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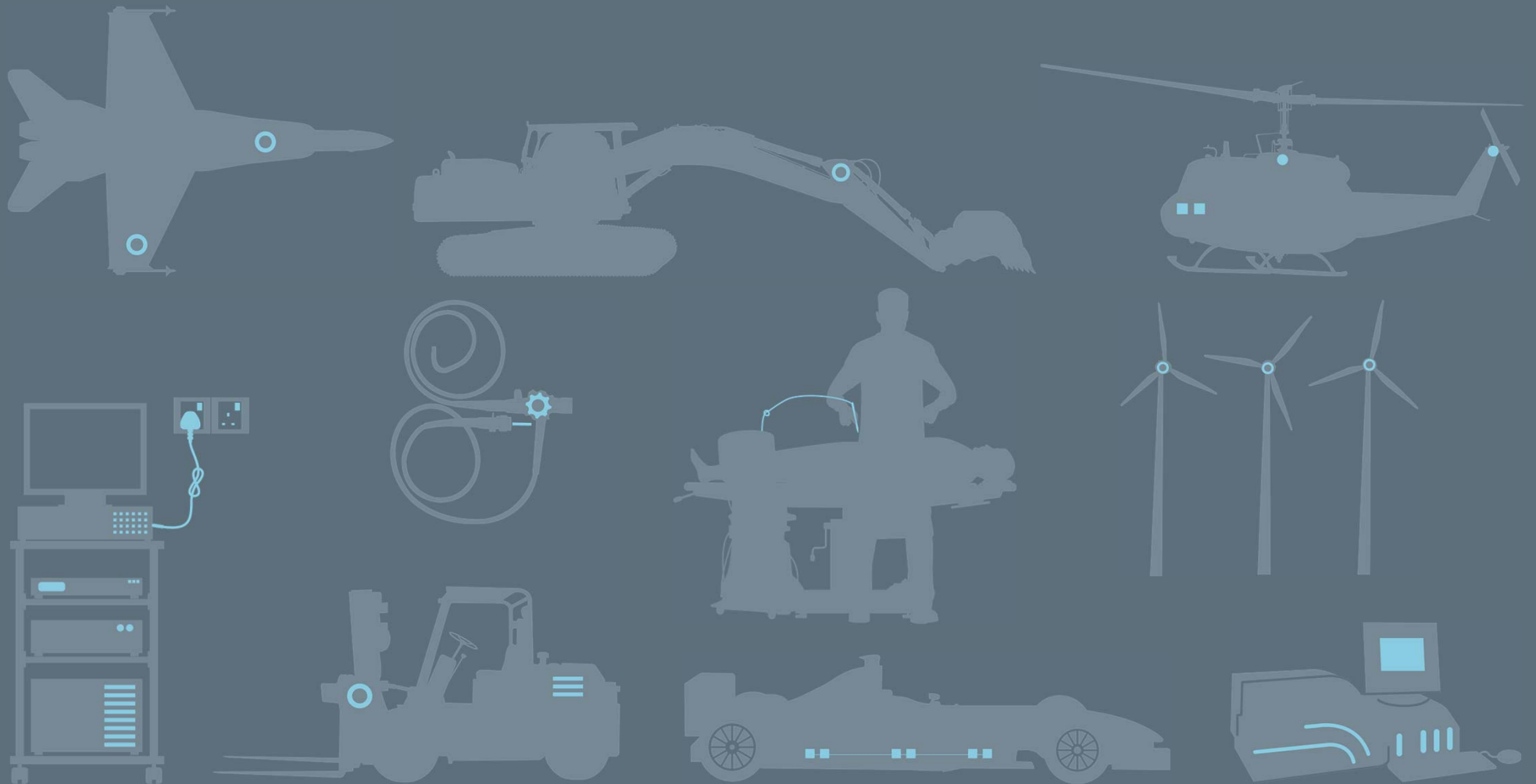
# Interim Announcement

