



DIPLOMA PLC

PRELIMINARY ANNOUNCEMENT

Year ended 30 September 2018

19 November 2018

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Overview

Financial Results

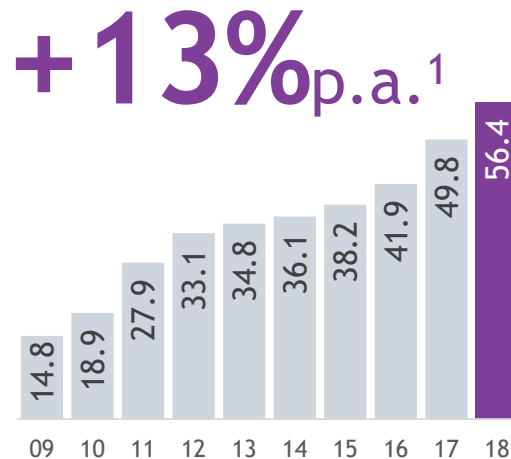
Business Review

Outlook and Prospects

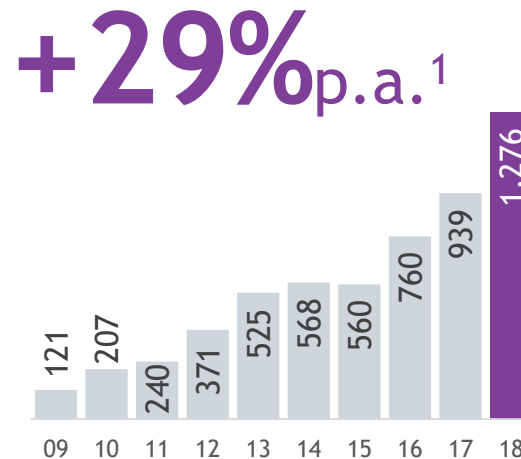
CONSISTENT DELIVERY

TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS

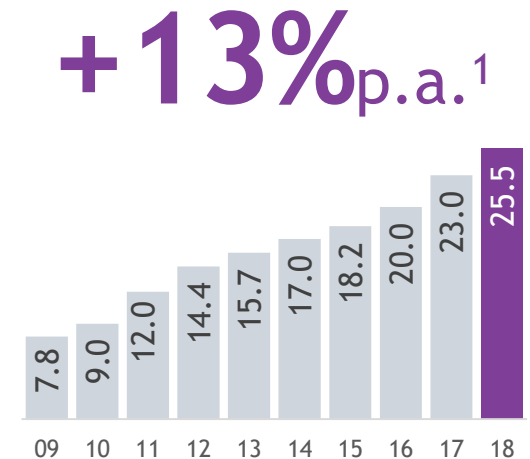
ADJUSTED EPS GROWTH (PENCE)



TSR GROWTH (TSR INDEX 2008 = 100)



DIVIDEND GROWTH (PENCE)



- Strategy reviewed and confirmed
- Strong Executive Management Committee
- Board focused on recruiting the right CEO
- Maintain consistent delivery



FINANCIAL RESULTS

OVERVIEW OF RESULTS

Year ended 30 September

	2018	2017	
Revenue	£485.1m	£451.9m	+7%
Adjusted operating profit	£84.9m	£78.2m	+9%
Adjusted operating margin	17.5%	17.3%	+20bps
Adjusted profit before tax	£84.8m	£77.5m	+9%
Free cash flow	£60.5m	£55.7m	+9%
Acquisition spend	£20.4m	£20.1m	
Cash funds	£36.0m	£22.3m	
Adjusted earnings per share	56.4p	49.8p	+13%
Total dividend per share	25.5p	23.0p	+11%

FINANCIAL HIGHLIGHTS

MAINTAINING FINANCIAL DISCIPLINE

- Revenue and adjusted operating profit increased by **7%** and **9%**, respectively; adjusted EPS increased by **13%**
- Underlying revenues increased by **7%**; contribution of **3%** from businesses acquired (net of a small disposal); less currency headwind of **3%**
- Adjusted operating margins improved to **17.5%** reflecting the benefit of operating leverage
- Strong free cash flow of **£60.5m** benefiting from the sale of a small US business; cash funds of **£36.0m** at year end
- Acquisition spend of **£20.4m**; acquisition environment remained challenging
- Total dividend increased by **11%** reflecting strong financial position and confidence in Group's prospects



