured as the present value of future lease payments for the lease term; depreciation of the assets and interest on the corresponding lease liabilities is recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is presented in the financing section as lease repayments. Further detail in respect of IFRS16 and the impact from adopting IFRS16 is set out in note 11 and note 16, respectively.

IFRIC23 (Uncertainty over Income Tax Treatments) was adopted by the Group with effect from 1 October 2019 and clarifies how to apply the recognition and measurement requirements in IAS12 when there is uncertainty over the income tax treatments. Adoption of this Standard did not have a material impact on the Group.

As in previous Half Year Announcements, taxation has been calculated by applying the Directors' best estimate of the annual rates of taxation to taxable profits for the period. In the audited consolidated financial statements for the full year, the taxation balances are based on draft tax computations prepared for each business within the Group.

1.3 Risk management

The Group's overall management of financial risks is carried out by a central team under policies and procedures which are reviewed by the Board. The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks and how the Group manages them is included in the Annual Report & Accounts for year ended 30 September 2019. Further explanation of the Group's Principal Risks and Uncertainties and Going Concern are set out in the Narrative of this Half Year Report.

There is no material difference between the book value and fair value of the Group's financial assets and financial liabilities as at 31 March 2020. The basis for determining the fair value is as follows:

- *Derivatives:* Forward contracts are designated as level 2 assets (in the fair value hierarchy) and valued at 31 March forward rates with the gains and losses taken to equity. The fair value of the forward contracts as at 31 March 2020 amounts to a £2.1m asset.
- *Trade and other receivables:* As the majority of the trade and other receivables have a remaining life of less than 12 months, the book value is deemed to be reflective of the fair value.
- *Lease and other liabilities:* The carrying amount represents the discounted value of the expected liability which is deemed to reflect the fair value.

1.4 Estimates and judgements

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The accounting estimates and judgements made by management in applying the Group's accounting policies that have the most significant effect on the amounts included within these consolidated financial statements, were the same as those that applied to the Group's audited consolidated financial statements for the year ended 30 September 2019. These are set out on page 88 of the 2019 Annual Report & Accounts.

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 in order to assess the operational performance of the Group on a comparable basis, and as such these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Half Year Announcement:

2.1 Adjusted operating profit

At the foot of the Condensed 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 or property. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is Group adjusted operating profit divided by Group revenue.

2.2 Adjusted profit before tax

At the foot of the Condensed Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (but before fair value remeasurements under IAS39 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" ("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 underlying earning capacity of the Group.

2.4 Free cash flow

At the foot of the Condensed Consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on fixed assets and including proceeds received from business disposals, but before expenditure on business combinations/investments 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.

3. BUSINESS SECTOR ANALYSIS

The Chief Operating Decision Maker ("CODM") for the purposes of IFRS8 is the Chief Executive Officer. The financial performance of the Sectors is reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

Sector information is presented in this Half Year Announcement in respect of the Group's business Sectors, which is the primary basis of Sector reporting. The business Sector reporting format reflects the Group's management and internal reporting structure. The geographic sector reporting represents results by origin. The Group's financial results have not, historically, been subject to significant seasonal trends. In the year ended 30 September 2019, the Group earned 47.8% of its annual revenues and 46.9% of its annual adjusted operating profits in the first six months of the year.

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.

	Revenue			**Adjusted operating profit**			**Operating profit**		
	31 Mar 2020 £m	31 Mar 2019 £m	30 Sept 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m
By Sector									
Life Sciences	**72.4**	71.1	145.8	**14.0**	13.0	27.5	**12.9**	11.9	25.2
Seals	**123.0**	102.4	220.6	**20.1**	17.1	38.1	**15.5**	14.6	31.1
Controls	**88.2**	86.9	178.3	**15.8**	15.5	31.6	**13.8**	13.6	27.8
	283.6	260.4	544.7	**49.9**	45.6	97.2	**42.2**	40.1	84.1
By Geographic Area									
United Kingdom	**76.2**	75.6	154.8	**13.9**	13.7	27.8			
Rest of Europe	**63.2**	62.8	128.1	**9.0**	9.1	18.6			
North America	**122.2**	102.3	220.5	**23.9**	20.2	45.0			
Rest of World	**22.0**	19.7	41.3	**3.1**	2.6	5.8			
	283.6	260.4	544.7	**49.9**	45.6	97.2			