Half Year ended 31 March 2012

14 May 2012

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DIPLOMAPLC



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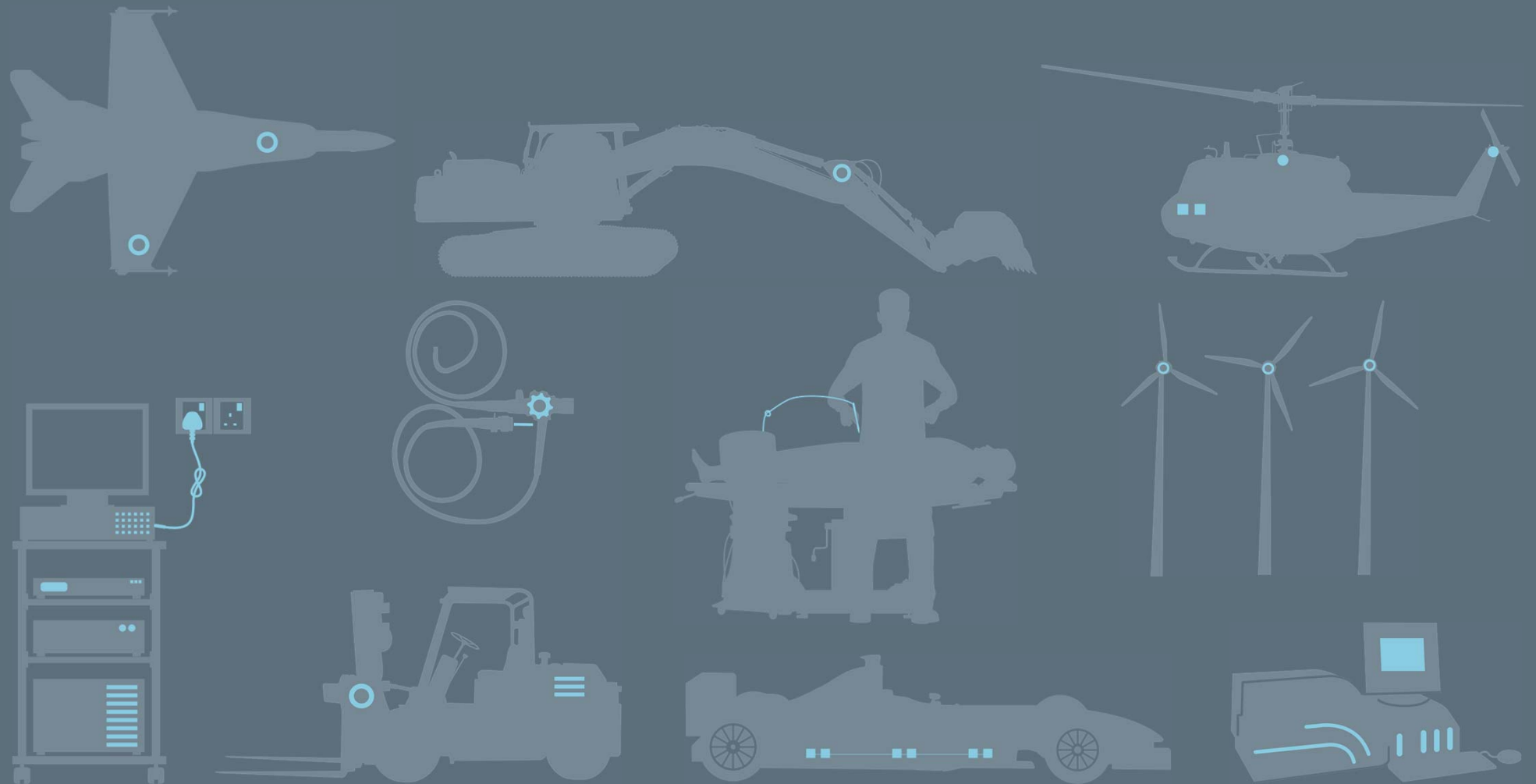
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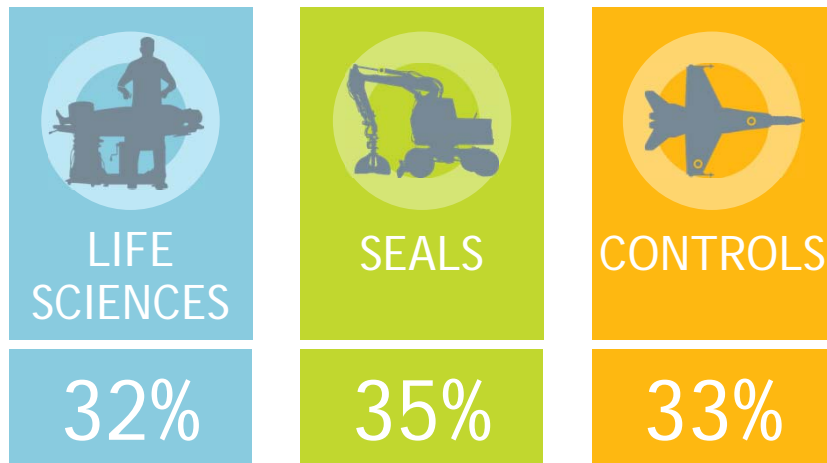


