DIPLOMA PLC

Consistently delivering value

Diploma PLC
Annual Review
2020

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

Our purpose
is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

Johnny Thomson
Chief Executive Officer

Group at a Glance

Well diversified by geography and business area

We focus on supplying Essential Products and services across a range of specialised industry sectors.

See more on pages 2 and 3

US revenue
(by destination)

£141.9m

Group revenue

26%

ca. 40%[1]

Locations

European revenue
(by destination)

£244.3m

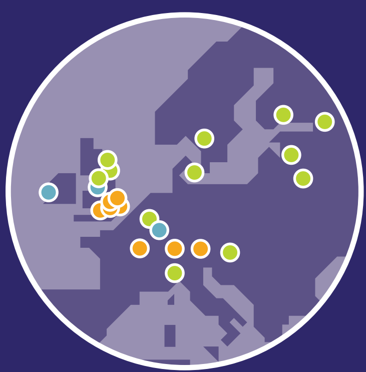
Group revenue

45%

UK	21%
Rest	24%

ca. 35%[1]

Locations



International revenue
(by destination)

£152.2m

Group revenue

29%

ca. 25%[1]

Locations

- Seals
- Controls
- Life Sciences

1 Approximate Sector and geography split after inclusion of Windy City Wire on a pro-forma basis.

Seals

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

International Seals (38% of revenue): sealing products and filters supplied outside North America to Aftermarket and Industrial OEM customers as well as to Maintenance, Repair and Overhaul ("MRO") operations.

See more on pages 10-11

North American Seals (62% of revenue):

Aftermarket: next-day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery.

Industrial OEM: sealing products, custom-moulded and machined parts supplied to manufacturers of specialised industrial equipment.

MRO: high-quality gaskets and fluid sealing products supplied to end users with critical services in high-cost failure applications.

Primary growth drivers
- General economic growth
- Activity and spending levels in Heavy Construction and Infrastructure
- Growth in industrial production
- Capital expansion projects at major customers

Group revenue
45%

Employees
1,019

Controls

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

See more on pages 12-13

Interconnect (64% of revenue): wiring, cable, harness components and cable accessories used in specialised technical applications in Aerospace, Defence, Motorsport, Energy, Medical, Rail and Industrial.

Specialty Fasteners (21% of revenue): specialty aerospace-quality fasteners supplied to Civil, Motorsport, Industrial and Defence markets.

Fluid Controls (15% of revenue): temperature, pressure and fluid control products used in Food & Beverage and Catering industries.

Primary growth drivers
- General growth in the Industrial economy
- Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail
- Equipment installation and maintenance in Food & Beverage and Catering
- Technology-enabled growth in building automation, antennae and data centres

Group revenue
29%

Employees
536

Life Sciences

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

See more on pages 14-15

Healthcare (85% of revenue): clinical diagnostic instrumentation, consumables and services supplied to hospital pathology and life sciences laboratories for the testing of blood tissue and other samples. Surgical medical devices, consumables and services supplied to hospital operating rooms, GI/Endoscopy suites and clinics.

Environmental (15% of revenue): environmental analysers, containment enclosures and continuous emissions monitoring systems.

Primary growth drivers
- Public and private Healthcare spending
- Ageing population and increasing life expectancy
- Increased Healthcare investment in research, testing and diagnostics
- Health & Safety and Environmental regulation

Group revenue
26%

Employees
425

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IBC Five Year Record

Highlights

Year ended 30 September 2020

Resilient performance despite challenging conditions

Revenue

£538.4m

2019: £544.7m

-1%

Acquisition spend[3]

£14.9m

2019: £78.3m

Adjusted operating profit[1]

£87.1m

2019: £97.2m

-10%

Statutory operating profit

£69.8m

2019: £84.1m

-17%

Free cash flow[2]

£72.5m

2019: £56.5m

+28%

Adjusted operating margin[1]

16.2%

2019: £17.8%

-160bps

ROATCE

19.1%

2019: 22.9%

Total dividend per share

30.0p

2019: 29.0p

+3%

	2020 pence		2019 pence
Adjusted earnings per share[1]	56.4	-12%	64.3
Basic earnings per share	43.5	-20%	54.7
Total dividend per share	30.0	+3%	29.0
Free cash flow per share[2]	64.0	+28%	49.9

1 Before acquisition related charges and fair value remeasurements.
2 Before cash payments on acquisitions and dividends.
3 In addition, Windy City Wire was acquired on 16 October 2020 for initial consideration of $450m.

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, trading capital employed and return on adjusted trading capital employed ("ROATCE"). All references in this Annual Report & Accounts to "underlying" revenues or operating profits refer to reported results on a constant currency basis and after adjusting for any contribution from acquired or disposed businesses. The narrative in the Annual Report & Accounts is based on these alternative measures and an explanation is set out in notes 2 and 3 to the consolidated financial statements.

Our Business Explained

Diploma's strong and successful distribution business model is developed around the proposition of Essential Products, Essential Solutions and Essential Values.