	Total assets			**Total liabilities**			**Net assets**		
	31 Mar 2020 £m	31 Mar 2019 £m	30 Sept 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m
By Sector									
Life Sciences	**122.4**	114.5	125.2	**(29.9)**	(22.0)	(25.3)	**92.5**	92.5	99.9
Seals	**260.2**	152.0	230.4	**(57.6)**	(34.5)	(37.1)	**202.6**	117.5	193.3
Controls	**138.1**	120.3	116.3	**(35.3)**	(30.3)	(28.0)	**102.8**	90.0	88.3
Unallocated assets/(liabilities)	**31.2**	24.4	29.8	**(105.6)**	(27.3)	(86.7)	**(74.4)**	(2.9)	(56.9)
	551.9	411.2	501.7	**(228.4)**	(114.1)	(177.1)	**323.5**	297.1	324.6

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3. BUSINESS SECTOR ANALYSIS (continued)

In the six months ended 31 March 2020 and as further described in note 10, the Group acquired CR Systems and PumpNSeal. These businesses contributed £3.6m to revenue and £0.9m to adjusted operating profit and operating profit. The results of CR Systems are included within the Controls Sector and reported within the geographic area of the Rest of Europe. The results of PumpNSeal are included within the Seals Sector and reported within the geographic area of the Rest of World.

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 bank borrowings, 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 that cannot be allocated on a reasonable basis to a business Sector are shown collectively as "unallocated assets/(liabilities)".

	Capital expenditure			**Depreciation**		
	31 Mar 2020 £m	31 Mar 2019 £m	30 Sept 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m
By Sector						
Life Sciences	**1.9**	1.7	3.3	**1.3**	1.4	2.7
Seals	**3.6**	1.0	5.1	**1.1**	0.9	2.0
Controls	**0.9**	0.8	2.5	**0.3**	0.3	0.7
	6.4	3.5	10.9	**2.7**	2.6	5.4

A further £3.3m of depreciation was incurred on Leases - right of use assets (note 11).

4. FINANCIAL EXPENSE, NET

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
Interest (expense)/income and similar charges			
- bank facility and commitment fees	**-**	-	(0.2)
- interest income on bank deposits	**-**	-	0.1
- interest expense on bank borrowings	**(0.7)**	-	(0.4)
- notional interest expense on the defined benefit pension scheme	**(0.1)**	(0.1)	(0.2)
- interest on lease liabilities	**(0.7)**	-	-
Net interest expense and similar charges	**(1.5)**	(0.1)	(0.7)
- fair value remeasurement of put options and unwind of discount	**(0.2)**	0.1	0.1
Financial expense, net	**(1.7)**	-	(0.6)

Further detail on the interest charged on lease liabilities is included in note 11.

5. TAXATION

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
UK corporation tax	**2.6**	2.1	4.0
Overseas tax	**7.7**	7.8	17.1
Total tax on profit for the period	**10.3**	9.9	21.1

Taxation on profits before tax has been calculated by applying the Directors' best estimate of the annual rates of taxation to taxable profits for the period. The effective rate of taxation on profit before tax for the period increased to 24.8% (2019: 24.7%) and the Group's adjusted effective rate of tax on adjusted profit before tax increased to 24.0% (2019: 23.7%).

6. 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 period of 113,177,419 (2019: 113,171,433) and the profit for the period attributable to shareholders of £31.1m (2019: £29.9m).