# 1. Group Overview

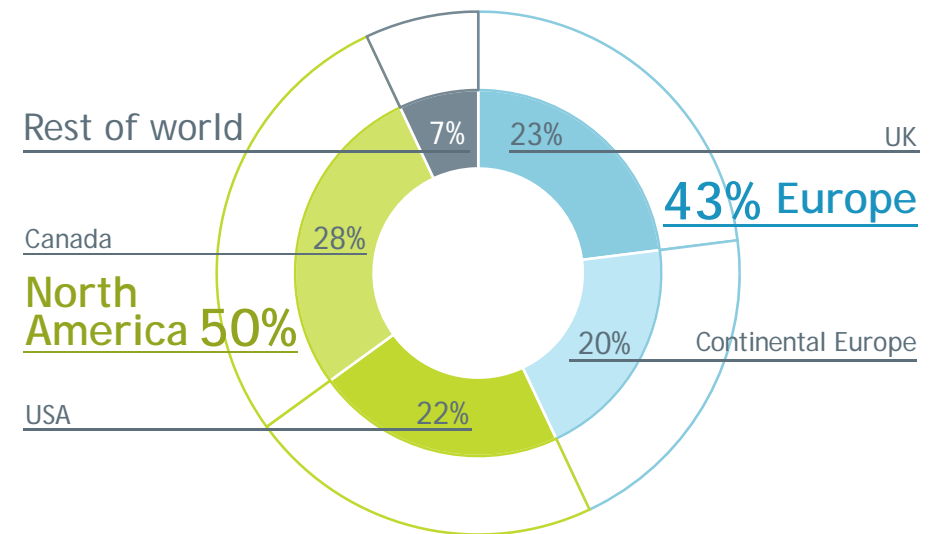


# Group Overview

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



Revenue by Geography\*



\*By destination

A BALANCED AND DIVERSE PORTFOLIO OF BUSINESSES BY SECTOR AND GEOGRAPHY

# The Diploma Business Model

Essential <b>PRODUCTS</b>	Essential <b>SOLUTIONS</b>	Essential <b>VALUES</b>
<p>We focus on businesses which supply essential products and services:</p> <ul style="list-style-type: none"><li>• Funded by customers' operating rather than capital budgets</li><li>• Providing recurring income and stable revenue growth</li></ul>	<p>We provide solutions designed to meet customer needs, combining:</p> <ul style="list-style-type: none"><li>• Highly responsive customer service</li><li>• Deep technical knowledge and support</li><li>• Value adding activities</li></ul>	<p>We encourage an entrepreneurial culture in our businesses</p> <ul style="list-style-type: none"><li>• Decentralised management model</li><li>• Ensures businesses are agile and responsive to change</li></ul>

WE WANT TO MAKE OURSELVES ESSENTIAL TO OUR CUSTOMERS

# Essential Values



- Small corporate team focuses on strategy and financial control
- Frequent informal communications and regular formal planning forums
- Strong, self standing management teams in the operating businesses
- Good blend of energy, ambition and experience in the senior management cadre
- Competitive salaries and incentive programmes which link reward to growth
- Decentralised culture also attractive to acquisition candidates and in absorbing new businesses

ENTREPRENEURIAL CULTURE IS AT THE CORE OF THE GROUP'S GROWTH AMBITIONS

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# The Diploma Investment Case



GDP+ Organic  
Revenue Growth

We focus on essential products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues



Attractive Margins

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



Acquisitions to  
Accelerate Growth

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



Strong Cash Flow

An ungeared balance sheet and strong cash flow fund our growth strategy while providing healthy dividends



Value Creation

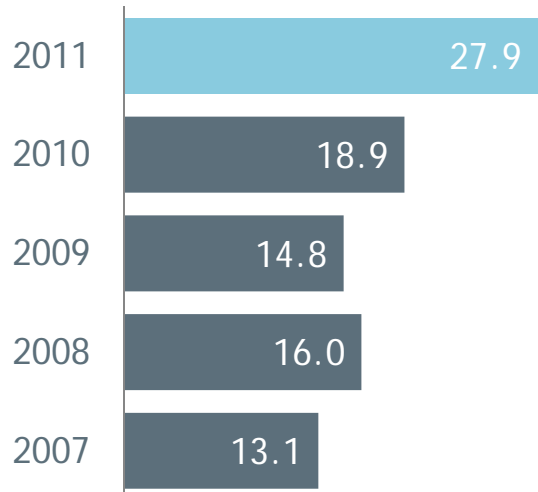
We aim to create value by consistently exceeding 20% ROTCE

