DIPLOMA PLC

Consistently delivering value

Diploma PLC
Annual Review 2019

Consistent and sustainable shareholder value creation

Life Sciences

See pages 12–15

Seals

See pages 16–19

Controls

See pages 20–23

Contents

Our purpose is to consistently deliver value, empowering our people to service our customers and reward our stakeholders every day

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

Essential Products

Value-add distribution model

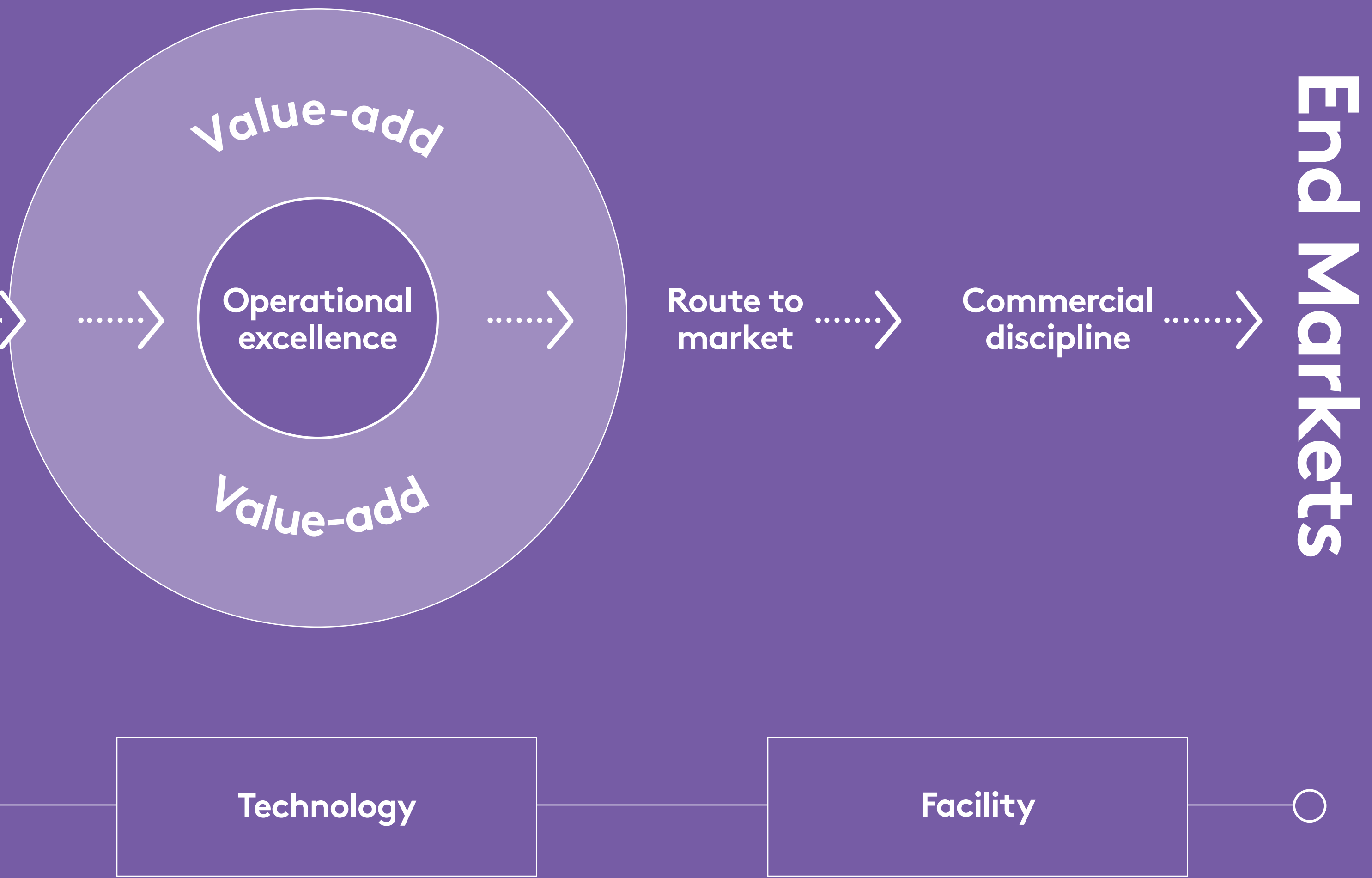
Core Competencies

Product ………. **Supply chain management** ……

Organisational Capability

Talent

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



Financial Highlights
Year ended 30 September 2019

Strong double-digit growth in revenues and earnings

Revenue

£544.7m
2018: £485.1m
+12%

Statutory operating profit

£84.1m
2018: £73.2m
+15%

Statutory profit before tax

£83.5m
2018: £72.7m
+15%

Adjusted operating profit[1]

£97.2m
2018: £84.9m
+14%

Adjusted operating margin

17.8%
2018: 17.5%
+30bps

Adjusted profit before tax[1,2]

£96.5m
2018: £84.8m
+14%

Free cash flow[3]

£56.5m
2018: £60.5m

Acquisition spend

£78.3m
2018: £20.4m

ROATCE

22.9%
2018: 24.5%

	2019 pence		2018 pence
Adjusted earnings per share[1,2]	64.3	+14%	56.4
Basic earnings per share	54.7	+15%	47.5
Total dividend per share	29.0	+14%	25.5
Free cash flow per share[3]	49.9	-7%	53.5

1 Before acquisition related charges and Chief Executive Officer transition costs in 2018.
2 Before fair value remeasurements.
3 Before cash payments on acquisitions and dividends.

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 Review 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 the Annual Review is based on these alternative measures and an explanation is set out in notes 2 and 3 to the consolidated financial statements in the Annual Report & Accounts.

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

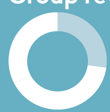
Life Sciences

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

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.

Group revenue



27%

Employees

437

Primary growth drivers

- Public and private healthcare spending
- Ageing population and increasing life expectancy
- Health & Safety and Environmental regulation

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.

North American Seals (61% of revenue): Aftermarket: next-day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery.

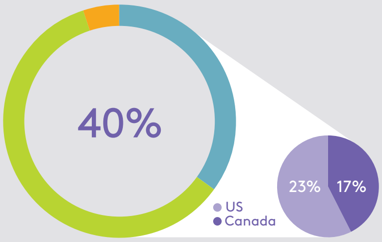
Industrial OEM: sealing products, custom-moulded and machined parts supplied to manufacturers of specialised industrial equipment.

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

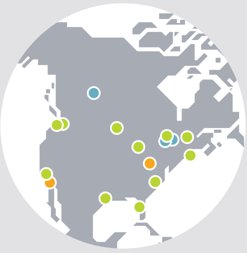
International Seals (39% of revenue): sealing products and filters supplied outside North America to Aftermarket and Industrial OEM customers as well as to Maintenance, Repair and Overhaul ("MRO") operations.

North American revenue
(by destination) by Sector

Group revenue

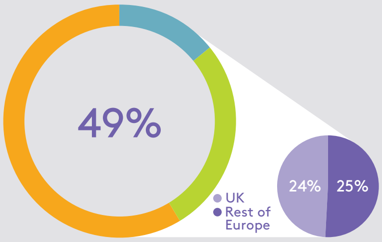


Locations



European revenue
(by destination) by Sector

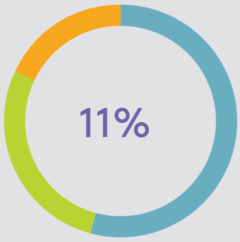
Group revenue



Locations

Rest of World revenue
(by destination) by Sector

Group revenue



Locations

- Life Sciences
- Seals
- Controls

Group revenue

40%

Employees

1,007

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

Controls

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

Interconnect (63% 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 Aerospace, Motorsport, Industrial and Defence markets.

Fluid Controls (16% of revenue): temperature, pressure and fluid control products used in Food & Beverage and Catering industries.

Group revenue

33%

Employees

601

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

Chairman's Statement

Our principal corporate objectives are to achieve double-digit growth in adjusted EPS over the business cycle; generate TSR growth in the upper quartile of the FTSE 250; and deliver progressive dividend growth targeting two times dividend cover.