The Essential Products that are distributed are critical to customers' needs. The Essential Solutions – deep technical support in Life Sciences, responsive customer service in Seals, and value-add servicing in Controls – differentiate the Group from its competitors and drive customer loyalty. The Essential Values focus on empowering our employees, who are best placed to understand and deliver to their customers' needs.

The Group's value-add distribution model is built on strong foundations and supported by its Core Competencies and Organisational Capability.

The Group will grow by focusing on its core developed markets and products, both organically and by acquisition. This strategy will continue to deliver strong and consistent financial returns for shareholders.

Our proposition

What we put in

Essential Products

Most of the Group's revenues are generated from consumable products. Often, the products are used in repair and maintenance applications, and refurbishment and upgrade programmes, rather than supplied to original equipment manufacturers.

- Critical to customers' needs
- Customer opex rather than capex budgets
- Range of products, end markets and customer segments

What we get out

Growth and resilience

Our value-add distribution model

Core Competencies

Product

Supply chain management

Organisational Capability

Talent

Built on strong foundations

Resilient value-add distribution model

What we put in

Essential Solutions

Our businesses design their individual operating models to provide solutions that closely meet the requirements of their customers.

- Responsive customer service
- Deep technical support
- Added-value services

What we get out

Sustainable high margins

What we put in

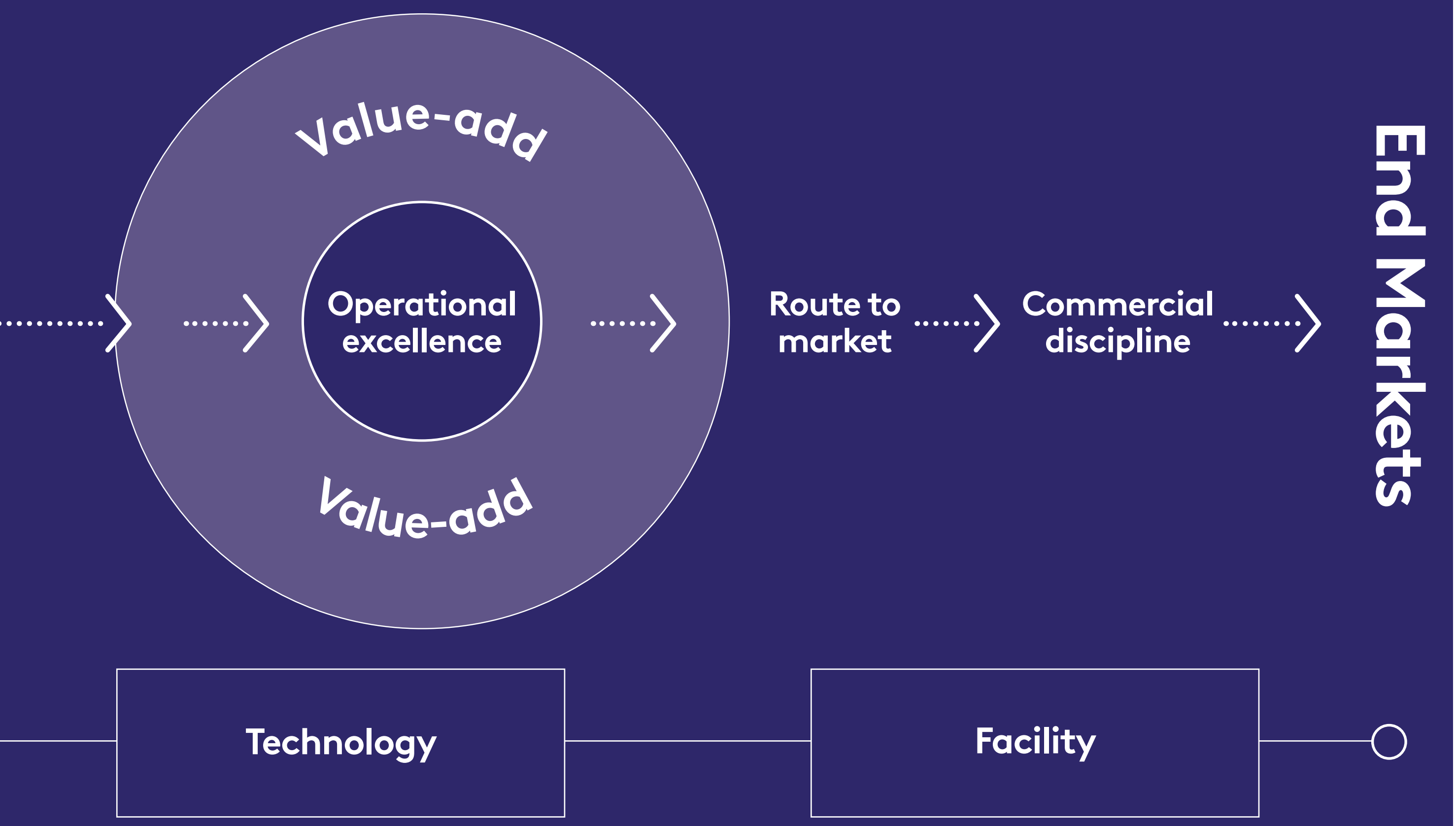
Essential Values

Within our businesses we have strong, self-standing management teams who are committed to, and rewarded according to, the success of their businesses.