## CLEAR AND PROVEN STRATEGY FOR GROWTH

# Financial Track Record

## EPS growth

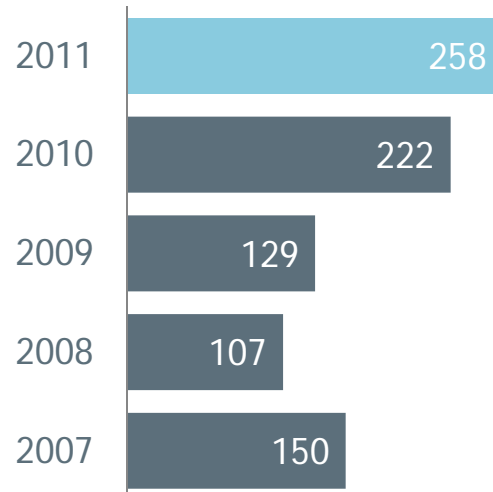
**+19% p.a.**



Adjusted EPS in pence

## TSR growth

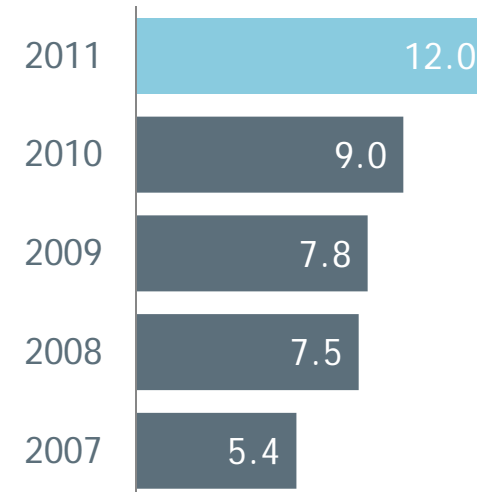
**+21% p.a.**



TSR index, 2006 = 100

## Dividend growth

**+21% p.a.**



Dividends in pence

## TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS



# Financial KPIs

## Five Year Trends

	2007	2008	2009	2010	2011
Revenue	£124.5m	£156.2m	£160.0m	£183.5m	£230.6m
<i>Total growth</i>	<i>+11%</i>	<i>+25%</i>	<i>+2%</i>	<i>+15%</i>	<i>+26%</i>
<i>Organic growth</i>	<i>+6%</i>	<i>+8%</i>	<i>-12%</i>	<i>+11%</i>	<i>+17%</i>
Operating margin	16.6%	17.0%	16.0%	17.5%	19.6%
Working capital (% revenues)	17.3%	17.2%	17.6%	15.4%	16.1%
ROTCE	25.5%	22.4%	19.0%	22.1%	25.4%
Free cash flow	£12.0m	£17.7m	£23.5m	£29.8m	£25.0m
<i>% of PAT</i>	<i>79%</i>	<i>93%</i>	<i>131%</i>	<i>131%</i>	<i>79%</i>

Over Period 2007 – 2011

CAGR REVENUE  
GROWTH

16% p.a.

OPERATING  
MARGINS

17-18%

ROTCE RANGE

19-26%

FCF CONVERSION  
AVERAGE

101%

## 2. Summary of Half Year Results

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# Summary of Half Year Results

Six months ended 31 March

	2012	2011	
Revenue	£127.1m	£112.6m	+13%
Adjusted operating profit	£26.4m	£22.1m	+19%
Adjusted operating margin	20.8%	19.6%	
Adjusted profit before tax	£26.2m	£21.9m	+20%
Free cash flow	£9.7m	£7.3m	+33%
Profit for the period	£15.8m	£13.2m	+20%
Adjusted earnings per share	16.1p	13.2p	+22%
Interim dividend per share	4.2p	3.5p	+20%



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## Financial Highlights

- Revenues increased by 13% to £127.1m; adjusted operating profit increased by 19% to £26.4m
- Record operating margin of 20.8% - driven by strong operational leverage in North American Seals
- Underlying revenue and operating profits increased by 8% and 15% respectively
- Free cash flow increased by 33% to £9.7m despite increased investment in working capital and capex
- Net debt of £3.0m at end of period, after investing £15.5m in acquiring businesses - plus a further £3.1m net cash invested after the half year end
- Interim dividend increased by 20% to 4.2p per share

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## Operational Highlights

- Strong performance from North American Seals, particularly in Aftermarket
- Steady growth in Healthcare businesses in Canada and Australia
- Solid contributions from UK Controls, though Continental Europe more challenging
- Positive contributions from new businesses acquired during period - J Royal in the US and Abbeychart in the UK
- Two further acquisitions completed after half year end - JRPP (10%) in China and Amfast in the UK

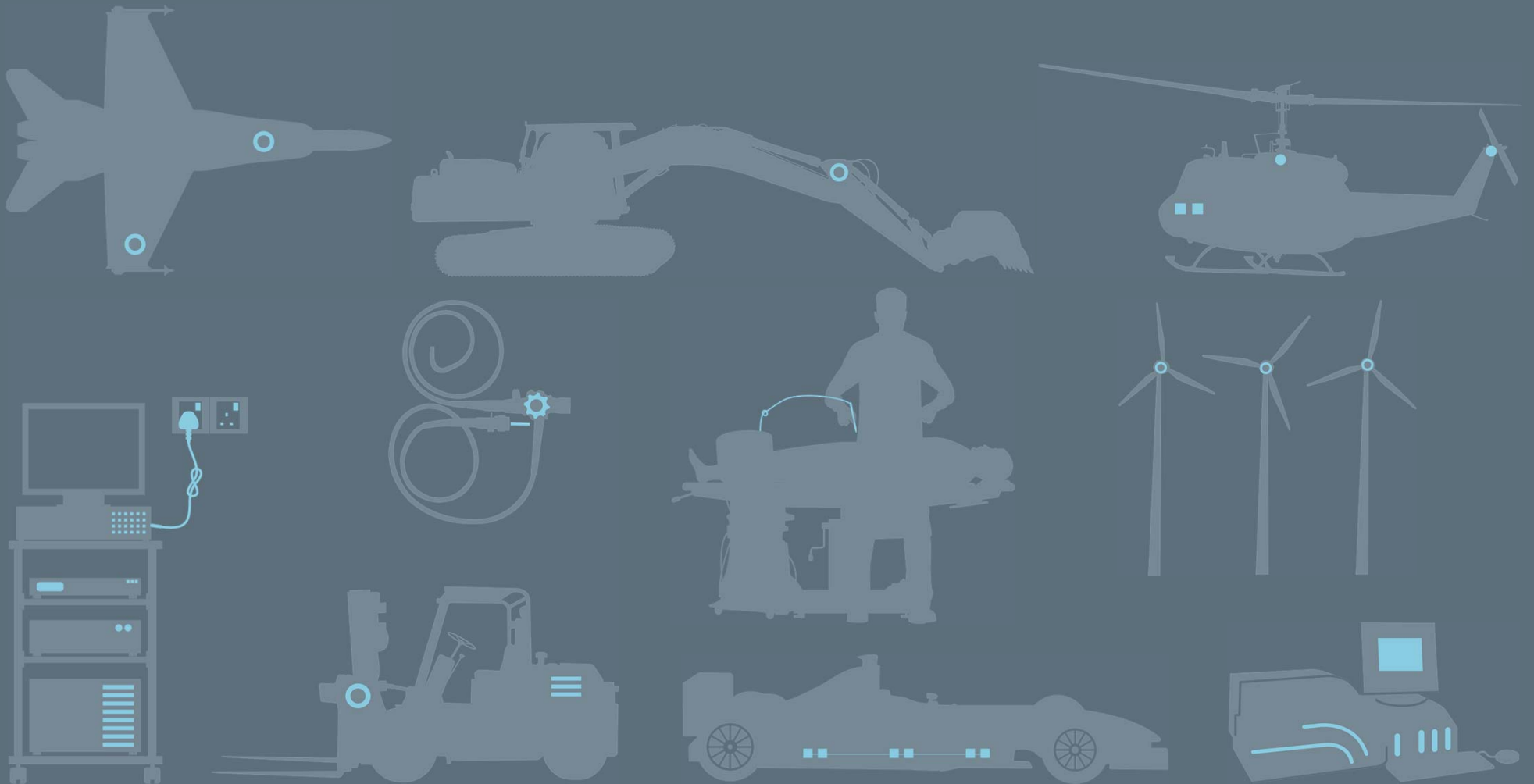
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## Investment for Growth