Diploma has delivered another strong financial performance in 2019. The Group again achieved double-digit growth in adjusted earnings per share, generated strong free cash flow and maintained a robust balance sheet, despite having invested a record amount in acquiring new businesses this year. The results demonstrate the resilience of the Group's businesses and the consistent delivery against the Group's strategy that has allowed Diploma to build a long track record of strong financial performance and growth in shareholder value.

The Board was pleased to appoint a new Chief Executive Officer ("CEO") early in the financial year. Since joining Diploma in February this year, Johnny Thomson has demonstrated strong and effective leadership. Johnny has also completed a thorough review of the Group's strategy which the Board has approved and which has excellent potential to create further shareholder value in the years ahead.

Shortly after the year end Nigel Lingwood, Group Finance Director, announced his decision to retire from the Board at the close of the next financial year. Nigel joined the Group in 2001 and has played a significant role in pursuing the current strategy that over the past 18 years has delivered double-digit growth in earnings and dividends. This has led to a growth in market capitalisation from £60m to over £1.9bn today. We look forward to working with Nigel during his final year with the Group, before wishing him a long and restful retirement.

Results

Group revenues increased in 2019 by 12% to £544.7m (2018: £485.1m), benefiting from both a strong 5% contribution from acquisitions and a currency tailwind of 2% from translating the results of the overseas businesses, caused by the sharp depreciation in UK sterling in the second half of the year.

After adjusting for the contribution from acquisitions completed both this year and last year, net of a small disposal last year and for the currency effects on translation, Group revenues increased by 5% on an underlying basis. The Life Sciences and Controls businesses both delivered strong underlying revenue growth of 7% and 9% respectively, but the generally weaker Industrial markets limited the more cyclical Seals businesses to 1% growth in underlying revenues.

Adjusted operating profit increased by 14% to £97.2m (2018: £84.9m) reflecting the strong growth in revenues and an increase of 30bps in adjusted operating margins to 17.8% (2018: 17.5%). Adjusted profit before tax and adjusted EPS also increased by 14% to £96.5m (2018: £84.8m) and 64.3p (2018: 56.4p), respectively.

On a statutory basis, the Group's operating profit was 15% ahead of last year at £84.1m (2018: £73.2m) after £13.1m (2018: £9.6m) of acquisition related charges, largely comprising amortisation of acquired intangible assets. Last year's statutory operating profit included one-off charges of £2.1m with respect to the previous CEO transition process. Statutory profit before tax increased by 15% to £83.5m (2018: £72.7m) and statutory EPS was 15% up on last year at 54.7p (2018: 47.5p).

The Group's free cash flow remained robust at £56.5m (2018: £60.5m); last year's free cash flow included £4.0m from the sale of a small non-core US gasket business. The outflow of cash to support working capital increased this year to £9.4m (2018: £5.1m) and was largely driven by the investment required in the US Industrial OEM business, following implementation of a new ERP system. Capital expenditure also increased this year to £10.9m (2018: £6.6m) as the investment in the new distribution facility in the US Seals Aftermarket began to ramp up and further investment was made by the Healthcare businesses in new field equipment in support of customer contracts.

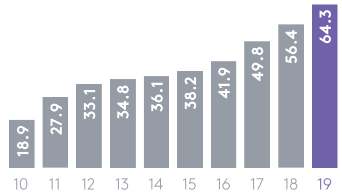
Consistent and sustainable shareholder value creation

John Nicholas
Chairman

"The Group has delivered strong double-digit growth in revenues and earnings"

Adjusted EPS growth (pence)

+16%p.a.[1]



As indicated in last year's Annual Report, the heightened uncertainty in global industrial markets has led to a healthier pipeline of acquisition opportunities as vendors of good quality businesses decide to exit their companies, having enjoyed the benefit of relatively favourable macroeconomic conditions over the previous few years.

The Group invested a record £78.3m (2018: £20.4m) in acquisitions this year which will provide a strong contribution to operating profits in future years. The acquisition pipeline remains healthy and although acquisition processes remain competitive, the Group will retain its disciplined approach to bringing high-quality, value-enhancing businesses into the Group.

The Group's balance sheet remains robust with net debt at 30 September 2019 of £15.1m (2018: cash funds of £36.0m), after investing £78.3m in acquisitions and making distributions to shareholders of £29.8m (2018: £26.8m). The Group also has unutilised bank facilities of ca. £54m and the Group's strong balance sheet provides support to increase these facilities to finance further acquisition opportunities in the next financial year.

Dividends

The combination of strong results and free cash flow supported by a robust balance sheet has led the Board to recommend an increase in the final dividend of 15% to 20.5p per share (2018: 17.8p). Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 22 January 2020 to shareholders on the register at 29 November 2019.

The total dividend per share for the year will be 29.0p (2018: 25.5p), which represents a 14% increase on 2018, with the level of dividend cover remaining unchanged at 2.2 times on an adjusted EPS basis.

Governance

The appointment of a new CEO this year has provided stability in the Executive leadership of the Group. The focus this year will be on broadening the non-Executive resource to provide further support to the leadership team and to prepare for the additional corporate governance compliance requirements that come into effect for the Company in the new financial year. The Nomination and Audit Committees are now supporting the CEO in searching for a new Group Finance Director. The Remuneration Committee has updated the Remuneration Policy in light of the change in leadership and this Policy will be proposed for approval by shareholders at the AGM on 15 January 2020.

Employees

The process undertaken over the past two years in changing the leadership of the Group has been a challenging period for our employees. I would like to record my thanks to all our employees who, during this period, have remained focused on delivering excellent service and value to our customers that is the driving force behind the Group's performance and the achievement of another year of strong financial results.

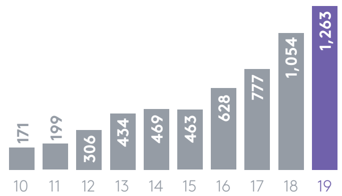
Outlook

Diploma has a strong and resilient business model with a broad geographic spread of businesses supported by a robust balance sheet and consistently strong free cash flow. This model has delivered another strong financial performance in line with our expectations.

Despite the uncertain political and economic environment impacting Industrial markets, the Board remains confident of further progress in the current financial year as moderately lower underlying growth will be offset by a strong contribution from acquisitions.

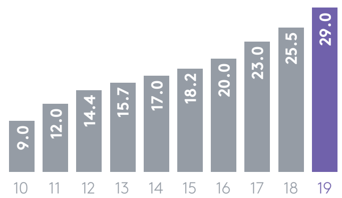
TSR growth (TSR index 2009 = 100)

+29%p.a.[1]



Dividend growth (pence)

+14%p.a.[1]



1 Ten-year compound.

Chief Executive's Review

2019 has been another year of strong performance. The Group's reported revenues increased by 12%, with currency movements adding 2% and acquisitions contributing a further 5% to the revenue growth.

On an underlying basis, after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 5%. Encouragingly, there was good growth in all three Sectors. Group adjusted operating margins improved by an excellent 30bps to 17.8%. As a result, the Group's adjusted earnings grew by 14% in the year. Strong cash flow generation provided funds to allow us to report a record year for acquisition spend, as well as a 15% proposed increase in the final dividend.

Sector performance

It has been a very strong year in Life Sciences. Somagen, in Canada, extended its coverage in the Canadian Provinces with its diagnostic screening product, designed to provide early detection of colorectal cancer. This product has been very well received in its market and is a great example of innovation in response to customer need. Market share gains in Vantage's Endoscopy business in Canada have also boosted growth.

The acquisition of Sphere Surgical ("Sphere") in Australia has given us a good entry point into the high-growth bariatrics segment and complements our current product portfolio in BGS. In Life Sciences, underlying revenues increased by 7%, after adjusting for currency movements and the acquisition of Sphere.