REVENUE

£485.1m

2017: £451.9m

+7%


ADJUSTED OPERATING PROFIT

£84.9m

2017: £78.2m

+9%


ADJUSTED OPERATING MARGIN

17.5%

2017: 17.3%

+20bps


FREE CASH FLOW

£60.5m

2017: £55.7m

+9%

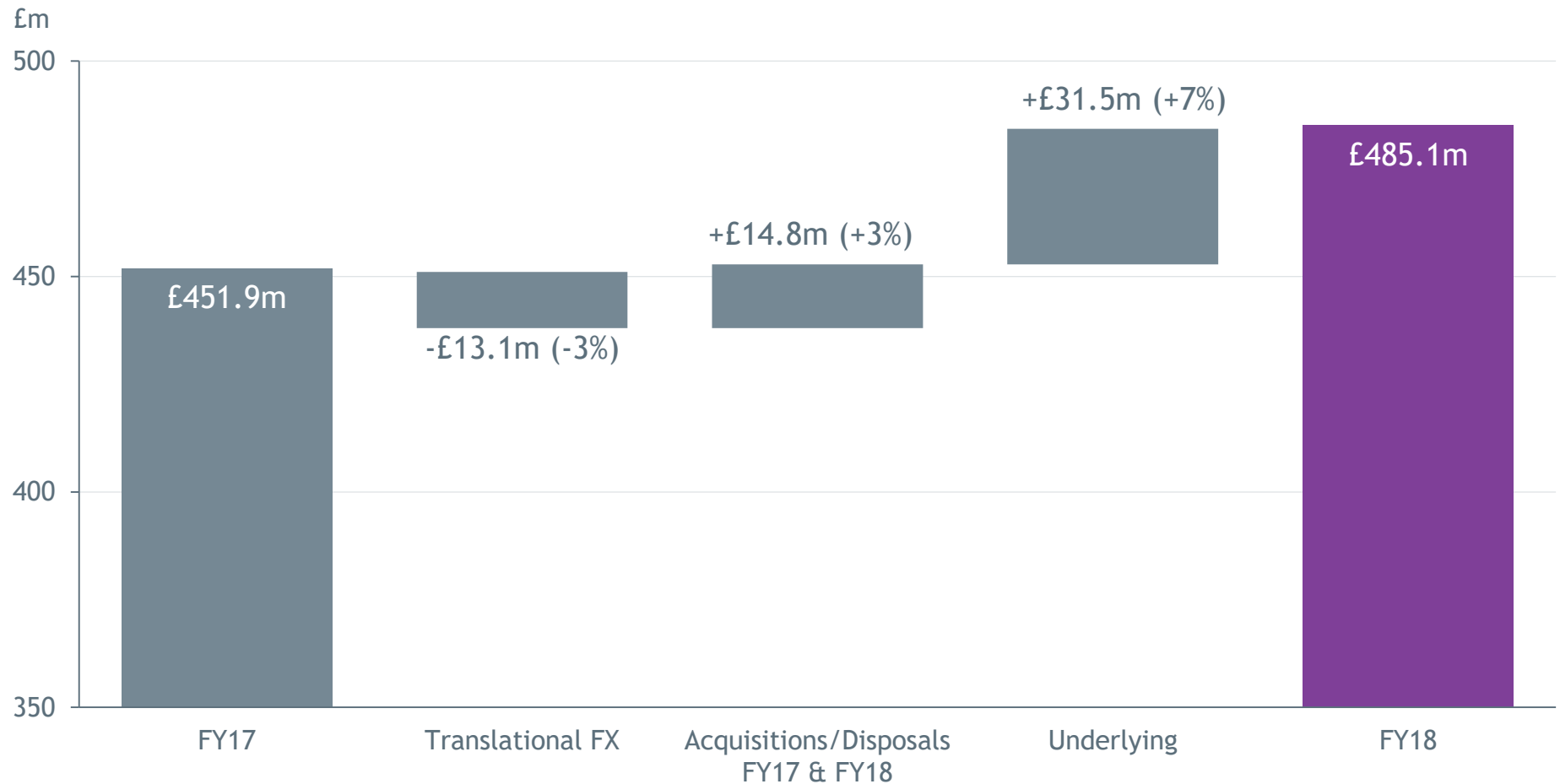
PROFIT BEFORE TAX

YEAR ENDED 30 SEPTEMBER

	2018 £m	2017 £m	
Revenue	485.1	451.9	+7%
Adjusted operating profit	84.9	78.2	+9%
<i>Adjusted operating margin (%)</i>	17.5%	17.3%	
Interest expense	(0.1)	(0.7)	
Adjusted profit before tax	84.8	77.5	+9%
CEO transition costs	(2.1)	-	
Acquisition related charges	(9.6)	(9.7)	
Fair value remeasurements	(0.4)	(1.0)	
Statutory profit before tax	72.7	66.8	+9%

REVENUE BRIDGE

ROBUST UNDERLYING GROWTH OF 7%



TAXATION AND EARNINGS PER SHARE

YEAR ENDED 30 SEPTEMBER

	2018 £m	2017 £m	
Adjusted profit before tax	84.8	77.5	
Adjusted tax	(20.3)	(20.5)	
Group effective adjusted tax rate	23.9%	26.5%	-260bps
US effective adjusted tax rate	25.8%	35.8%	-1,000bps