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

	31 Mar 2020 pence per share	31 Mar 2019 pence per share	30 Sept 2019 pence per share	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m
Profit before tax				**41.6**	40.1	83.5
Tax expense				**(10.3)**	(9.9)	(21.1)
Minority interests				**(0.2)**	(0.3)	(0.5)
Earnings for the period attributable to shareholders of the Company	**27.4**	26.4	54.7	**31.1**	29.9	61.9
Acquisition related charges	**6.8**	4.9	11.6	**7.7**	5.5	13.1
Fair value remeasurement of put options and unwind of discount	**0.2**	(0.1)	(0.1)	**0.2**	(0.1)	(0.1)
Profit on disposal of property	**(1.0)**	-	-	**(1.1)**	-	-
Tax effect on above adjustments	**(1.1)**	(0.7)	(1.9)	**(1.3)**	(0.9)	(2.1)
Adjusted earnings	**32.3**	30.5	64.3	**36.6**	34.4	72.8

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

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
Operating profit	**42.2**	40.1	84.1
Acquisition related charges (note 9)	**7.7**	5.5	13.1
Adjusted operating profit	**49.9**	45.6	97.2
Previous CEO transition costs paid	**-**	(1.3)	(1.3)
	49.9	44.3	95.9
Depreciation/amortisation of tangible, other intangible assets and leases – right of use assets	**6.0**	2.6	5.4
Share-base payments expense	**0.4**	0.4	0.8
Defined benefit scheme expense	**(0.2)**	(0.3)	(0.4)
Non-cash items	**6.2**	2.7	5.8
Increase in inventories	**(5.4)**	(14.9)	(12.2)
Increase in trade and other receivables	**(6.8)**	(6.9)	(1.2)
(Increase)/decrease in trade and other payables	**(0.9)**	4.9	4.0
Increase in working capital	**(13.1)**	(16.9)	(9.4)
Cash flow from operating activities, before acquisition expenses	**43.0**	30.1	92.3

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8. (NET BANK DEBT)/CASH FUNDS

The movement in (net bank debt)/cash funds during the period is as follows:

		31 March 2020		31 March 2019		30 Sept 2019
	£m	**£m**	£m	£m	£m	£m
Net decrease in cash and cash equivalents		**(1.2)**		(14.0)		(10.8)
Increase in bank borrowings		**(14.0)**		-		(41.1)
		(15.2)		(14.0)		(51.9)
Effect of exchange rates		**0.4**		-		1.1
Non-cash movements		**-**		-		(0.3)
Movement in (net bank debt)/cash funds		**(14.8)**		(14.0)		(51.1)
(Net bank debt)/cash funds at beginning of period		**(15.1)**		36.0		36.0
(Net bank debt)/cash funds at end of period		**(29.9)**		22.0		(15.1)
Comprising:						
Cash and cash equivalents		**25.9**		22.0		27.0
Bank borrowings:						
- Revolving credit facility	**(20.0)**		-		(6.1)	
- Term loan	**(35.8)**	**(55.8)**	-	-	(36.0)	(42.1)
(Net bank debt)/cash funds at end of period		**(29.9)**		22.0		(15.1)

Analysed as:	**£m**
Repayable within one year	-
Repayable after one year	55.8

The Group has a committed multi-currency revolving facility of £30.0m which expires on 1 June 2022. At 31 March 2020, the Group had utilised £20.0m of this facility (2019: £Nil). The facility also has an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m. This option was exercised on 9 April 2020, increasing the committed multi-currency facility to £60.0m. Interest on this facility is payable between 70 and 115bps over LIBOR, depending on the ratio of net bank debt to EBITDA.

The Group also has a two-year term loan for an aggregate principal amount of £35.8m (US$44.4m) which is fully drawn and is repayable in full by 7 July 2021. An option exists for the Company to extend repayment by one year to 7 July 2022. Interest on this facility is payable between 90 and 135bps over LIBOR, depending on the ratio of net bank debt to EBITDA.