In the Seals Sector, the NA Aftermarket businesses had another strong year as we grew market share through our high-quality service offering and scale of our operation. We are currently developing a new leasehold facility in Louisville, Kentucky, which will further broaden our footprint across North America. The US Industrial OEM markets have been challenging this year. We experienced implementation issues with the ERP system earlier in the year, however with new leadership in place we are confident that these difficulties have now been resolved. VSP Technologies has made an encouraging contribution since joining the Group in July this year and extends our sealing products offering to the gasket market, supported by a high-quality, well-established customer proposition and management team. In September, we completed the acquisition of DMR Seals in the UK, which complements our existing FPE Seals business. In Seals, underlying revenues increased by 1%, after adjusting for currency movements and acquisitions.

The Controls Sector has developed well this year. The Clarendon Specialty Fasteners business had great success penetrating further into the Civil Aerospace market. The Interconnect business has been expanding successfully in Germany and has extended its business reach with the acquisition of Gremtek in France.

We continue to add new products into the Sector. Whilst market conditions in the UK have created more uncertainty in our Industrial end markets, we continue to be very positive about the future prospects for this Sector. In Controls, underlying revenues increased by 9%, after adjusting for currency effects and acquisitions.

Acquisitions

Diploma has a strong history of disciplined acquisitions. We had a very positive year for acquisitions with VSP Technologies, Gremtek, DMR Seals and Sphere all joining the Group with a total spend of ca. £78m. In the US, we have been pleased with the transition of VSP Technologies into the Group and are excited by its growth potential. VSP Technologies is a leading supplier of high-quality gasket and fluid sealing products, as well as customised solutions, to the industrial MRO market. VSP Technologies is built on strong, long-standing customer and supplier relationships supported by value-add servicing. The acquisition is consistent with our strategy and provides an exciting opportunity to extend our Seals activities in North America. In addition, three smaller bolt-on acquisitions were completed in the Seals, Controls and Life Sciences Sectors during the year – DMR Seals in the UK, Gremtek in France, and Sphere Surgical in Australia. We are very positive about the prospects for all four businesses and the strategic attributes they bring to the Group. Bolt-on acquisitions remain a key part of the Group's strategy.

Another year of strong performance

Johnny Thomson
Chief Executive Officer

Management resources

Strong management in the businesses is key to the continued success of the Group. This year we have made some important appointments to reflect our growing organisation: David Goode joined in April 2019 to lead the Controls Sector, allowing Gustav Rober to retain his focus leading our Corporate Development. In September, following the acquisition of VSP Technologies in the US, which extended the scale and opportunity of the Seals businesses, Alessandro Lala, who has been with the Group since 2006, was appointed to manage the International Seals businesses. Jill Tennant joined the Group as our first Group HR Director in May 2019. In recognition of the increasing importance of developing the Group's talent.

In order to manage our succession and business growth requirements most effectively, while retaining our winning culture, we are committed to making internal appointments where possible. In 2019, over 50% of our senior appointments were internal candidates. The right blend of stability, internal progression and external skill is key to the strong results that will lead to our future success. Acquisition growth in 2019 has also allowed us to bring new talent into the Group.

We continue to develop the Executive Management Committee ("EMC") which comprises the Executive Directors and Executive senior managers responsible for the major business clusters and key Group functions. The EMC meets regularly, providing the opportunity for members to broaden their perspective of the Group's activities, reinforce the key elements of the Group's culture and identify best practices that are transferable across the Group.

Strategy

We have a consistent strategy that is built on the strong foundations of our value-add distribution model. Since joining this year I have, together with the Executive team, reviewed and refreshed the Group's strategy based on these strong foundations. As the Group evolves, we will continue to strengthen the Core Competencies that support that model and the Organisational Capability to execute these Core Competencies at scale. We will also focus our growth on the exciting opportunities in core developed larger markets and products. This growth will be organic and complemented as normal by acquisitions. This strategy will continue to deliver strong and consistent financial returns for shareholders.

Business Model – value-add distribution

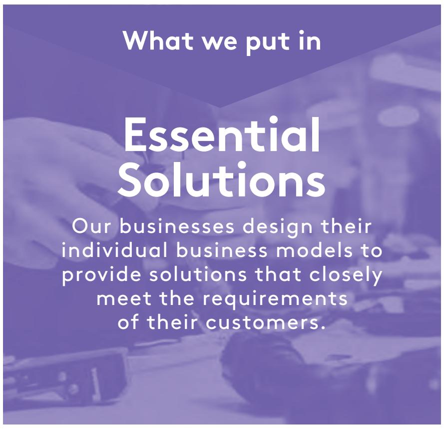
Stable and resilient revenue growth is achieved through our focus on *Essential Products* and Services funded by customers' operating model rather than capital budgets and supplied across a range of specialised industry segments. By supplying *Essential Solutions*, not just products, we build strong, long term relationships with our customers and suppliers, which support sustainable and attractive margins. Finally, we encourage an entrepreneurial culture in our businesses through our decentralised management structure. 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.

Business Model – value-add distribution

- Critical to customers' needs
- Opex budgets
- Range of end markets

What we get out

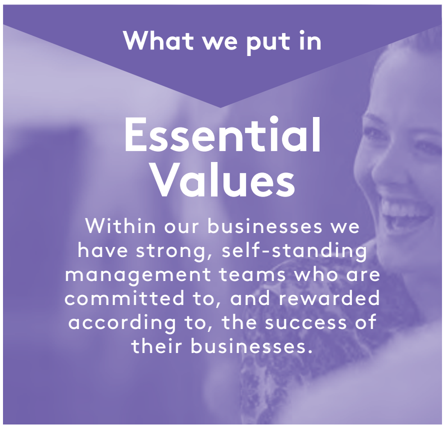
Growth and resilience



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

What we get out

Sustainable high margins



- Decentralised model
- Customer orientated
- Accountable for performance execution

What we get out

Empowered management teams

Strategy

Strategy

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

Our consistent 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 based on continuity that builds on the foundations that underpin Diploma's success.

Strong Foundations

The Group has been built on strong foundations and our strategy will continue to build on this.

Resilient 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

We have a decentralised structure that encourages an entrepreneurial culture across our businesses and allows our managers the freedom 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.

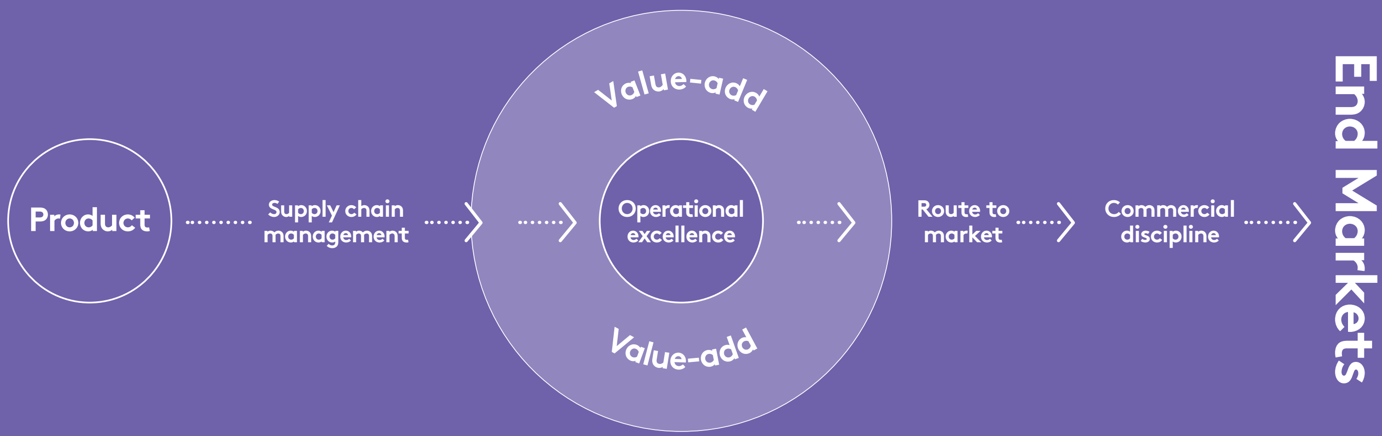
Successful M&A history

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.

Core Competencies



Organisational Capability

Talent

Structure to encourage agility, performance and accountability at scale.

Technology

Unlock operational potential through infrastructure and development as businesses scale.