- Ongoing investment programme to support the future growth of the businesses
- Investment of ca. £2.5m in three major facility moves this financial year:
  - RT Dygert in Minneapolis and Chicago, US (completed in H1 2012)
  - IS-Rayfast in Swindon, UK (planned for H2 2012)
  - Vantage in Toronto, Canada (planned for H2 2012)
- Investment of ca. £1.5m planned in IT infrastructure for 2013 and 2014
- Investment of ca. £1.0m (annualised) in additional management resource - will impact mainly from Q4 2012
- Total cash investment of ca. £5.0m giving additional operating costs of ca. £1.6m in a full year (50-100bps impact on operating margin)




### 3. Business Review

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# Our Sectors

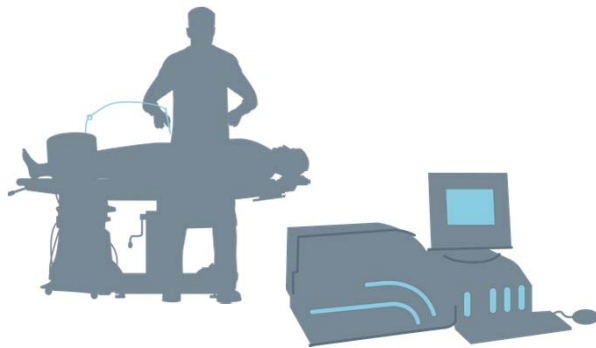
## Revenue by Sector and Destination

 LIFE SCIENCES	 SEALS	 CONTROLS
32% of group revenues	35% of group revenues	33% of group revenues
223 employees	432 employees	245 employees
75% Canada 20% Europe 5% Rest of World	70% North America 15% Europe 15% Rest of World	56% UK 39% Europe 5% Rest of World



# Life Sciences

## Results



### Six months ended 31 March

	2012	2011	
Revenue	£39.7m	£36.9m	+8%
Operating profit	£9.3m	£8.6m	+8%
Operating margin	23.4%	23.3%	

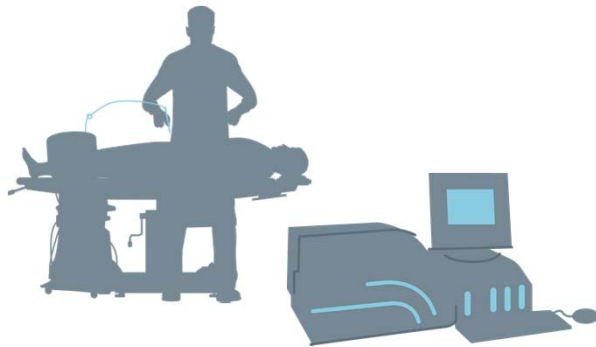
- DHG increased revenues by 13% in UK sterling and C\$:
  - Boosted by CMI acquisition; prior year had exceptional sale of face shields
  - Underlying revenue growth of 10% in Canadian dollars
- Environmental business saw 12% reduction in revenues
- Operating margins broadly unchanged

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# Life Sciences

## Sector Developments

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- Continued steady growth in **Healthcare** businesses in Canada and Australia
  - Strong sales of capital equipment at Somagen, benefiting from innovative technologies introduced by core suppliers
  - AMT and BGS increased revenues in core electrosurgery and smoke evacuation products; new group in AMT focusing on minimally invasive surgery (“MIS”)
  - Strong sales of capital equipment in the newly formed Vantage business; major endoscope contract win in Eastern Canada
  - In **Environmental**, positive growth in the UK and Germany offset by reduced demand in France and Switzerland

# Seals

## Results



### Six months ended 31 March

	2012	2011	
Revenue	£48.0m	£37.5m	+28%
Operating profit	£9.9m	£6.6m	+50%
Operating margin	20.6%	17.6%	