Earnings per share (pence)			
Adjusted	56.4p	49.8p	+13%
Statutory	47.5p	42.0p	+13%

FREE CASH FLOW

YEAR ENDED 30 SEPTEMBER

	2018 £m	2017 £m	
Adjusted operating profit	84.9	78.2	
Depreciation	4.8	4.7	
Working capital	(5.1)	(4.0)	
CEO transition costs paid	(0.8)	-	
Pension and share schemes, net	0.5	0.4	
Operating cash flow, before acquisition expenses	84.3	79.3	+6%
Interest paid, net	-	(0.4)	
Tax paid	(19.0)	(19.3)	
Capital expenditure	(6.6)	(3.3)	
Proceeds from sale of business	4.0	0.1	
EBT - share scheme funding	(2.2)	(0.7)	
Free cash flow	60.5	55.7	+9%
<i>Cash conversion</i>	95%	99%	

CASH

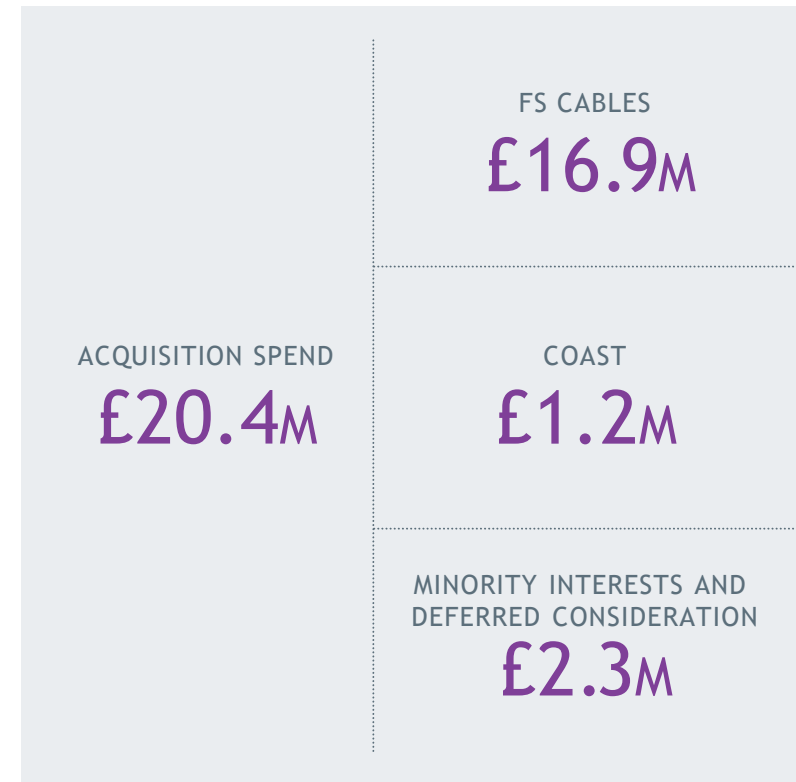
YEAR ENDED 30 SEPTEMBER

	2018 £m	2017 £m
Free cash flow	60.5	55.7
Acquisition cash paid	(20.1)	(19.5)
Deferred consideration	(0.3)	(0.6)
Dividends	(27.0)	(23.7)
	<u>13.1</u>	<u>11.9</u>
Net cash brought forward	22.3	10.6
Exchange adjustments	0.6	(0.2)
Cash funds at 30 September	<u>36.0</u>	<u>22.3</u>