Facility

Operational efficiency, automation and management for improved quality, capability and distribution footprint.

Core Competencies

Our Core Competencies help us to operationalise our proposition of Essential Products, Essential Solutions and Essential Values. As Diploma grows and becomes a broader and more complex business, we must continue to focus on and develop our Core Competencies. It is these competencies in our business model that differentiate us, protect us from disruption and deliver outstanding performance.

Supply chain management
We are a value-add distributor and our suppliers are integral to our success. Improving our demand planning and taking advantage of our increasing scale within and across our businesses will make us more competitive to our customers.

Operational excellence
Our distribution operations will become larger and more complex and we will ensure that we have the correct processes and systems in our distribution facilities that will allow us to continue to be agile and responsive to our customers' needs.

Value-add
We will continue to provide excellent service and solutions by developing our talent, our processes and our information systems that help us deliver that service and those solutions.

Route to market
We will use our scale to be more strategic in evaluating our addressable market and how we best take advantage of it. We will identify the more relevant markets, develop those markets through the right channels, invest where necessary and execute well-defined business to business sales.

Commercial discipline
Our businesses provide excellent customer service every day. Our financial model must fit our customers' financial requirements and at the same time reward our businesses fairly. Pricing remains critical to ensuring that we are always competitive to our customers and sustain our margins. This is a win-win for Diploma and our customers.

Organisational Capability

We drive our Core Competencies by investing in and developing the Organisational Capability that provides the competitive advantage across our Sectors and facilitates the improvements in our business.

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

Technology
We continue to invest well in technology that will support us in delivering our Core Competencies, which is key to unlocking the operational potential in our businesses.

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

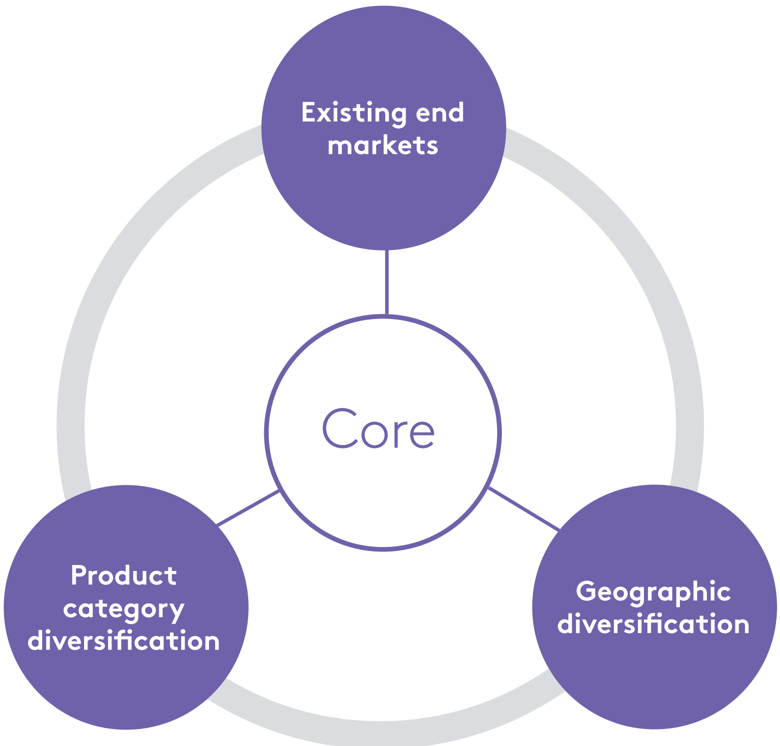
Focus the Business for Strong Growth

Diploma holds strong positions in key markets and products across each of our three Sectors. Structural market trends in our existing end markets help to sustain healthy levels of growth over the long term.

To complement this growth, encouragingly, the Group still has very low market share in its core markets and products. Those markets are also relatively fragmented. This means that we can grow by focusing on core developed markets and products, both organically and by acquisition, without being distracted elsewhere at higher risk.

The Group's increasing scale can be used selectively to support long term growth without affecting the proximity and closeness of customer relationships and services.

Small to medium sized bolt-on acquisitions continue to play an important part in the development of our Group. In a fragmented market, there are many high-quality operators, and the Group has a healthy balance sheet to reinvest. This year has been a record year with four new businesses joining the Group. We will continue to pursue similar businesses that have the right strategic fit and meet our criteria.



Strategic Priorities and KPIs

Consistent and sustainable shareholder value creation

Diploma has delivered excellent shareholder returns over many years and the Group's businesses have significant potential to continue this track record.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to recurring income and stable underlying revenue growth, sustainable and attractive margins and organisational health. This year, underlying revenue growth, after adjusting for currency movements and acquisitions, has been a robust 5%, with the growth rate softening in the second half of the year. Reported growth has been 12% in the current year and on a five-year CAGR basis.

The agility and responsiveness of the organisation is more difficult to measure directly, but non-financial KPIs can give an indication of the organisational health. The number of working days lost to sickness has consistently been only ca. 1.4% a year and over the last five years, the average length of service for all employees has been ca. 6.7 years (ca. 10 years for the senior management cadre).

Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses that 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 of at least 20% and hence support our Group objectives for return on total investment.

Again we measure the success of the growth of the business with KPIs, the first of which is acquisition spend. As part of the Group's objective of strong double-digit growth we have an acquisition capacity of up to two times net debt/EBITDA, though year-on-year spend will vary with the acquisition environment. This year, the Group invested ca. £78m in acquisitions, bringing the total over five years to ca. £190m. The acquisitions completed over the last five years have contributed ca. 25% of 2019 revenues.

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 is used to measure the overall performance of the Group and very importantly, our success in creating value for shareholders through our acquisition programme. Over the last five years, ROATCE has exceeded the 20% target and this year was 23%.

As the Group continues to grow 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

2x adjusted EPS

Return on adjusted trading capital employed

20%+

Key Performance Indicators

Initiatives | **Key performance indicators**

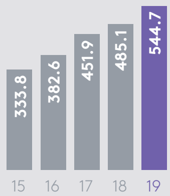
GDP+ underlying revenue growth

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

Revenue growth (£m)

+12%

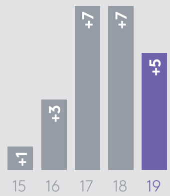
Five-year compound



Underlying revenue growth (%)

+5%

Five-year average



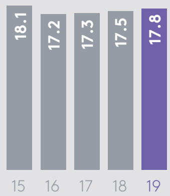
Attractive margins

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

Adjusted operating margin (%)

17.6%

Five-year average



Adjusted operating margin (bps)

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

+200–300bps

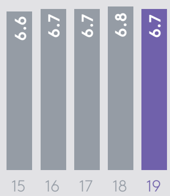
Agile and responsive organisation

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

Length of service (years)

6.7 years

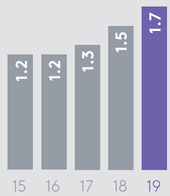
Five-year average



Average working days lost to sickness

1.4%

Five-year average



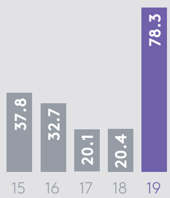
Acquisitions to accelerate growth

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

Acquisition spend (£m)

£37.9m

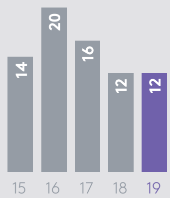
Five-year average



Revenue from acquisitions (% of total)

15%

Five-year average



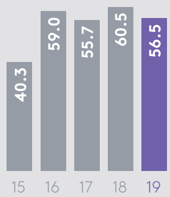
Strong cash flow

A robust balance sheet and strong cash flow fund our growth strategy while providing healthy and growing dividends.

Free cash flow (£m)

£54.4m

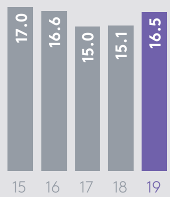
Five-year average



Working capital (% of revenue)

16%

Five-year average



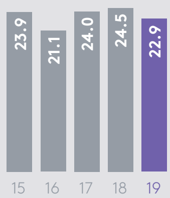
Value creation

We aim to create value by consistently exceeding 20% ROATCE.