- Decentralised model
- Customer orientated teams
- Accountable for performance execution

What we get out

Empowered management teams



Passionate, accountable, customer-centric people	Strong positions in attractive markets	Successful M&A execution	Strong cash flow and robust balance sheet

Our Business Explained

Strategy

The Group has a proven and successful value-add distribution model. We hold strong positions in key markets with a clear route to market that provides organic growth potential and exciting acquisition opportunities in largely fragmented market environments.

Our strategy will continue to evolve as the Group gets larger and more complex. However, as we grow we will continue to maintain our strong foundations and to invest in and develop our Core Competencies and Organisational Capability.

It is a strategy that is based on continuity and builds on the foundations that underpin Diploma's success.

Focus our growth

Scalable businesses
The Group's increasing scale can be used to support long-term growth.

Attractive, developed markets
We can grow by focusing on core developed markets.

Core/adjacent products
We can continue to develop our product capability across the Group.

Organic growth focus
The Group still has relatively low market share in core markets and products.

Acquisition opportunities
Small to medium-sized bolt-on acquisitions continue to play an important part in the development of our Group.

Attractive returns
We operate in highly fragmented sectors with potential for attractive returns and strong cash flows.

Strengthen our Core Competencies

Supply chain management
Our suppliers are integral to our success. Strategic sourcing ensures the right outcomes for our customers.

Operational excellence
As we scale, we must ensure that we have the processes and systems in place to execute our customer proposition.

Value-add
Value-add is at the heart of our business. We will continue to prioritise customer solutions as the key to our success.

Route to market
Developing the strategy, channels, process and capability to address our market opportunity successfully.

Commercial discipline
Our financial model must fit our customers' financial requirements and also reward our businesses fairly. Pricing is critical to ensuring that we are competitive and profitable. This is a win-win for Diploma and our customers.

Develop our Organisational Capability

Talent
We have great people and as our Group grows, we offer our colleagues the right support, development and opportunity to grow too.

Technology
We continue to invest in technology that supports our Core Competencies, and unlocks the operational potential of our businesses.

Facility
We are strategic about our facilities in order to improve our efficiency, quality, agility and distribution footprint.

Strong foundations

Value-add distribution model
We supply Essential Products to a range of end markets. Our Essential Solutions give sustainable high margins through added-value services and customer loyalty. Our empowered management teams embody our Essential Values.

Passionate, accountable, customer-centric people
Our decentralised structure encourages an entrepreneurial culture across our businesses and allows our managers to run their own businesses with the support of the Group.

Strong positions in attractive markets
We hold strong positions in key local markets with potential for greater penetration in the larger developed economies and across our product portfolio.

Successful M&A execution
We carefully select value-enhancing acquisitions that accelerate the underlying growth and take us into related strategic markets and adjacent product opportunities.

Strong cash flow and robust balance sheet
We generate strong free cash flow and have a robust balance sheet that helps fund a disciplined acquisition strategy and provides healthy returns to shareholders.

Chairman's Statement

2020 demonstrated the power of our value-add distribution model

John Nicholas
Chairman

2020 has been a year of strategic progress and resilient performance for the Group. Covid-19 demonstrated the power of our value-add distribution model, our diverse end markets, our scalable businesses, and our robust balance sheet. By the end of FY2020, all Sectors were recovering, focusing on future growth, and delivering strong cash generation.

The Board was delighted by the enthusiastic support of our shareholders in the successful fundraising of £189.2m to partially fund the acquisition of Windy City Wire ("WCW"), a Controls business in the US. This acquisition allows the Group to enter the US Controls market with a scalable business and add a high-quality, high-growth business to the Group.

Results

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

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

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

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

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

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

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

Dividends

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

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

Board changes

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

A new non-Executive Director, Geraldine Huse, was appointed to the Board on 20 January 2020. Geraldine brings a fresh perspective and valuable experience as a senior executive for Procter & Gamble.

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

Colleagues

During this extremely challenging time, all of our colleagues have done their jobs safely for their customers and their communities and I would like to thank them for delivering the value-add service that allowed the Group to respond so well to the challenges of Covid-19

Outlook

The Group has a resilient business model, supported by a robust balance sheet. This model enables the Group to respond to the challenges of the Covid-19 pandemic and supports our confidence in our future growth and our inorganic growth.