ACQUISITIONS

ACQUISITION ENVIRONMENT HAS REMAINED CHALLENGING

- Acquisitions are an integral part of the Group's growth strategy
- **£20.4m** spent on acquisitions during the year (Five year spend of ca. **£128m**):
 - £16.9m on FS Cables - bringing a range of own-branded specialist wire and cable products;
 - £1.2m on Coast - to target the US fastener market;
 - £2.3m on outstanding 10% minority interest held in TPD and on deferred consideration
- After the year end, invested £7.4m on acquisition of Gremtek, a leading supplier of own-branded protective sleeving and cable identification products
- Acquisition pipeline includes a number of high quality businesses that we are confident will be brought to market by their vendors



SHAREHOLDERS' FUNDS AND ROATCE

AS AT 30 SEPTEMBER

	2018 £m	2017 £m
Tangible assets and investments	25.5	24.0
Goodwill and intangible assets	182.1	176.8
Net working capital	75.2	68.4
Trading capital employed - reported	282.8	269.2
<i>Working capital (% of revenue)</i>	<i>15.1%</i>	<i>15.0%</i>
ROATCE	24.5%	24.0%
Retirement benefit obligations	(10.5)	(9.9)
Acquisition liabilities	(5.6)	(6.6)
Cash funds	36.0	22.3
Minority interests and deferred tax	(11.5)	(13.0)
Total shareholders' equity	291.2	262.0

ACQUISITIONS

BUILDING LARGER, BROADER-BASED BUSINESSES

Life
Sciences

Seals



Controls



Acquisition spend 2018

£20.4m

Acquisition spend 2017

£20.1m

Acquisition spend 2016

£32.7m

Acquisition spend 2015

£37.8m

Acquisition spend 2014

£16.5m

- Abacus - Australia & New Zealand

- TPD – Ireland

- Chemzyne – Australia

- PSP - US
- Edco - UK

- WCIS – Australia & New Caledonia

- Kubo – Switzerland & Austria
- Swan Seals – UK

- Kentek – Finland, Russia & Baltic States
- Ramsay; AB Seals – UK

- Coast – US
- FS Cables – UK

- Cablecraft – UK
- Ascome – France

- SFC – UK
- Sacee – France

CLARENDON SPECIALTY FASTENERS INC

DEVELOPING THE US SPECIALTY FASTENER MARKET



- Coast Fabrication Inc (rebranded Clarendon Specialty Fasteners Inc) acquired in October 2017
- Small supplier of specialty fasteners based in Huntington Beach, California
- Has strong reputation in the US Motorsport market, which complements Clarendon's reputation in Europe
- Acquisition provides a platform:
 - to target the aircraft seating and interiors market in the US
 - to gain access to US suppliers of specialty fastener products
- Investment has been made on IT systems, sales resource and the facilities to support growth

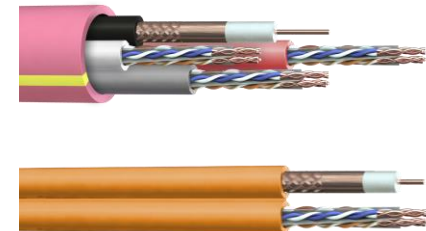


FS CABLES

EXTENSION OF INTERCONNECT ACTIVITIES



- FS Cables acquired in August 2018 for net cash consideration of £16.9m; £1.0m of deferred consideration
- Leading supplier of specialist data, control and electrical cable products, based in St. Albans, UK
- Supplies to a range of industries, including Electrical Contracting, Home Automation & Building Management, Rail, Marine and Telecommunications
- Own-branded products account for ca. 70% of revenues
- Acquisition broadens the product range of the Controls businesses
- Product range complements Cablecraft's range of cable management products