ROATCE (%)

23%

Five-year average



Life Sciences

Complementing our existing product range

Revenue

£145.8m

Free cash flow

£23.2m

ROATCE

22.0%

Highlights for the year

- Sector revenue growth of 8%; underlying growth of 7% after adjusting for currency effects and a small surgical acquisition in Australia completed late in the year
- In Canada, DHG underlying revenues increased by 10% with strong consumable and capital revenues from its market-leading new technology products, extending its cancer diagnostics programme in Somagen and endoscopy product lines in Vantage
- In Australia and New Zealand, underlying revenues increased by 8%. Abacus dx reported strong growth across its portfolio of products. Diploma acquired Sphere Surgical in September, adding bariatrics to the product portfolio of the BGS surgical products business
- TPD underlying revenues declined 7% in Ireland as the business rebuilds its product portfolio and restructures its commercial divisions
- The Environmental businesses reported 9% underlying revenue growth with strong revenue growth in the a1-CBISS business, following a good recovery in the second half for CEMS installations and associated services

	2019	2018	
Revenue	£145.8m	£134.7m	+8%
Adjusted operating profit	£27.5m	£23.9m	+15%
Adjusted operating margin	18.9%	17.7%	+120bps
Free cash flow	£23.2m	£17.3m	+34%
ROATCE	22.0%	19.1%	+290bps

Sector performance

Reported revenues of the Life Sciences Sector businesses increased by 8% to £145.8m (2018: £134.7m) with strong revenue growth from both the DHG and a1-group. Revenues benefited from a currency tailwind of 1% on translation of the results from the overseas businesses to UK sterling. After adjusting for currency effects and the acquisition of Sphere Surgicals, underlying revenues increased by 7%.

Adjusted operating margins grew by 120bps to 18.9% largely reflecting strong operating cost leverage across both the DHG and Environmental businesses. Gross margins were slightly weaker reflecting the impact of transactional currency pressures on the Healthcare margins, but favourable currency hedges helped offset some volatility of the Canadian and Australian dollars relative to the US dollar and Euro during the second half of the year. Adjusted operating profits increased by 15% to £27.5m (2018: £23.9m).

The Life Sciences businesses invested £3.3m (2018: £3.5m) in new capital during the year of which £2.7m (2018: £2.3m) was spent on acquiring field equipment for both new placements in hospitals and laboratories and for loan equipment and demonstration models to support existing placements. The increased spend on field equipment was largely driven by the launch this year of a new series of flexible endoscopes, and expansion and conversion of special biochemistry technology in Australasia, together with the replacement of smoke evacuation products to extend contracted business. The balance of £0.6m was split between furnishings for the newly renovated AMT/Vantage facility and service equipment improvements and upgrades.

The IT infrastructure across the Healthcare businesses was also upgraded. Free cash flow increased strongly to £23.2m (2018: £17.3m), largely reflecting strong operating cash flow, which also benefited from a cash inflow from reduced working capital.

Healthcare

The DHG businesses, which account for 85% of Life Sciences revenues, increased underlying revenues by 7% after adjusting for currency effects and the small acquisition.

In Canada, underlying revenues increased by 10% driven by new technologies in all businesses, despite the ongoing backdrop of regional consolidation of GPOs. The GPOs continue to restructure and amalgamate, leading to harmonised contracting, and rationalised service provision in the laboratory sector in Quebec, in particular. In response the DHG businesses continue to seek new suppliers that develop and provide innovative products to the market.

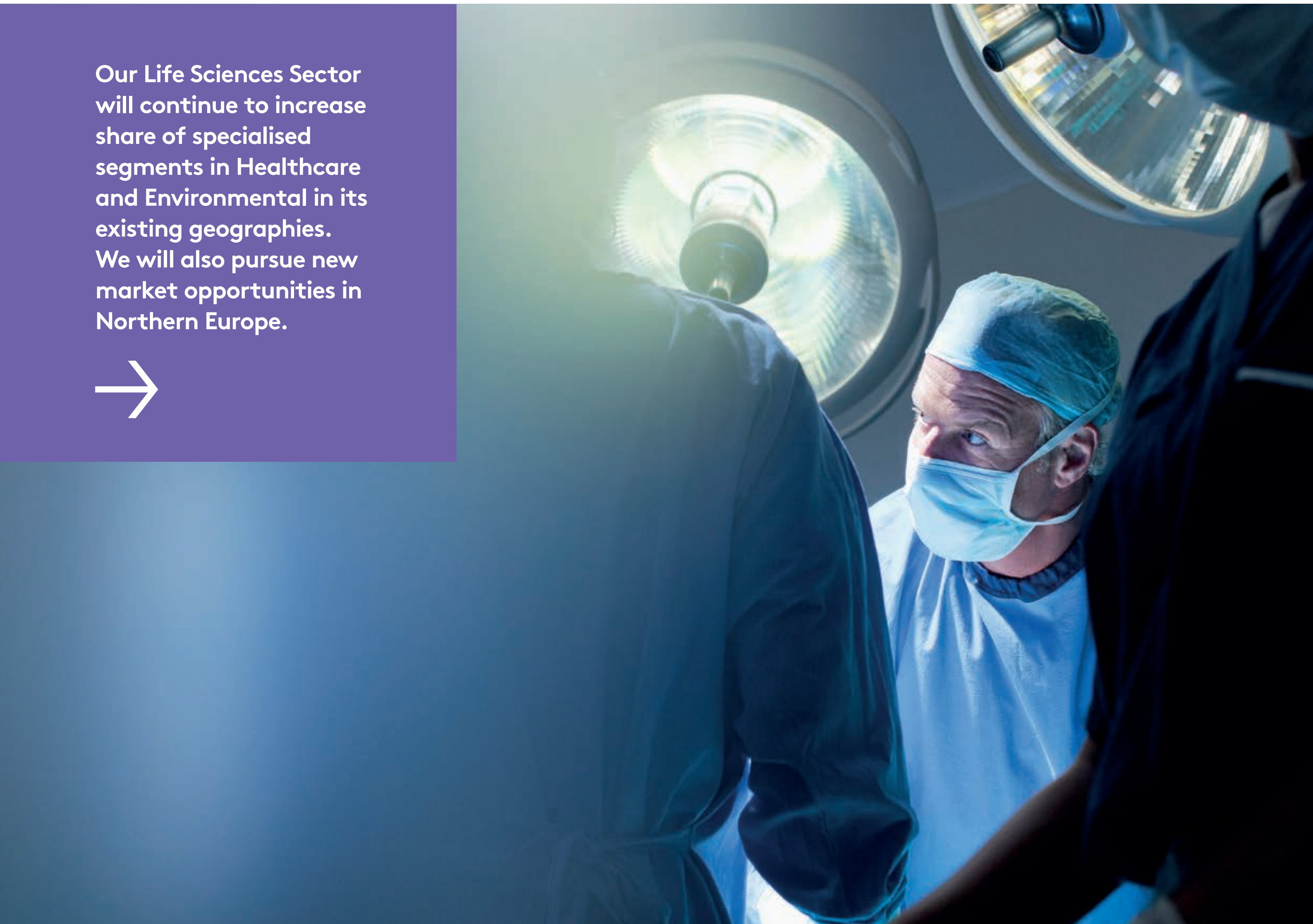
Somagen's core Clinical Diagnostics business delivered an underlying increase of 10% in revenues, with sustained growth in consumable and service revenues. Capital sales decreased reflecting the impact of laboratory centralisation, particularly in Quebec. Demand for diagnostic testing, both cancer screening and companion diagnostics, remained robust. Somagen implemented two new large Provincial contracts to provide colorectal cancer screening products and services with the stability of long term contracts. Somagen continued to pursue new supplier recruitment programmes, resulting in new targets entering the contracting phase across the Specialty Diagnostics, Microbiology and Molecular Diagnostics segments of the market.