Total debt is £64.5m comprising net bank debt of £29.9m and lease liabilities of £34.6m (as set out in note 11). Bank covenants are tested against net bank debt only.

9. GOODWILL AND ACQUISITION INTANGIBLE ASSETS

	Goodwill £m	Acquisition intangible assets £m
At 1 October 2018	128.5	53.6
Acquisitions	2.3	3.6
Amortisation charge	-	(5.4)
Exchange adjustments	(2.5)	(0.9)
At 31 March 2019	128.3	50.9
Acquisitions	21.8	49.6
Amortisation charge	-	(6.2)
Exchange adjustments	4.9	1.8
At 30 September 2019	155.0	96.1
Acquisitions	8.8	8.3
Amortisation charge	-	(7.5)
Exchange adjustments	(4.7)	(1.4)
At 31 March 2020	**159.1**	**95.5**

Goodwill represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how. The acquisition intangible assets relate to supplier and customer relationships and these assets will be amortised over five to fifteen years.

Acquisition related charges of £7.7m (2019: £5.5m) are charged to the Consolidated Income Statement. These charges comprise £7.5m (2019: £5.4m) of amortisation of acquisition intangible assets and £0.2m (2019: £0.1m) of acquisition expenses.

10. ACQUISITION OF SUBSIDIARIES

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, for total maximum consideration of £11.4m (€13.4m). The initial consideration, before acquisition expenses of £0.1m (€0.1m), was £9.1m (€10.8m), including £0.1m (€0.1m) of cash acquired. Deferred consideration of £1.9m (€2.1m) has been provided at 31 March 2020 of which £1.1m (€1.2m) has been held back pending any claims received and the remaining balance of £0.8m (€0.9m) is payable based on the gross profit earned in the twelve months ending 31 October 2020.

Acquisition of PumpNSeal Australia Pty Limited
On 15 January 2020 the Group acquired 100% of PumpNSeal Australia Pty Limited ("PumpNSeal"), based in Australia, for total maximum consideration of £5.0m (A$9.5m). The initial consideration, before acquisition expenses of £0.1m (A$0.1m) was £4.3m (A$8.5m) including £0.2m (A$0.4m) of cash acquired. Deferred consideration of £0.5m has been provided at 31 March 2020 which is payable based on the gross profit earned in the twelve months ending 30 June 2020.

Fair value adjustments
The provisional fair value of CR Systems and PumpNSeal 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 to increase the provision held against inventory by £0.3m.

Acquisitions revenue and operating profit
From the date of acquisition to 31 March 2020, the newly acquired CR Systems and PumpNSeal businesses contributed £3.6m to revenue and £0.9m 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-forma basis £7.3m to revenue and £1.7m 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.

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11. LEASES - RIGHT OF USE ASSETS AND LEASE LIABILITIES

Leases – right of use assets

	Land & buildings £m	Plant & machinery £m	Motor vehicles £m	IT & 0ffice equipment £m	Total £m
At 1 October 2019	30.3	0.3	2.3	0.6	33.5
Additions	3.6	0.1	0.4	0.1	4.2
Profit on sale of property deferred	(1.0)	-	-	-	(1.0)
Exchange adjustments	(0.4)	-	-	-	(0.4)
At 31 March 2020	32.5	0.4	2.7	0.7	36.3
Depreciation	(2.6)	(0.1)	(0.5)	(0.1)	(3.3)
At 31 March 2020	**29.9**	**0.3**	**2.2**	**0.6**	**33.0**
At 1 October 2019	30.3	0.3	2.3	0.6	33.5

Leases - right of use assets represent those assets held under operating leases which IFRS16 requires to be capitalised.

Lease liabilities

The movement in lease liabilities is set out below:

	£m
At 1 October 2019	33.7
Additions	4.2
Lease repayments	(3.6)
Interest on lease liabilities	0.7
Exchange adjustments	(0.4)
At 31 March 2020	**34.6**

Analysed as:	£m
Repayable within one year	**6.3**
Repayable after one year	**28.3**

On adoption of IFRS16, 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.