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

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

Chief Executive's Review

Strong execution against strategic priorities

Johnny Thomson
Chief Executive Officer

2020 was a year of excellent progress for the Group. Despite the circumstances, we delivered a strong and robust performance and will carry this momentum into the next year. The Group's reported revenues decreased by 1% with adjusted operating profit of £87.1m at a margin of 16.2% after one-off restructuring costs of £3.9m. Cash flow was exceptionally strong with 113% free cash flow conversion.

Our response to Covid-19

I am immensely proud of how our businesses have responded to Covid-19 and I would like to thank all my colleagues for their outstanding efforts. At the outset of the pandemic, we established standard crisis protocols that continue today, including weekly Executive meetings, Group-wide safety measures and regular internal communications to keep the Group aligned, and colleagues informed. Our actions and communications are focused on Making A Difference to Our Colleagues, Customers, and Communities.

Colleagues

The health and safety of our colleagues is our priority. We established guidelines and practices for all businesses to ensure a safe workspace and support our colleagues' mental health and wellbeing.

Customers

Our businesses remained open and operational throughout the pandemic and we were proud to support the Covid-19 fight with some of our products.

Communities

There are many great examples of our businesses supporting local charities, hospitals and initiatives.

Financial responsibility

We took action to ensure sufficient cash and liquidity. However, our businesses adapted well to the crisis and we were able to repay all UK government funding.

Culture

Our approach to Covid-19 has reinforced the cultural identity across the Group. Each business has its own identity but there are some key, common traits. **Continuous Improvement** is driven by a "can do" attitude, even in challenging times. Our decentralised model encourages **accountability** and empowers our business leadership teams. **Respect** for our colleagues, customers, suppliers and communities motivates everything we do.

Strategy

Our strategy is built on the strong foundations of our value-add distribution model. Our strong performance demonstrates the resilience of our proposition of **Essential Products, Essential Solutions** and **Essential Values**.

Focus Our Growth

We focus on core, developed markets and current and adjacent product ranges for our growth. We invest in and build high-quality, scalable businesses with **organic growth** potential. Our Core Competencies and Organisational Capability allow us to execute our proposition and value-add business model at scale.

Core Competencies and Organisational Capability

As we scale, we will continue to improve the Core Competencies that underpin our business model and our success. In order to deliver the Competencies at scale, we must develop the Organisational Capabilities that allow us to do so: **facility, technology** and **talent**.

We have invested over $8.0m in a state-of-the-art warehouse **facility** for our US Seals Aftermarket business in Louisville, Kentucky. The advanced automation of this warehouse puts us at the forefront of distribution. The facility is next to a UPS hub, allowing us to offer next-day delivery at a later cut-off time and to a larger area of the US.

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

This year we have developed our **talent** management processes, embedded a new Executive team, and made some key appointments, both in the PLC team and in business leadership. There is always more that can be done, and we continue to focus on succession management and diversity and inclusion.

Acquisitions

Bolt-on acquisitions remain core to the Group's strategy to deliver double-digit revenue growth. In 2020, we made two acquisitions, CR Systems in the Controls Sector and PumpNSeal in International Seals. These acquisitions extend the Group into new, strategically related markets by broadening our existing product offering.

In October 2020, we completed the **strategic acquisition** of WCW for an initial consideration of $450m. WCW has an impressive value-add customer proposition and is a perfect fit with our business. We currently have an attractive and encouraging pipeline of potential opportunities.

Sector performance

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

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

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

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

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

Q&A

A fantastic record of value creation

Barbara Gibbes
Chief Financial Officer

What attracted you to Diploma?

Before joining Diploma, I was very impressed by, and attracted to, its excellent track record of value-added customer service, strong returns, and cash generation. That remains the case, but I have also seen the Group's other attributes in action – the decentralised model, the value-add proposition, and the culture. Although my start at Diploma coincided with the Covid-19 lockdowns, I have been hugely impressed by how the Group managed the pandemic and how quick and agile the businesses have been to react and adapt.

What are your impressions of the Group so far?

2020 has proved the strength of our proposition and I am proud that we continued to deliver value for our customers, colleagues, and communities. Diploma is well diversified by sector and geography and plays in strong end markets across the globe. The Group's stable revenue growth is achieved through our focus on essential products and services, funded by customers' operating models rather than capital budgets and supplied across a range of specialised industry segments.

I have been fortunate in inheriting a fantastic finance team from Nigel. Having only been at Diploma during the pandemic I am also keen to get out and build strong relationships with the teams across the different regions we operate in. As a decentralised Group, the Managing Directors of the businesses have accountability and can act locally with agility, but we are all working as a team and are pushing in the same direction.

What are your goals as Chief Financial Officer?

As Chief Financial Officer I work closely with Johnny and am involved in all the strategic decisions for the Group, from the go-live decision for the new distribution facility in Louisville, Kentucky for our US Aftermarket business to the acquisition of Windy City Wire to everyday management. My goal as Chief Financial Officer is to help drive the strategy and maintain our fantastic track record of value creation for shareholders.