GREMTEK

BUILDING A BROADER INTERCONNECT BUSINESS IN EUROPE



- Gremtek was acquired in October 2018 for cash consideration of £7.4m; £0.5m of deferred consideration
- Leading supplier of own-branded protective sleeving and cable identification products to a broad range of industrial markets
- Principal operations in France with a subsidiary in Germany and sales across Europe
- Will be integrated into IS-Group as part of its strategy to develop a broader business across Europe and provides:
 - Further material presence in mainland Europe to target core end markets
 - Complementary range of own-branded products for existing markets





BUSINESS REVIEW

GROUP OVERVIEW

BALANCED PORTFOLIO OF BUSINESSES

Diploma PLC is an international group of specialised businesses supplying technical products and services



LIFE SCIENCES

28%

of revenues

Suppliers of consumables, instrumentation and related services to the healthcare and environmental industries.



SEALS

43%

of revenues

Suppliers of seals, gaskets, filters, cylinders, components and kits for heavy mobile machinery and industrial equipment.



CONTROLS

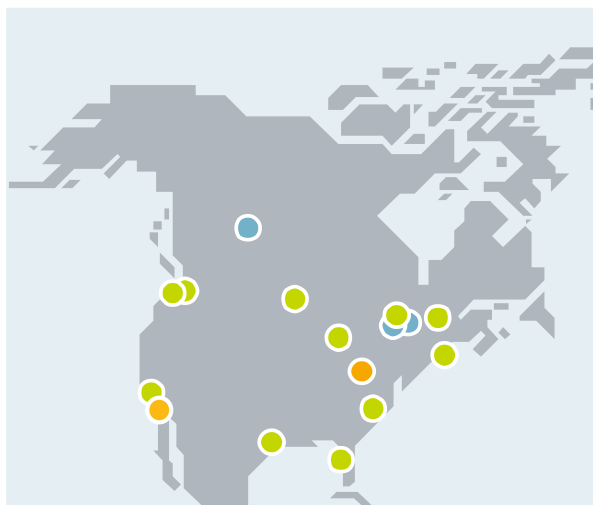
29%

of revenues

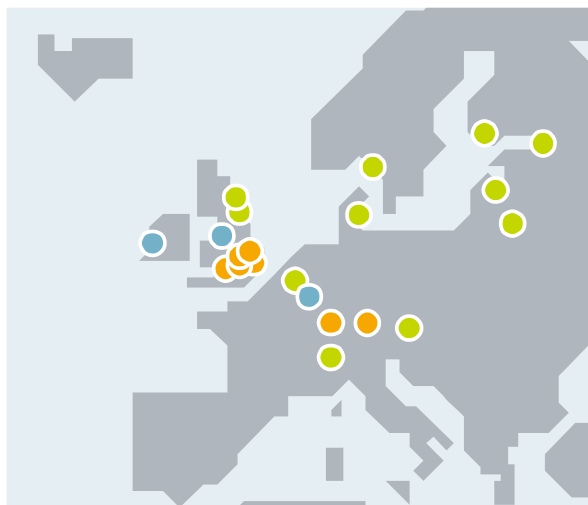
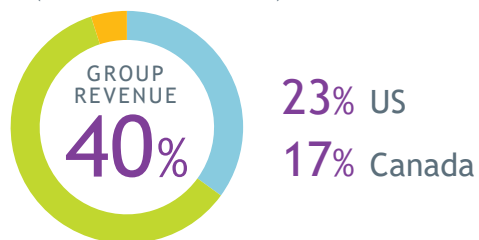
Suppliers of specialised wiring, cable, connectors, fasteners and control devices for technically demanding applications.