The impact on the Condensed Consolidated Financial Statements from the adoption of IFRS16 is set out in note 16.

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12. OTHER LIABILITIES

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
Future purchases of minority interests	**4.2**	4.4	4.3
Deferred consideration	**11.9**	0.2	7.0
	16.1	4.6	11.3
Analysed as:			
Repayable within one year	**15.5**	4.6	10.8
Repayable after one year	**0.6**	-	0.5

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

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
At 1 October	**4.3**	4.5	4.5
Fair value remeasurements	**(0.1)**	(0.1)	(0.2)
At end of period	**4.2**	4.4	4.3

At 31 March 2020, the Group retained put options to acquire minority interests of 10% held in each of M Seals and Kentek which were both exercisable from November 2018. At 31 March 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 31 March 2020.

Deferred consideration comprises:

	31 March 2020 £m	31 March 2019 £m	30 Sept 2019 £m
VSP Technologies	**7.9**	-	5.3
DMR Seals	**0.6**	-	0.6
Sphere Surgical	**1.0**	-	1.1
Gremtek	**-**	0.2	-
CR Systems	**1.9**	-	-
PumpNSeal	**0.5**	-	-
	11.9	0.2	7.0

The movement on deferred consideration during the period is as follows:

	1 Oct 2019	Additions	Foreign exchange	Discount unwind	**31 March 2020**
VSP Technologies	5.3	2.4	(0.1)	0.3	**7.9**
DMR Seals	0.6	-	-	-	**0.6**
Sphere Surgical	1.1	-	(0.1)	-	**1.0**
CR Systems	-	1.9	-	-	**1.9**
PumpNSeal	-	0.5	-	-	**0.5**
	7.0	4.8	(0.2)	0.3	**11.9**

The amount provided in respect of consideration payable to the owners of VSP Technologies has been increased by £2.4m (with £2.4m added to goodwill), in recognition of their strong trading which will lead to a higher performance payment. A further £0.2m of acquisition expenses relating to VSP Technologies was paid in the period ended 31 March 2020.

13. DIVIDENDS

	31 Mar 2020 pence per share	31 Mar 2019 pence per share	30 Sept 2019 pence per share	**31 Mar 2020 £m**	31 Mar 2019 £m	30 Sept 2019 £m
Final dividend of the prior year, paid in January	**20.5**	17.8	17.8	**23.2**	20.2	20.2
Interim dividend, paid in June	**-**	-	8.5	**-**	-	9.6
	20.5	17.8	26.3	**23.2**	20.2	29.8

The Directors have decided not to declare an interim dividend (2019: 8.5p). The total value of the dividend will be £Nil (2019: £9.6m).

14. EXCHANGE RATES

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

	Average			**Closing**		
	31 March 2020	31 March 2019	30 Sept 2019	**31 March 2020**	31 March 2019	30 Sept 2019
US dollar (US$)	**1.29**	1.30	1.27	**1.24**	1.30	1.23
Canadian dollar (C$)	**1.73**	1.72	1.69	**1.76**	1.74	1.63
Euro (€)	**1.17**	1.14	1.13	**1.13**	1.16	1.13
Swiss franc (CHF)	**1.26**	1.29	1.27	**1.20**	1.30	1.23
Australian dollar (A$)	**1.94**	1.81	1.81	**2.03**	1.83	1.83

15. RELATED PARTY TRANSACTIONS

There have been no changes to the related party arrangements or transactions as reported in the 2019 Annual Report & Accounts.

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are therefore not disclosed. Other transactions which qualify to be treated as related party transactions are: those relating to the remuneration of key management personnel, which are not disclosed in this Half Year Report, but will be disclosed in the Group's next Annual Report & Accounts; and transactions between the Group and the Group's defined benefit pension plan, which are disclosed within the Consolidated Cash Flow Statement.