"During my time at Diploma, I've been hugely impressed by my colleagues and by the power of the decentralised model, which enabled the businesses to react to the pandemic quickly at local level with a consistent approach and with agility."

Skills and experience

Barbara joined Diploma PLC in March 2020 as Chief Financial Officer designate. She was appointed Chief Financial Officer in June 2020 and joined the Board on the same date.

Barbara started her career at Deloitte, where she was a Director, and has held several senior finance positions in other listed businesses.

Prior to joining the Group, Barbara was the interim Chief Financial Officer at Intu Properties plc, where she gained experience acting at Board level of a large FTSE company and on multiple large corporate transactions.

Financial Model and KPIs

Consistent and sustainable shareholder value creation

Diploma has delivered excellent shareholder returns over many years and the Group's businesses are in a great position to continue this track record.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to stable underlying revenue growth, sustainable and attractive margins and strong cash flow generation. This year, underlying revenue growth, after adjusting for currency movements and acquisitions, is down 7% and down 1% on a reported basis, with the growth rate adversely affected in the second half of the year due to the impact of Covid-19. Our growth has recovered well in the latter months of the year and momentum is good for the 2021 financial year.

In 2020, our margins reduced due to negative operating leverage as revenues declined, but through careful cost management this was kept to a minimum and profitability was preserved even after incurring some restructuring charges to align the cost base for the revenue profile going forward and to ensure the businesses are well positioned for growth in 2021.

Our free cash flow generation in 2020 was very strong at 113% which was the result of improved working capital management, both cash collection and careful inventory management, with a boost from £5.8m of cash receipts from property transactions.

Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses that have a strong customer proposition, add value to the Group from their growth potential, capable management and a good track record of profitable growth and cash generation. As part of our strategy to focus the business for strong growth, we invest in the businesses post-acquisition to build a firm foundation to allow them to move to a new level of growth and improve operating margins. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment in the high teens and hence support our Group objectives for return on adjusted trading capital employed.

We measure the success of the growth of the business with KPIs. We maintain a consistent approach to our balance sheet with net debt/EBITDA typically below two times. Leverage depends on actual acquisition spend, which can fluctuate. At year end, we were in a net cash position.

This year, the Group invested ca. £14.9m in acquisitions during the first half of the year and ended the year with an encouraging pipeline of attractive bolt-on acquisitions. Our total acquisition spend over five years is ca. £166m. The acquisitions completed over the last three years have contributed ca. 14% of 2020 revenues.

We announced the acquisition of Windy City Wire ("WCW") just before the year end and completed the acquisition in early financial year 2021. The initial consideration was $450m. This is a great strategic investment in a large, scalable US business with excellent organic growth potential.

The Group's return on total investment measure is the pre-tax return on adjusted trading capital employed, excluding net cash, but including all goodwill and acquired intangible assets ("ROATCE"). This measures how successful we are at generating returns on the investments that we make. We target returns in the high teens, demonstrating a strong track record of shareholder value creation.

As the Group continues to expand it will continue to pursue these metrics in its financial model.

Financial model

Revenue growth

10%+

Adjusted operating margin

17%+

Free cash flow conversion

ca. 90%+

Net debt/EBITDA

<2x

Dividend cover

ca. 2x
adjusted EPS

ROATCE

high teens

Key Performance Indicators

Initiatives | **KPIs**

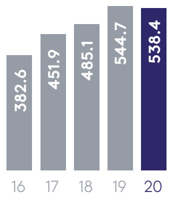
GDP+ underlying revenue growth

We focus on Essential Products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues.

Reported revenue growth (£m)

+10%

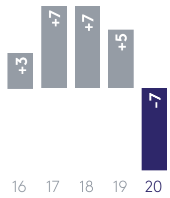
Five-year compound



Underlying revenue growth (%)

+3%

Five-year average



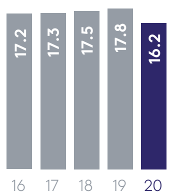
Attractive margins

Our attractive operating margins are sustained through the quality of customer service, the depth of technical support and value-adding activities.

Adjusted operating margin (%)

17.2%

Five-year average



Adjusted operating margin (bps)

Improvement in adjusted operating margin of acquired businesses three years after acquisition.

+200–300bps

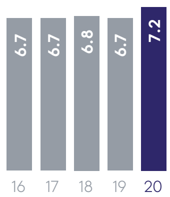
Agile and responsive organisation

We encourage an entrepreneurial culture in our businesses through our decentralised organisation.

Length of service (years)

6.8 years

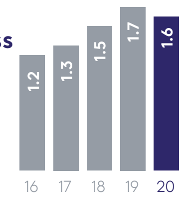
Five-year average



Average working days lost to sickness (%)

1.5%

Five-year average



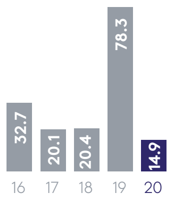
Acquisitions to accelerate growth

Carefully selected, value enhancing acquisitions accelerate the underlying growth and take us into related strategic markets.