GROUP OVERVIEW

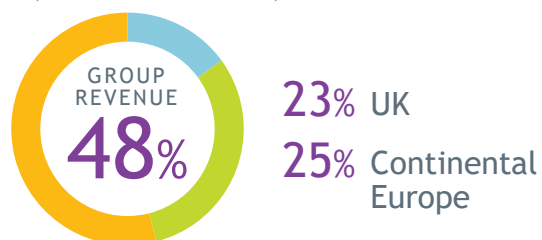
WELL DIVERSIFIED BY GEOGRAPHY



NORTH AMERICAN REVENUES
(BY DESTINATION) BY SECTOR



EUROPEAN REVENUES
(BY DESTINATION) BY SECTOR



REST OF WORLD REVENUES
(BY DESTINATION) BY SECTOR



● Life Sciences ● Seals ● Controls

LIFE SCIENCES

SEGMENTATION



HEALTHCARE

85% OF REVENUES

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

ENVIRONMENTAL

15% OF REVENUES

Environmental analysers, containment enclosures and emissions monitoring systems.

PRIMARY GROWTH DRIVERS

- Public and private healthcare spending
- Population ageing and increasing life expectancy
- Health & Safety and Environmental regulation

LIFE SCIENCES

OPERATING RESULTS



Year ended 30 Sept	2018	2017	
Revenue	£134.7m	£125.9m	+7%
Adjusted operating profit	£23.9m	£23.3m	+3%
Adjusted operating margin	17.7%	18.5%	-80bps



- Underlying revenues increased by 5%
- Acquisition of Abacus completed last year added 5% to revenue partly offset by a currency headwind of 3%
- Sector adjusted operating margin decreased by 80bps:
 - Investment in costs to support new product lines in Canada
 - Weaker margins in Australian businesses
- Favourable currency hedges helped offset exchange rate volatility
- Negative leverage in the Environmental businesses

LIFE SCIENCES

SECTOR DEVELOPMENTS



- Underlying revenue growth of 6% in **Healthcare** businesses, despite continuing budget pressures from GPOs
- In Canada, underlying revenues increased by 8% with strong performance in Surgical and Endoscopy
- In Australia, strong revenue growth from combined Diagnostics business (Abacus dx); Surgical held back as supplier acquired by industry player
- Electrosurgery and smoke evacuation businesses continue to face challenging markets in both Canada and Australia
- TPD revenues broadly flat as they manage transition to new suppliers and products, replacing suppliers moving to direct supply model
- **Environmental**: underlying revenue unchanged
 - increased regulations driving revenue growth in Germany
 - delays in order placement for CEMS has impacted UK revenues

UNDERLYING REVENUE GROWTH



HEALTHCARE

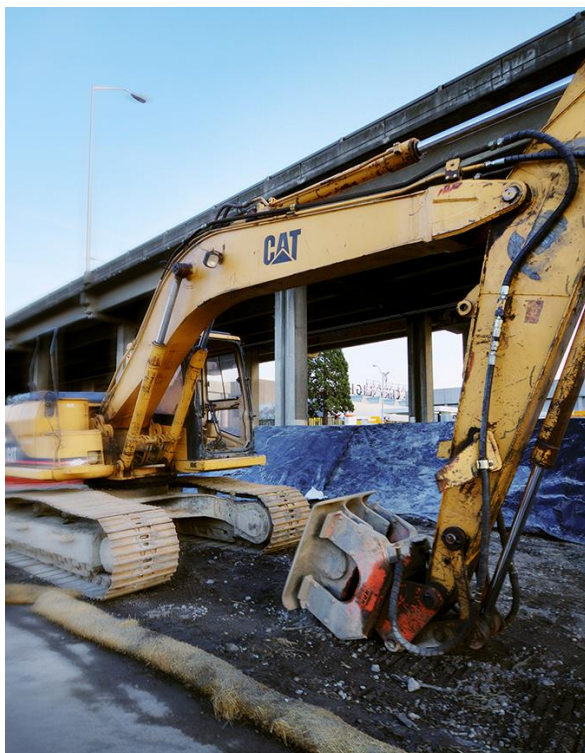
6%



ENVIRONMENTAL

0%

SEALS SEGMENTATION



NORTH AMERICA AFTERMARKET

31% OF REVENUES

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

INTERNATIONAL

40% OF REVENUES

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

NORTH AMERICA INDUSTRIAL OEM

29% OF REVENUES

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

PRIMARY GROWTH DRIVERS

- General economic growth
- Activity and spending levels in Heavy Construction and Infrastructure
- Growth in industrial production
- MRO expenditure in Mining and process industries