- Revenues increased by 28% in UK sterling and US\$
- Underlying growth of 19% after adjusting for J Royal acquisition
- Operating margins strengthened by 300 bps driven by operational leverage

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# Seals

## Sector Developments

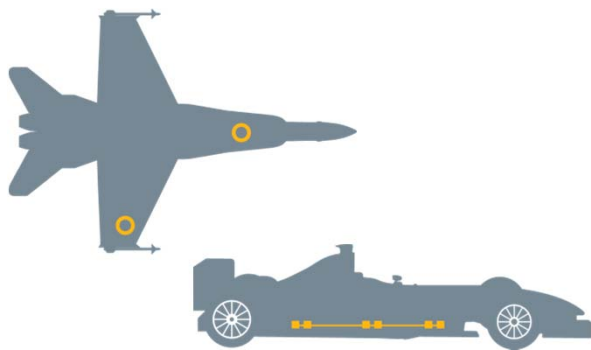
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- **Aftermarket** businesses (60% of sector sales) increased revenues by 21%
  - Robust activity levels in Heavy Construction and Infrastructure (not yet in Residential Construction); good growth in shale gas and surface mining
  - Exceptional performance from HKX - supplying attachment kits to manufacturers whose engineers are focused on OSHA redesign work
  - Underlying revenue growth of 16% in **Industrial OEM** businesses
  - Acquisition of J Royal in the US in December 2011 and 10% of JRPP in China in April 2012 - total cost of £12.5m

# Controls

## Results



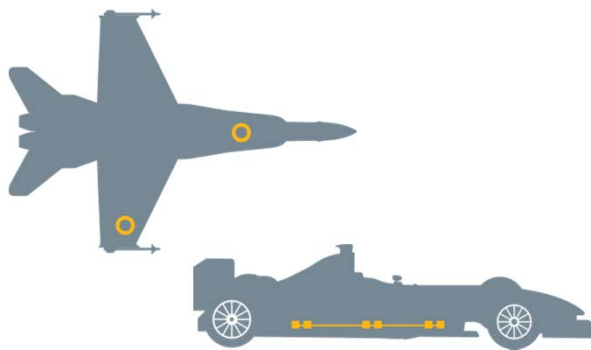
### Six months ended 31 March

	2012	2011	
Revenue	£39.4m	£38.2m	+3%
Operating profit	£7.2m	£6.9m	+4%
Operating margin	18.3%	18.1%	

- Underlying revenue growth of 3% - no significant impact from currency effects or acquisitions
- Strong performances from UK businesses, offsetting softer performance from German businesses
- Operating margins held steady at 18.3%




# Controls

## Sector Developments



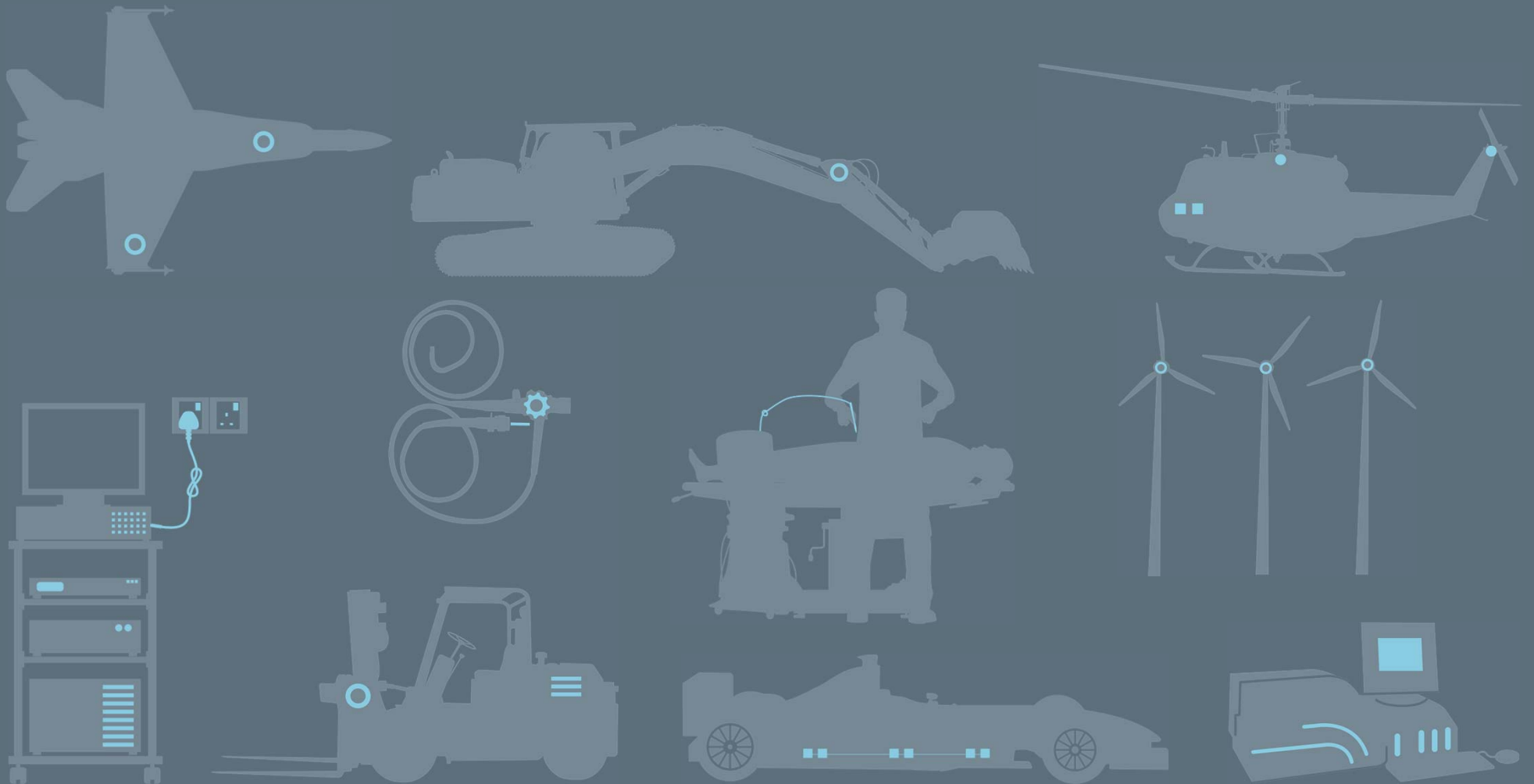
- Reduced revenues in **Defence & Aerospace** - impact of Defence spending reviews only partly mitigated by strong Civil Aerospace
- Strong sales in **Motorsport** in the UK, Europe and US and in **Energy**
- In **General Industrial** sector, strong double digit growth in the UK offset by reduced demand in Germany
- Increasing presence in **Food & Beverage** market
- Two acquisitions in the UK for total cost of ca. £6m - Abbeychart in March 2012 and Amfast in May 2012