AMT/Vantage, the combined Surgical and Endoscopy businesses in Canada, delivered strong underlying growth of 10% in revenues, particularly driven by Vantage's continued success with the introduction of a new series of gastric endoscopes. The new technology in these endoscopes has successfully driven current customer contract extensions as well as new contracted business. Continued diversification across both Vantage's endoscopy division and AMT's surgical specialty division offers growth in new segments of the market as well as off-setting some of the maturing, traditional electrosurgical market. AMT/Vantage's discipline around portfolio life cycle management, has yielded new suppliers that will drive future growth in both the GI/Endoscopy and Specialty Surgical segments of the Canadian market.

In Australasia, Abacus dx delivered 11% underlying growth in revenues driven by expansion of product offerings in the immunology market and conversion of special biochemistry technology. However, revenues were also impacted by the continuing consolidation of testing within the Australian Clinical Diagnostics market and broader based GPOs in the fragmented diagnostics market. BGS, the Surgical Products business in Australasia, stabilised revenues with a modest 1% underlying growth after the loss of a key surgical supplier last year. The acquisition of Sphere Surgical provided access to the Bariatric Surgery market, a new segment for BGS. BGS also made good progress in securing new specialty surgical suppliers that will drive further growth.

The TPD business in Ireland and the UK reported declining underlying revenues of 7% attributed to its Medical and Surgical business in Ireland as it continues to manage the transition of a number of medical and surgical suppliers who have moved from specialised distribution to a direct supply model. The Biotech business grew 13% on an underlying basis, with the Clinical business remaining largely unchanged on prior year. The business has restructured into two commercial divisions, Medical Science and Clinical Science, with Medical Science aligning to the Medical and Surgical markets, and Clinical Science aligning to the IVD and Biotech markets. Both divisions have focused on portfolio development efforts resulting in new suppliers that will provide new growth in the future.

Our Life Sciences Sector will continue to increase share of specialised segments in Healthcare and Environmental in its existing geographies. We will also pursue new market opportunities in Northern Europe.



Environmental

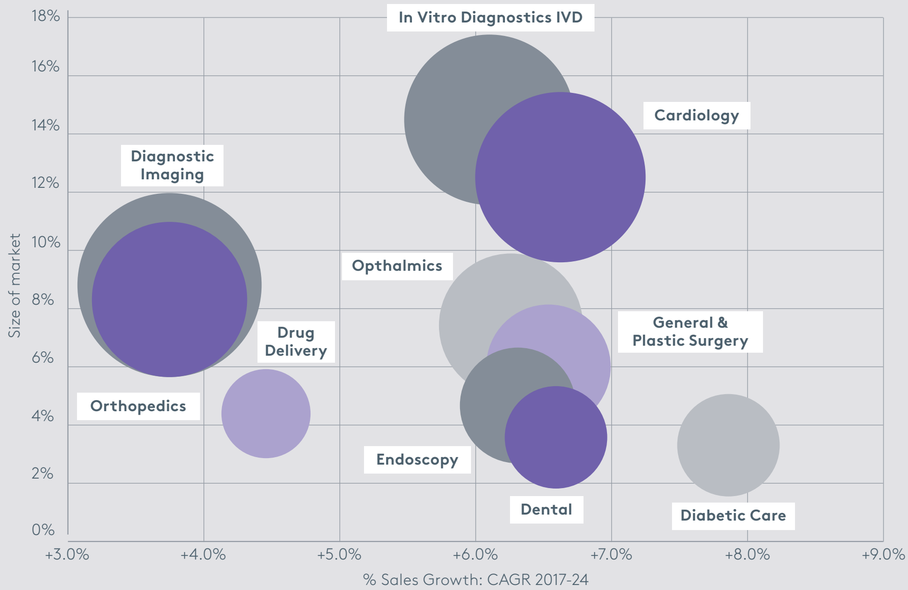
The a1-group of Environmental businesses in Europe, which account for 15% of Life Sciences revenues, saw underlying revenues increase by 9%, with both businesses performing strongly in the second half of the year.

The a1-envirosciences business, based in Germany, increased underlying revenues by 4% driven by expanding demand across Europe for elemental analysers and the associated service contracts. The increasing environmental awareness and in particular, the anticipated regulations on toxic polyfluorinated compounds, found in a range of manufactured products, is creating continued demand for these analysers in R&D and Environmental control. Health & Safety regulations also continue to increase demand for customised containment enclosures for the safe weighing of hazardous materials. The business has invested in additional service personnel and an IT based field service management system to support the larger installed base and capitalise on the demand from customers for faster response times.

The a1-CBISS business based in the UK delivered strong underlying growth of 15% in revenues against a weak prior year comparator. Revenue growth reflected a strong recovery in order placement for CEMS and associated service, as well as growth in the gas detection product segment. With strong CEMS capital sales, the associated service contracts provide for future revenue growth.

Delivering our strategy

Analysis on Top 10 Device Areas in 2024, Market Share & Sales Growth (2017-2024)



Note: Size of Bubble = WW Sales in 2024 Source: Evaluate, September 2018

- **High growth budget segments**
  - Diagnostics, preventative, speciality surgical
  - Niche, innovative, technology based solutions beyond mass market
- **Focus on distributor model markets**
- **Complementary products in core markets**
- **Product life cycle management**
- **Scaling opportunity**

Potential for growth

- Increase share of specialised segments of Healthcare markets in Canada, Australia and UK/Ireland
- Leverage DHG product portfolio across existing businesses and extend into other medical disciplines
- Pursue further Healthcare acquisition opportunities in Northern Europe, particularly Nordics
- Build scale through pursuing further Healthcare acquisition opportunities in Ireland/UK
- Continue to develop product portfolio and geographic reach of Environmental businesses
- Optimisation of IT infrastructure across Canada and Australasia businesses to improve operational efficiency

Seals

Extending our market sector reach

Revenue

£220.6m

Free cash flow

£17.7m

ROATCE

19.3%

Highlights for the year

- Sector revenue growth of 6%, reflecting contribution from acquisition of VSP Technologies; underlying growth of 1% after adjusting for currency and acquisitions
- NA Aftermarket underlying revenues increased by 2%, driven by improved trading conditions in the second half of the year as large mobile machinery continued to move out of warranty period; HKX revenues declined marginally reflecting a reduced supply of new equipment
- US Industrial OEM revenues significantly impacted this year by combination of softening US Industrial markets and operational issues arising on implementation of new ERP; underlying revenues decreased by 6% on prior year. ERP issues now resolved and new leadership team appointed at end of year
- VSP Technologies acquired in July has made solid contribution in line with expectations
- International Seals reported an increase in underlying revenues of 4%; weaker second half reflecting softer European industrial markets

	2019	2018	
Revenue	**£220.6m**	£208.0m	+6%
Adjusted operating profit	**£38.1m**	£36.0m	+6%
Adjusted operating margin	**17.3%**	17.3%	–
Free cash flow	**£17.7m**	£25.9m	(32%)
ROATCE	**19.3%**	25.3 %	(600bps)

Sector performance

Reported revenues of the Seals Sector businesses increased by 6% to £220.6m (2018: £208.0) with the acquisitions in the second half of the year of VSP Technologies and DMR Seals contributing £9.3m to Sector revenues. Underlying revenues increased by 1%, after adjusting for these acquisitions, net of a small disposal last year and for currency effects on translation of results to UK sterling.

Adjusted operating margins remained unchanged at 17.3% with stronger gross margins, particularly in the NA Aftermarket business following robust price increases and strong freight recoveries. However, these margins were largely offset by investment in the US Industrial OEM business necessary to resolve issues that arose on implementation of a new ERP system. The International Seals businesses reported adjusted operating margins marginally below the prior year, reflecting the impact of softer demand in their key markets.

The Sector invested £5.1m (2018: £2.0m) in capital expenditure during the year reflecting the ramp up of investment of £3.2m in a second distribution facility for the NA Aftermarket business and a further £0.6m (2018: £0.8m) was invested in completing the implementation of the new ERP system in the US Industrial OEM business. The International Seals businesses invested £1.0m on beginning an implementation project for new ERP systems in both Kubo and in FPE Seals and on new warehouse machinery.