SEALS

OPERATING RESULTS



Year ended 30 Sept	2018	2017	
Revenue	£208.0m	£195.3m	+7%
Adjusted operating profit	£36.0m	£31.9m	+13%
Adjusted operating margin	17.3%	16.3%	+100bps

- Underlying revenue growth of 10% with strong North American and International revenues
- Edco and PSP acquired last year, net of a small disposal this year added 2% to revenue; currency movements reduced revenues by 5%
- Adjusted operating margins increased by 100bps
 - Stronger revenues providing operating leverage
 - Small reduction in gross margins from both lag in passing on supplier price increases and increased freight costs



NORTH AMERICAN SEALS

SECTOR DEVELOPMENTS



- **North American Seals** underlying revenues increased by 11% driven by robust trading conditions in US and Canadian markets
- **Aftermarket** reported 9% increase in underlying revenues; higher equipment levels benefited Repair and Distributor segments; HKX benefited from tight availability of OEM excavator equipment
- New products added and new market opportunities identified. Plans developed for major investment in second warehouse facility in US
- **Industrial OEM** underlying growth of 13% driven by increased penetration of large key accounts
- Single senior leadership team established to manage cluster of Industrial OEM businesses
- New ERP system live in October 2018 will increase operational efficiency and improve business intelligence for field sales

UNDERLYING REVENUE GROWTH



AFTERMARKET

9%



INDUSTRIAL OEM

13%

INTERNATIONAL SEALS

SECTOR DEVELOPMENTS



- **International Seals** underlying revenues increased by 7% with substantially stronger revenues in second half of year
- FPE and M Seals delivered underlying revenue growth of 6%; strong growth in Scandinavia and improved Oil & Gas market in the UK; good like-for-like growth from Edco acquired last year
- Kubo delivered underlying revenue growth of 13%; benefiting from strong industrial markets driven by increased exports
- Kentek revenues increased by 1% in Euro terms despite EU/US sanctions; Finland increased sales in large Industrial OEM sector
- WCIS revenues impacted by cost reduction at major mining customer in New Caledonia; encouraging growth in Australia from new contracts
- Strengthening of management and focus on E-commerce across International Seals businesses; new ERP implementations in 2019

UNDERLYING REVENUE GROWTH

↑
7%

CONTROLS SEGMENTATION



INTERCONNECT

59% OF REVENUES

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

SPECIALTY FASTENERS

21% OF REVENUES

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

FLUID CONTROLS

20% OF REVENUES

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

PRIMARY GROWTH DRIVERS

- General growth in the industrial economy
- Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail
- Equipment installation and maintenance in Food, Beverage and Catering

CONTROLS

OPERATING RESULTS



Year ended 30 Sept	2018	2017	
Revenue	£142.4m	£130.7m	+9%
Adjusted operating profit	£25.0m	£23.0m	+9%
Adjusted operating margin	17.6%	17.6%	-

- Underlying revenues increased by 5%
- Coast and FS Cables acquired in the year added 4% to revenue; currency movements were negligible

- Adjusted operating margins were unchanged:
 - Stronger gross margins reflecting customer mix and targeted improvements in Fluid Controls

- Investment in sales resources to drive growth in Clarendon US and investment in E-commerce at Cablecraft



CONTROLS

SECTOR DEVELOPMENTS



- **Interconnect** underlying revenues up 7%; good growth in IS-Group and Cablecraft more than offsetting absence of major project in Filcon
- IS-Group UK revenues up 18% with success in broadening European customer base; Cablecraft reported 5% increase in revenues
- FS Cables acquired in August 2018 complements Cablecraft; Gremtek acquired after year end broadens Interconnect business in Europe
- **Specialty Fasteners** underlying revenues up 8% driven by increased demand in buoyant Civil Aerospace sector; Motorsport revenues held back by absence of major F1 rule changes
- Coast (acquired Oct 2017) made a good contribution with success in Space Technology; provides base to target US manufacturers
- **Fluid Controls** revenues down 4% due to absence of a large project delivered last year; focused on higher margin products

UNDERLYING REVENUE GROWTH



INTERCONNECT

7%



SPECIALTY FASTENERS

8%



FLUID CONTROLS

-4%



OUTLOOK AND PROSPECTS

OUTLOOK AND PROSPECTS

01

Another strong result in 2018, with double-digit growth in earnings per share. Delivered compound double-digit growth in adjusted EPS over past 10 years