16. IMPACT ON ADOPTION OF IFRS16 LEASES

As set out in note 1, the Group adopted IFRS16 on 1 October 2019 using the modified retrospective approach. The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 1 October 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated against the Lease liability. The finance cost on the leases is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight line basis over the shorter of the asset's useful life and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments which includes the fixed payments less any lease incentives. Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise IT equipment and small items of office furniture and equipment. The Group has no leases that are onerous.

On implementation of IFRS16 on 1 October 2019, 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 as a result of adopting IFRS16. The Group's most significant leases relate to property. The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition ranged from 3.4% - 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 Half Year results in the consolidated financial statements is as follows:

Adjusted operating profit

	£m	31 March 2020 £m
Reported adjusted operating profit – post IFRS16		**49.9**
Less operating lease rentals, removed from operating costs	(3.6)	
Add back depreciation on leases – right of use assets, added to operating costs	3.3	**(0.3)**
Adjusted Operating profit – pre IFRS16		**49.6**

16. IMPACT ON ADOPTION OF IFRS16 LEASES (continued)

Adjusted profit before tax

	£m	31 March 2020 £m
Reported adjusted profit before tax – post IFRS16		**48.4**
Less operating lease rentals removed	(3.6)	
Add back depreciation on leases – right of use assets added to operating costs	3.3	**(0.3)**
Add back interest on lease liabilities		**0.7**
Adjusted profit before tax – pre IFRS16		**48.8**

Earnings per share

The impact of adopting IFRS16 is to reduce basic earnings per share from 28.4p to 27.4p and reduce adjusted earnings per share from 32.6p to 32.3p.

Adjusted operating profit and margin

	Post IFRS16 31 March 2020 £m	Pre IFRS16 31 March 2020 £m	**Post IFRS16 31 March 2020 %**	Pre IFRS16 31 March 2020 %
By Sector				
Life Sciences	**14.0**	14.0	**19.3%**	19.3%
Seals	**20.1**	19.9	**16.3%**	16.2%
Controls	**15.8**	15.7	**17.9%**	17.8%
Adjusted operating profit and margin	**49.9**	49.6	**17.6%**	17.5%

There is no impact of adopting IFRS16 on free cash flow. However, in the Consolidated Cash Flow Statement, the repayments of the operating lease liabilities of £3.6m are included within financing activities, whereas the operating lease rentals were previously presented within cash flow from operating activities.

Reconciliation of lease commitments to IFRS16 lease liabilities

Total minimum lease commitments at 30 September 2019	**39.3**
Impact of discounting	(5.0)
Leases not qualifying under IFRS16	(0.6)
Lease liabilities – IFRS16 at 1 October 2019	**33.7**

The impact on the total assets and liabilities by Sector at 31 March 2020 is as follows:

	Total assets		**Total liabilities**	
	POST IFRS16 31 March 2020 £m	PRE IFRS16 31 March 2020 £m	**POST IFRS16 31 March 2020 £m**	PRE IFRS16 31 March 2020 £m
By Sector				
Life Sciences	**122.4**	118.9	**(29.9)**	(26.4)
Seals	**260.2**	240.2	**(57.6)**	(37.2)
Controls	**138.1**	129.6	**(35.3)**	(25.7)
Unallocated assets/(liabilities)	**31.2**	30.2	**(105.6)**	(104.9)
	551.9	518.9	**(228.4)**	(194.2)

16. IMPACT ON ADOPTION OF IFRS16 LEASES (continued)

Profit on sale of property

The commercial profit realised on sale of the property at arms' length was £2.1m, comprising cash proceeds received on sale less the net book value at date of sale. Under IFRS16, £1.0m of this gain has been deferred (by reducing the depreciation charged to profit in future years over the life of lease) into "Leases - right of use assets" as the property was leased back to the business.