Free cash flow was significantly impacted by difficulties that arose from the ERP implementation this year in the US Industrial OEM business and decreased by £8.2m to £17.7m (2018: £25.9m). These difficulties were exacerbated by the expansion of trade tariffs in the US during the year. Both issues contributed to a substantial increase in inventories in this business necessary to help customers mitigate the impact of tariffs, manage increased lead times from select suppliers and increased on-hand stock requirements to maintain service levels to customers.

North American Seals

The NA Seals businesses, which accounts for ca. 61% of Seals revenues, reported revenues up 7% on the prior year which included a strong contribution from VSP Technologies, acquired in July 2019. Underlying revenues decreased by 1%, after adjusting for this acquisition, net of a small non-core disposal last year and the weakening of UK sterling against both the US and Canadian dollar.

The US **Aftermarket** businesses increased revenues by 2% on an underlying basis, driven by improved trading in the second half of the year in the Repair market, after a weak first half caused by an unusually high influx of new heavy mobile equipment in the past few years, which remained under the original manufacturer's warranty. The Aftermarket business is now beginning to benefit as this new equipment moves out of warranty. HKX also experienced slightly softer markets from a reduced supply of new mobile equipment in the dealer network and competition from excavator OEM manufacturers.

In the domestic Aftermarket, Hercules reported underlying revenues up 3% on the prior year with the Repair and Distributor segments continuing to provide growth and opportunities. Smaller seal distributors continued to purchase from Hercules to avoid seal manufacturer lead times and minimum order quantities. Hercules also added new products to its portfolio as well as broadening both the scope of customers and equipment supported. After several years of product development, Hercules are now making successful inroads to supply seals into the heavy mobile equipment Rental sector, including namely Aerial Lifts, Skidsteer Loaders and Front-end Loaders. New market opportunities include seal kitting services for industrial plants of OEMs and industrial MRO. E-commerce continued to deliver strong year-on-year growth and now accounts for 34% of invoices processed and 28% of Hercules US revenues. A new version of the e-commerce site has been developed during the year and will be rolled out in early 2020. This will provide greater functionality, faster response and greatly enhanced search engine optimisation.

The US$10m project to develop a second distribution facility made strong progress during the year, with new logistic equipment being installed in a new 120,000 sq ft leased facility in Louisville, Kentucky. During the year ca. £0.2m of one-off costs were incurred on this project; further one-off/dual running costs of ca. £2m will be incurred in the next financial year, prior to completion of the project in late 2020. When fully operational, this facility will comprise highly technical warehouse automation that will allow much greater access to expanded territories in the US, as well as more competitive shipping logistics.

In Canada, revenues increased by 6% in local currency terms. This outpaces a Canadian economy that has seen some volatility over the past year, with market share being gained from both Repair and Industrial OEM customers. During the year, Canada also successfully leveraged the Hercules e-commerce platform, which now accounts for 9% of invoices and 5% of Canadian revenue.

In markets outside of NA, Hercules faced headwinds because of the impact of increased tariffs that led to a reduction in cylinders manufactured in China and delivered to export markets. Despite this reduction in cylinders, moderate revenue growth of 2% was reported in Central and South America.

HKX revenues declined by 3% as the business faced significant equipment shortages which reduced HKX kitting opportunities as excavator OEM manufacturers enhanced both their capability and availability of factory installed auxiliary hydraulics. The introduction of mandated Tier 4 mobile equipment in Canada from 1 January 2019 also contributed to weaker demand, after a strong finish for Tier 3 machines last year.

The US **Industrial OEM** business was disrupted significantly this year by the difficulties that arose on implementation of the new ERP system on 1 October 2018 and underlying revenues were 6% below the prior year. Revenues also suffered from a softening US industrial market in the second half of the year, caused by the disruption from increased trade tariffs and weaker global economies leading to a decline in US exports. With this background, larger customers in particular continued to seek pricing concessions in exchange for both retaining and gaining additional business. In response, management has also secured price reductions from its suppliers and has taken advantage of suppliers who relocated production facilities outside of tariffed regions, to maintain competitiveness in the marketplace.

The business has a number of large key accounts across a range of specialised industrial applications in industries including Water, Medical, Oil & Gas, Fluid Handling and Food Equipment, as well as Consumer Products. Despite the operational difficulties, Water, Medical and Consumer Products continued to show positive gains as new projects and products were introduced. However the business saw a decline in revenues from customers in the Automotive, Hydraulic and Aerospace sectors from dual sourcing and some Industrial OEM customers were lost because of weaker service delivery caused by operational challenges that arose following the ERP implementation.

In the second half of the year, the principal issues relating to the ERP implementation were successfully resolved with a corresponding and substantial improvement in operational processes. In September, a new leadership team was appointed and the business has now stabilised and is looking forward to resume growth by exploiting newly developed products and additional specialty compounds, as well as rebuilding relationships with engineering departments at several large and mid-size customers.

In **MRO**, the VSP Technologies business, acquired in July 2019, reported a solid contribution to revenues in its initial three months as part of the Group with revenues above last year on a like-for-like-basis and in line with our expectations. The business continued to gain US market share growth in the transportation segment through its RideTight® programme. The demand for the RideTight® programme and related products has also gained traction internationally. The Group has begun developing cross-selling opportunities with our existing Seals businesses and these will provide good opportunities for growth next year.

International Seals

The International Seals businesses, which account for ca. 39% of Seals revenues, reported a 4% increase in reported and underlying revenues, with activity across European Industrial OEM markets softening in the second half of the year, against a strong comparative last year. During the year FPE Seals, Kubo and M Seals UK commenced work on implementing new ERP systems, all of which are expected to go live during 2020. These new systems will lead to substantial operating efficiencies, including cross selling and inventory management within the International Seals businesses and provide a platform to extend their e-commerce activities.

The FPE Seals and M Seals businesses, with their principal operations in the UK, Scandinavia and the Netherlands, together delivered underlying growth of 5% in revenues on a constant currency basis and after adjusting for the acquisition of DMR Seals in September this year.

The FPE Seals business delivered double-digit underlying growth, benefiting from the continuing improvement in the Oil & Gas market and strong growth in international sales which benefited from additional European sales resources added last year. Revenues also benefited from good growth in its core UK Aftermarket hydraulic seals and cylinder parts business, although a weaker UK construction market led to slower activity in the second half of the year.

In September 2019, FPE Seals acquired DMR Seals, a well established UK distributor of bespoke machined seals and gaskets based in Sheffield and supplying OEMs and MRO

Our Seals Sector will develop the North American Aftermarket and Industrial activities by expanding into new regional markets and broadening product range. We will also build large and broader businesses in key international markets.

companies operating in a broad mix of industries. DMR Seals success has been built on deep technical knowledge, high levels of customer service and flexible machining capabilities and complements well the products and services offered by FPE Seals.

M Seals delivered modest growth in revenue in both the Scandinavian and UK markets, although trading activity softened in the second half of the year. In Scandinavia, solid revenue growth was achieved in Sweden driven by specific customer activity, but this was largely offset by flat revenues in the Danish core markets. In the UK, similarly to FPE Seals, M Seals benefited from the improvement in the Oil & Gas market, with customers expanding activities but this was partly offset by a weaker Industrial OEM market.