# Acquisition Development

Financial Year	Acquisition spend £m	 Life Sciences	 Seals	 Controls
2007	31.6	AMT (75%) - Canada CBISS - UK	M Seals (90%) - Denmark	Cabletec - UK Hawco (8%) - UK
2008	7.9	Somagen (12%) - Canada	Snijders - Holland	Hitek - UK
2009	12.2	Meditech - Canada	RT Dygert - US	
2010	11.0	BGS (80%) - Australia Somagen (8%) - Canada	All Seals - US	ET Fisher - Germany
2011	28.2	AMT (25%) - Canada Carsen Medical - Canada		
5 Yr Total = <b>£90.9m</b> (average £18.2m p.a.)				
2012	15.5		J Royal - US	Abbeychart - UK
	3.1		JRPP (10%) - China	Amfast - UK

## 4. Financial Highlights

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# Profit Before Tax

## Six months ended 31 March

	2012 £m	2011 £m	
Revenue	127.1	112.6	+13%
Adjusted operating profit	26.4	22.1	+19%
<i>Operating margin</i>	<i>20.8%</i>	<i>19.6%</i>	
Net finance expense	(0.2)	(0.2)	
Adjusted profit before tax	26.2	21.9	+20%
Fair value remeasurements	(0.2)	(0.2)	
Acquisition related charges	(2.7)	(2.4)	
IFRS profit before tax	23.3	19.3	+21%

# Underlying Results

## Six months ended 31 March

		Revenue	Adjusted operating profit
		£m	£m
As reported - HY2012		127.1	26.4
Forex	Translation	0.1	-
	Transaction	-	(0.2)
		127.2	26.2
Acquisitions	CMI	(2.2)	(0.4)
	J Royal	(3.3)	(0.5)
	Abbeychart	-	-
		121.7	25.3
Increase in underlying results		8%	15%
As reported - HY2011		112.6	22.1

# Profit Before Tax

## Six months ended 31 March

	2012 £m	2011 £m	
Adjusted profit before tax	26.2	21.9	
IFRS taxation	(7.5)	(6.1)	
Adjustments	(0.4)	(0.3)	
Adjusted tax	(7.9)	(6.4)	
<i>Effective adjusted tax rate</i>	<i>30.2%</i>	<i>29.2%</i>	
<b>Earnings per share</b>			
Adjusted	16.1p	13.2p	+22%
Basic	13.9p	11.2p	+24%

# Free Cash Flow

Six months ended 31 March

	2012	2011
	£m	£m
Operating profit	26.4	22.1
Depreciation	1.0	1.0
Working capital	(7.4)	(8.8)
Pension and share schemes, net	0.3	0.1
Operating cash flow	20.3	14.4
Finance expense	(0.2)	(0.3)
Taxation	(8.7)	(5.6)
Capital expenditure	(1.7)	(0.7)
Purchase of own shares	-	(0.7)
Disposal of business	-	0.2
Free cash flow	9.7	7.3