Acquisition spend (£m)

£33.3m

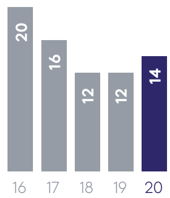
Five-year average



Revenue from acquisitions (% of total)

15%

Five-year average



Calculated as reported revenues from acquisition completed in the last three years.

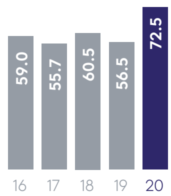
Strong cash flow

A robust balance sheet and strong cash flow fund our growth strategy and provide healthy, growing dividends. Cash conversion was 113.3% this year and 101.6% over a five-year average.

Free cash flow (£m)

£60.8m

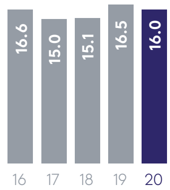
Five-year average



Working capital (% of revenue)

16%

Five-year average



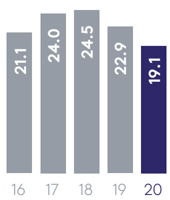
Value creation

We aim to create value by targeting ROATCE in the high teens.

ROATCE (%)

22%

Five-year average



Reported revenue (£m)
(compound growth over five years)

+12%p.a.

Revenue

£242.1m

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

Geography

61% North America

9% International

30% Europe

Principal segments

- 26% North American Aftermarket
- 22% US Industrial OEM
- 14% US MRO
- 38% International

Customers

44% Industrial OEM

14% MRO

24% Heavy Construction

2% Dump & Refuse Trucks

15% Other Industrial

1% Logging & Agriculture

Products

31% Seals & Seal Kits

22% Gaskets

16% O-Rings

9% Filters

19% Cylinder & Other

3% Attachment Kits

Sector Review

Seals

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

Strategy in action

Over the past two years, we have invested $8.0m in a new facility in Louisville, Kentucky, that will serve our North American Aftermarket businesses. This facility puts us at the cutting edge of distribution and will use advanced automation and robots to pick and manage orders.

This new, automated facility, which opened in August 2020, will increase the speed and accuracy of our order fulfilment and offer greater storage density and flexibility, as a result we will be more effective, efficient and scalable.

The facility's location is also strategic. It is next to a major UPS hub, which gives us access to more of industrial America and allows us to offer later order times for guaranteed next-day delivery to a larger proportion of the US. As a result, we can drive market share gains in those regions and accelerate growth.

Since opening the facility in August, we have almost completely transitioned from our existing facility in Clearwater, Florida. This will finalise in December 2020, when our Florida facility will be closed and sold.

Sector Performance

Our **North American Aftermarket** businesses reported flat underlying revenues despite Covid-19 – a strong performance thanks to scale, low transaction values, a diverse customer base, and business concentration in the South Eastern States, which remained open through the pandemic.

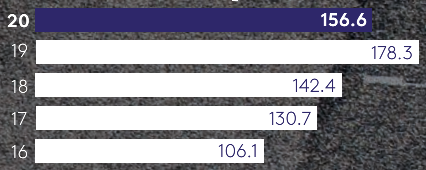
After a few years of challenging conditions in our US **Industrial OEM** businesses, the new management team has started to reap the rewards of their efforts and performance has been improving steadily through Q4 and into the new year.

In **MRO**, VSP had a fantastic first full year with the Group, with double-digit growth and +400bps of margin improvement in the 9 months before Covid-19. Although growth was impacted by Covid-19, their contribution has been significant and we remain excited about VSP's future in the Group.

International Seals performed very well, supported by the diversity of its end segments. Business into medical, pharma, and renewable energies offset the influence of Covid-19 in more industrial end segments.

Reported revenue (£m)
(compound growth over five years)

+11%p.a.



Revenue

£156.6m

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

Geography

52% UK

13% International

35% Continental Europe

Principal segments

- 64% Interconnect
- 21% Specialty Fasteners
- 15% Fluid Controls

Customers

36% Industrial

18% Civil Aerospace

13% Defence

9% Food & Beverage

11% Motorsport

7% Energy & Utilities

5% Medical & Scientific

1% Rail

Products

53% Wire & Cable

23% Fasteners

9% Connectors

8% Equipment & Components

7% Control Devices

Sector Review

Controls

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

Strategy in action

We completed the strategic acquisition of Windy City Wire on 16 October 2020 for an initial consideration of $450m. Windy City Wire is a sizable controls business that supplies premium, low-voltage wire and cable. It is based near Chicago and distributes to its customers across the US.

Windy City Wire is a brilliant, value-add business that has built a truly scalable platform through 19 distribution warehouses across the country, excellent technology, and some supply chain control. The business has delivered double-digit revenue growth over the last 10 years and uninterrupted profit growth over the last 25 years.

This acquisition is a significant, strategic step for the Group and gives us the opportunity to enter the US Controls market. Like our other businesses, Windy City Wire has an impressive value-add customer proposition and is a perfect fit with our business model.