02

The Group has a proven business model, broad geographic spread of businesses, robust balance sheet and consistently strong cash flow

03

Performance in 2018 provides confidence in the Group's prospects from a combination of steady "GDP plus" underlying growth and proven value-enhancing acquisition programme

04

Despite the global macro-economic uncertainty, the Board remains confident that the Group will continue to make further progress in the coming year



APPENDIX

THE DIPLOMA INVESTMENT CASE

CLEARLY DEFINED STRATEGY, CONSISTENT TRACK RECORD



GDP PLUS UNDERLYING REVENUE GROWTH

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



ACQUISITIONS TO ACCELERATE GROWTH

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



ATTRACTIVE MARGINS

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



STRONG CASH FLOW

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



AGILE AND RESPONSIVE ORGANISATION

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



VALUE CREATION

We aim to create value by consistently exceeding 20% ROATCE

OUR BUSINESS MODEL

WE WANT TO MAKE OURSELVES ESSENTIAL TO OUR CUSTOMERS



OUR BUSINESS MODEL IS BUILT
ON THE THREE “ESSENTIALS” -
ESSENTIAL PRODUCTS,
SOLUTIONS AND VALUES

ESSENTIAL PRODUCTS

= RECURRING INCOME AND
STABLE REVENUE GROWTH



Focus on essential
products and services

Funded by customers’
operating rather than
capital budgets

“GDP plus” underlying
revenue growth

ESSENTIAL SOLUTIONS

= SUSTAINABLE AND
ATTRACTIVE MARGINS



Highly responsive
customer service

Deep technical
knowledge and support

Value adding
activities

ESSENTIAL VALUES

= AGILITY AND
RESPONSIVENESS



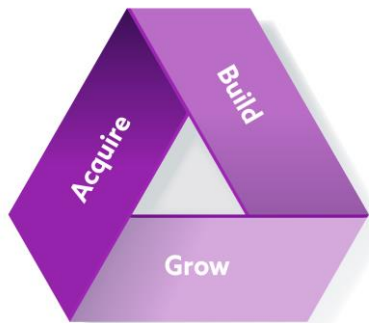
Entrepreneurial
culture

Decentralised
management model

Decisions made close
to the customer

OUR GROWTH STRATEGY

COMPOUNDING GROWTH THROUGH VALUE-ENHANCING ACQUISITIONS



GROWTH IS ACCELERATED
BY INVESTING IN VALUE-
ENHANCING ACQUISITIONS

ACQUIRE

Fit with Group's
business model

Marketing led with
strong customer
relationships

Track record of stable
profitable growth and
cash generation

Capable
management

Target of 20% plus
pre-tax ROI

BUILD

Investment to build
a solid foundation
for growth:

- New facilities
and IT systems
- Increased
working capital
- Strengthened
management

GROW

Businesses maintain
their distinct sales and
marketing identity

Synergies managed
within business
clusters:

- Cross-selling
- Joint purchasing
- Shared back-
office operations

FINANCIAL KPIS

FIVE YEAR TRENDS

	2014	2015	2016	2017	2018
Revenue	£305.8m	£333.8m	£382.6m	£451.9m	£485.1m
<i>Total growth</i>	+7%	+9%	+15%	+18%	+7%
<i>Underlying growth</i>	+8%	+1%	+3%	+7%	+7%
Operating margin	18.5%	18.1%	17.2%	17.3%	17.5%
Working capital (% revenues)	17.2%	17.0%	16.6%	15.0%	15.1%
Free cash flow	£37.8m	£40.3m	£59.0m	£55.7m	£60.5m
<i>Cash conversion (%)</i>	93%	93%	124%	99%	95%
ROATCE	25.8%	23.9%	21.1%	24.0%	24.5%

Average over
five years:

CAGR revenue
growth

11% p.a.

Operating
margins

18%

ROATCE

24%

Free cash flow
conversion

101%

FOREIGN EXCHANGE

STRENGTHENING IN UK STERLING PROVIDED TRANSLATION HEADWIND

GBP VS G10 CURRENCY BASKET SECURITIES



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