# Net Debt

Six months ended 31 March

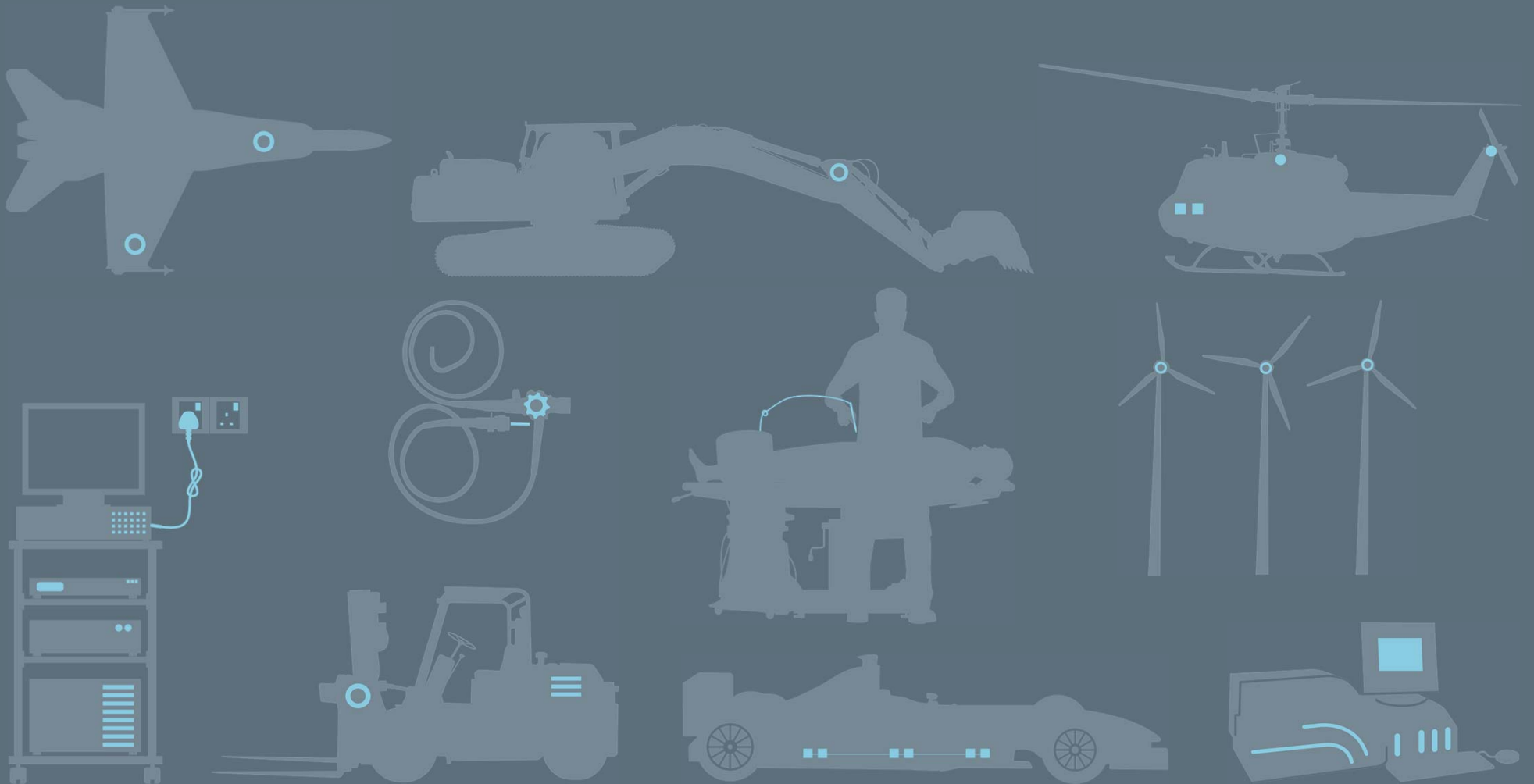
	2012 £m	2011 £m
Free cash flow	9.7	7.3
Acquisition cash paid	(14.7)	(26.5)
Deferred consideration	(0.8)	(0.9)
Dividends	(9.6)	(10.9)
	<u>(15.4)</u>	<u>(31.0)</u>
Net cash funds brought forward	12.2	30.1
Exchange adjustments	0.2	-
Net debt	<u>(3.0)</u>	<u>(0.9)</u>

# Shareholders' Funds

	31 Mar 2012 £m	30 Sep 2011 £m
Goodwill	78.9	74.4
Acquisition intangible assets	30.8	27.3
Tangible assets	12.1	11.4
	<u>121.8</u>	<u>113.1</u>
Net working capital	48.1	37.1
Trading capital employed	<u>169.9</u>	<u>150.2</u>
Retirement benefit obligations	(5.2)	(5.4)
Deferred tax, net	(1.3)	(2.0)
Future purchases of minorities	(2.2)	(2.0)
Deferred consideration	(0.9)	(1.1)
Net (debt)/funds	(3.0)	12.2
	<u>157.3</u>	<u>151.9</u>
less: minority interests	(0.5)	(0.5)
Total shareholders' equity	<u>156.8</u>	<u>151.4</u>

## 5. Outlook and Prospects

DIPLOMAPLC



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# Outlook and Prospects

## Group

- Resilient business model - essential products and solutions to specialised markets
- Good geographic spread and strong balance sheet reduce risk

## Seals

- North America continues to perform strongly
- Aftermarket particularly strong

## Life Sciences

- Steady and growing Healthcare funding in Canada and Australia
- Opportunities in new but related markets

## Controls

- Continued robust performance in the UK
- Continental European markets remain challenging

## Acquisitions

- Continue to be an integral part of Group's strategy

THE BOARD REMAINS  
CONFIDENT OF MAKING  
FURTHER PROGRESS IN  
THE SECOND HALF OF  
THE YEAR



# Contact

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