We are excited that this high-quality business has joined the Group. It has an excellent performance track record and will be accretive to both our growth and our margins in the future.

Sector Performance

The **Specialty Fasteners** businesses focused on diversifying revenue streams to ensure growth beyond end segment exposures. Civil Aerospace performed reasonably in the circumstances and we continue to trade well in the US and Asia and take market share in the challenging European environment.

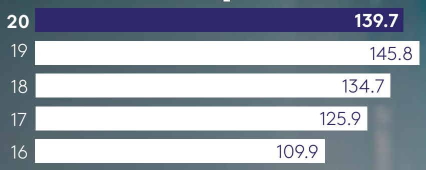
The **Interconnect** businesses performed very well in the first half of the year but were impacted by Covid-19 in the second. We restructured some businesses to position them for growth and integrated two of our cabling and wiring businesses to form the Shoal Group – a bigger business with scope to invest in growth across Europe.

The **Fluid Controls** business was impacted by Covid-19 lockdowns in the hospitality industry but was able to leverage its exposure to the refrigeration market, particularly OEMs producing refrigeration elements for food delivery vehicles.

Controls is exposed to a diverse range of end segments. As a result, underlying revenues in the Sector have been recovering well and we expect this to continue during 2021.

Reported revenue (£m)
(compound growth over five years)

+6%p.a.



Revenue

£139.7m

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

Geography

49% Canada

26% Australasia

25% Europe

Customers

83% Clinical

6% Utilities

7% Chemical & Pharmaceutical

2% Life Sciences Research

2% Other Life Sciences

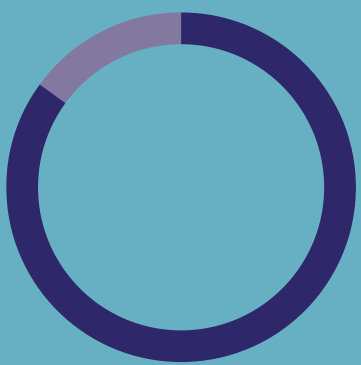
Products

68% Consumables

11% Service

21% Instrumentation

Principal segments



- 85% Healthcare
- 15% Environmental

Sector Review

Life Sciences

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

Strategy in action

We have historically built successful businesses in key growth areas of healthcare spend, such as specialty surgery and diagnostics, which offer a good growth base rate.

Product pipeline management is essential to sustaining that growth and we must continually bring new suppliers and products to market. Our Life Sciences businesses have worked very hard to develop a broad range of suppliers and products in the small to medium size category, diversifying our revenues and securing future revenue streams.

In Healthcare, we have expanded our horizons into new categories in urology, bariatrics, and gynaecology. Product pipeline management is an area of management focus that will sustain strong levels of growth in the future.

Sector Performance

The **Healthcare** businesses experienced a sharp fall in activity during the early months of the pandemic. However, revenues recovered quickly once lockdown restrictions eased and our Healthcare businesses saw a return to pre-Covid-19 levels of surgery and diagnostics in their main markets of Australia and Canada.

The recovery, which was due to a back-log of elective surgeries and non-critical and outpatient diagnostic procedures, is expected to continue into FY2021. In diagnostics, we are well positioned to take advantage of structural increases in research and demand for testing as a result of Covid-19.

Our **Environmental** businesses saw a slight decrease of 2% in underlying and reported revenues, due to the repercussions of Covid-19 travel restrictions on international business.

Corporate Responsibility

Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

Our approach is to deliver value responsibly through our strong business model and execution of strategy by considering what 'Makes a Difference'

Whilst challenging, Covid-19 prompted us to accelerate our approach and focus on what matters most.

AMT Surgical and Vantage Endoscopy made a real difference to the safety of frontline workers by donating a total of 10,000 much-needed N95 masks to local healthcare providers.

View more online
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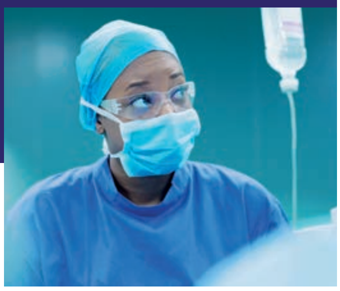

Our Specialty Fasteners business supported their customers working on Project Pitlane. Project Pitlane is the collaborative effort of F1 teams to design and manufacture continuous positive airway pressure ("CPAP") devices in an effort to meet the challenge of the ventilator crisis. Over 10,000 CPAP devices have been manufactured and we are proud to have supported our customers in this.

View more online
diplomaplc.com

Financial Calendar and Shareholder Information

Announcements (provisional dates)

First Quarter Statement released	20 January 2021
Annual General Meeting (2020)	20 January 2021
Second Quarter Statement released	24 March 2021
Half Year Results announced	17 May 2021
Third Quarter Statement released	26 August 2021
Preliminary Results announced	22 November 2021
Annual Report posted to shareholders	10 December 2021
Annual General Meeting (2021)	19 January 2022

Dividends (provisional dates)

Interim announced	17 May 2021
Paid	9 June 2021
Final announced	22 November 2021
Paid (if approved)	26 January 2022

Annual Report & Accounts
Copies can be obtained from the Group Company Secretary at the address shown opposite.

Share Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 7020010

Its website for shareholder enquiries is:
www.computershare.co.uk

Shareholders' enquiries
If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

Group Company Secretary and Registered Office
John Morrison Solicitor
12 Charterhouse Square
London EC1M 6AX
Telephone: 020 7549 5700

Registered in England and Wales, number 3899848.

Website
Diploma's website is www.diplomaplc.com

Advisors

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Independent Auditor
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors
Simmons & Simmons LLP
CityPoint
One Ropemaker Street
London EC2Y 9SS

Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

HSBC Bank plc
City Corporate Banking Centre
60 Queen Victoria Street
London EC4N 4TR

Five Year Record

Year ended 30 September	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	**538.4**	544.7	485.1	451.9	382.6
Adjusted operating profit	**87.1**	97.2	84.9	78.2	65.7
Finance expense, net	**(2.7)**	(0.7)	(0.1)	(0.7)	(0.8)
Adjusted profit before tax	**84.4**	96.5	84.8	77.5	64.9
Acquisition related charges[1]	**(17.3)**	(13.1)	(9.6)	(9.7)	(10.3)
CEO transition costs	**–**	–	(2.1)	–	0.7
Fair value remeasurements	**(0.4)**	0.1	(0.4)	(1.0)	(1.3)
Profit before tax	**66.7**	83.5	72.7	66.8	54.0
Tax expense	**(16.9)**	(21.1)	(18.3)	(18.6)	(14.9)
Profit for the year	**49.8**	62.4	54.4	48.2	39.1
Capital structure					
Equity shareholders' funds	**527.0**	321.3	291.2	262.0	233.5
Minority interest	**3.7**	3.3	3.1	4.8	4.3
Add/(deduct): cash and cash equivalents	**(206.8)**	(27.0)	(36.0)	(22.3)	(20.6)
borrowings	**–**	42.1	–	–	10.0
retirement benefit obligations	**18.3**	17.8	10.5	9.9	17.2
acquisition related liabilities[2]	**11.5**	11.3	5.6	6.6	6.8
deferred tax, net	**7.9**	8.3	8.4	8.2	7.4
Reported trading capital employed	**361.6**	377.1	282.8	269.2	258.6
Add: historic goodwill and acquisition related charges, net of deferred tax	**99.4**	84.3	74.6	66.3	59.2
Adjusted trading capital employed	**461.0**	461.4	357.4	335.5	317.8
Net (decrease)/increase in net (debt)/funds	**224.0**	(51.9)	13.1	11.9	4.9
Add: dividends paid	**23.4**	30.1	27.0	23.7	21.4
acquisition of businesses (including minority interests)	**14.9**	78.3	20.4	20.1	32.7
proceeds from issue of share capital (net of fees)	**(189.8)**	–	–	–	–
Free cash flow[3]	**72.5**	56.5	60.5	55.7	59.0
Per ordinary share (p)					
Basic earnings	**43.5**	54.7	47.5	42.0	33.9
Adjusted earnings[4]	**56.4**	64.3	56.4	49.8	41.9
Free cash flow[3]	**64.0**	49.9	53.5	49.3	52.2
Dividends	**30.0**	29.0	25.5	23.0	20.0
Total shareholders' equity[5]	**423**	284	257	232	206
Dividend cover[6]	**1.9**	2.2	2.2	2.2	2.1
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")[7]	**19.1**	22.9	24.5	24.0	21.1
Working capital: revenue	**16.0**	16.5	15.1	15.0	16.6
Adjusted operating margin	**16.2**	17.8	17.5	17.3	17.2

1 Acquisition related charges comprise the amortisation and impairment of acquisition intangible assets, acquisition expenses and adjustments to deferred consideration.
2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.
3 Free cash flow is defined in note 2 to the consolidated financials statements. Free cash flow per share is the free cash flow balance divided by the weighted average number of ordinary shares in issue during the year.
4 Adjusted earnings per share is calculated in accordance with note 9 to the consolidated financial statements.
5 Total shareholders' equity per share has been calculated by dividing equity shareholders' funds by the number of ordinary shares in issue at the year end.
6 Dividend cover is calculated on adjusted earnings as defined in note 2 to the consolidated financial statements.
7 ROATCE represents adjusted operating profit, before acquisition related charges (adjusted for the full year effect of acquisitions and disposals), as a percentage of adjusted trading capital employed. Trading capital employed and adjusted trading capital employed are calculated as defined in note 2 to the consolidated financial statements.

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Visit us at emperor.works

DIPLOMA PLC

12 Charterhouse Square
London EC1M 6AX

T +44 (0)20 7549 5700

www.diplomaplc.com