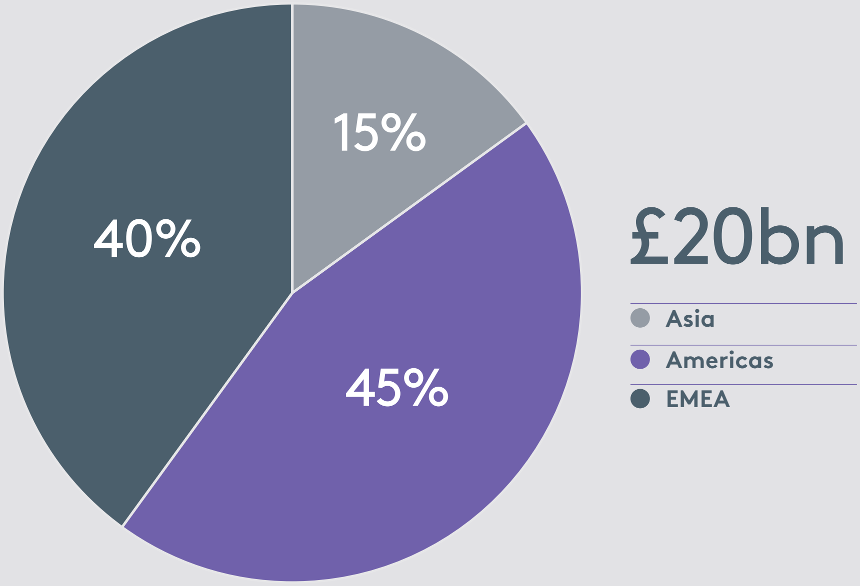
Kubo, which operates in Switzerland and Austria, increased underlying revenues by 1% with performance very dependent on local market conditions. In Switzerland, revenues reduced modestly against a strong comparative, as customers looked to reduce inventories to meet weaker industrial production in 2019 also reflecting the impact from the appreciation in the Swiss franc, relative to the Euro. A new distribution supply agreement for a major supplier expanded both the company's customer base and product range and helped mitigate the weakness in some of its existing markets. In Austria, Kubo reported robust revenue growth, benefiting from a new customer contract gained in the second half of last year.

The Kentek business, with principal operations in Finland and Russia, saw revenues reduce by 1% in Euro terms with competitive trading conditions continuing in both Finland and Russia, reflecting generally tougher end markets. Revenues generated in Russia, which account for ca. 65% of Kentek revenues, reduced slightly in Euro terms as the ongoing impact from international sanctions increasingly hindered trading activity and led to some projects being postponed. In response, Kentek continued to focus on sales of its own-brand filter range and also invested in a new sales branch in the far east of Russia to support the mining and logging sectors. In Finland, Kentek revenues reduced by 4% as sales to Aftermarket customers and other distributors suffered from strong competition in a market hampered by a lack of growth opportunities.

The TotalSeal business in Australia and New Caledonia has core capabilities in industrial gaskets and mechanical seals used in MRO operations in complex, high specification and arduous conditions. The business reported double-digit growth in both Australia and New Caledonia against a weak comparative and benefited from an improving mining sector. The business in New Caledonia was successful in renewing its supply contract with its major international mining customer.

Delivering our strategy

Addressable market



Market Growth = GDP

- **Structural growth opportunities**
- **Further North America penetration**
  - Louisville facility: broader US Aftermarket reach
  - Aftermarket scale advantages
- **Focus on core developed international economies**
- **Product adjacencies open new markets**
  - Gaskets (VSP Technologies)
- **Scaling opportunities**
  - US Industrial OEM

Potential for growth

- Successful go-live of second distribution facility for US Aftermarket will provide significant opportunities to grow business by accessing expanded US territories
- Stabilise and rebuild the Industrial OEM business and broaden geography and products through acquisition
- Substantial opportunities to grow VSP Technologies through new product development, expanded activities outside South-East US and through bolt-on acquisitions
- Broaden US Industrial OEM distribution activities using new business development resources to accelerate acquisitions
- Build larger and broader businesses in International Seals through acquisition and increased cross-selling in existing businesses

Controls

Building a broader based business

Revenue

£178.3m

Free cash flow

£24.7m

ROATCE

31.0%

Highlights for the year

- Sector revenue growth of 25%; underlying growth of 9% after adjusting for currency and acquisitions completed both this year and last year
- Interconnect delivered underlying growth of 7% with strong growth in the IS-Group businesses more than offsetting weaker revenues in the CCA Group (Cablecraft and FS Cables)
- The Gremtek acquisition completed in October 2018 adds to the Interconnect business a range of own-branded protective sleeving and cable identification products and expands the business into France
- Clarendon increased underlying revenues by 21%, with growth driven by strong demand from both existing and new Civil Aerospace customers
- Fluid Controls revenues increased by 1% with solid growth in the refrigeration market, held back by a challenging UK industrial market

	2019	2018	
Revenue	£178.3m	£142.4m	+25%
Adjusted operating profit	£31.6m	£25.0m	+26%
Adjusted operating margin	17.7%	17.6%	+10bps
Free cash flow	£24.7m	£19.8m	+25%
ROATCE	31.0%	29.8%	+120bps

Sector performance

Reported revenues of the Controls Sector businesses increased by 25% to £178.3m (2018: £142.4m). The acquisition of Gremtek in October 2018 and FS Cables in August 2018, contributed £24.6m or 14% to Sector revenues. After adjusting for negligible currency movements on revenues from translation to UK sterling and for these acquisitions, underlying Sector revenues increased by 9%.

Adjusted operating margins increased by 10bps to 17.7% (2018: 17.6%) largely reflecting operating leverage from strong revenue growth, which more than offset the impact from acquired businesses that joined the Sector at lower initial operating margins. Gross margins improved marginally, largely reflecting mix effects across the Sector businesses. Adjusted operating profits increased by 26% to £31.6m (2018: £25.0m).

Capital expenditure in Controls increased to £2.5m (2018: £1.1m) in 2019, including £0.7m invested in completing the expansion and refurbishment of the IS-Sommer facility in Germany. Contracts to sale and leaseback this facility are expected to be completed in early 2020. In September 2019, £1.3m was invested on a new stand-alone facility for Clarendon to provide additional capacity to meet the substantial growth in this business. After a short period of refurbishment, Clarendon will relocate to this facility in December 2019 before completing a sale and leaseback of the facility early in 2020. Free cash flow increased by 25% to £24.7m (2018: £19.8m) reflecting stronger trading and the benefit from reduced working capital, after the unwinding of Brexit stock built up in the first half of the year.

Interconnect

The Interconnect businesses account for 63% of Controls revenues and reported an increase in revenues of 34% in UK sterling terms. After adjusting for the acquisitions of Gremtek and FS Cables and for currency effects, underlying revenues increased by 7%. Strong underlying growth in the IS-Group and Filcon, more than offset weaker demand in the UK centric CCA Group.

The IS-Group's UK businesses reported a 10% increase in revenues reflecting further success achieved in broadening its customer base across the EMEA region and good growth from sales in the Asia-Pacific region. IS-Group has been successful in the EMEA region by directly targeting cable harness houses and developing its network of sub-distributors. In the Aerospace sector, a strong performance was driven by sales of assembly tags for fuel pipes, in addition to protective strips and sleeving into an aircraft manufacturer. There was modest fall in the UK Defence sector reflecting the absence of a large one-off order delivered last year. The Industrial sector benefited from a positive first half as customers built inventories ahead of Brexit; however the UK industrial market softened in the second half reflecting weaker economic conditions. The Energy sector remained strong with sales particularly buoyant into offshore and subsea applications and activity levels remaining robust in the North Sea Oil markets. In Motorsport, there was solid revenue growth from an expanding presence in the Formula E race series, which offset another quiet year for development in Formula 1 and WRC. The IS-Cabletec business, a supplier of high performance braided products, also delivered solid growth as it regained business with a key customer.

The IS-Sommer business in Germany delivered 9% growth in revenues with particularly strong performances in the Defence and Energy markets. The improvement in Energy revenues was driven by an expanded territorial access and, an improved service offering to a market with short lead times on inventory availability. In the Defence market, revenue growth was achieved from new projects for the refurbishment of Leopard II tanks and Howitzer (PzH 2000) tanks for supply into Hungary. The Industrial market also grew supported by a large project win for insulation and protection of fuel-pipes into the automotive sector. The Medical sector reported double-digit revenue growth and continued to benefit from technical support provided to manufacturers in previous years to assist them managing new European Regulations for medical devices. Motorsport revenues recovered modestly following a decline in revenues in the prior year when Audi and Volkswagen withdrew from the German DTM series. Aerospace revenues declined in the year against a strong comparative when a new distribution agreement was concluded and led to large initial orders.

In October 2018, IS-Group expanded its European footprint through the acquisition of Gremtek based in Paris, France. Gremtek is a long established and leading supplier of own branded protective sleeving and cable identification products. Now fully integrated into the IS-Group, Gremtek offers a broader product range, whilst at the same time providing a platform to sell existing IS-Group products into the French market. Gremtek's revenues since acquisition were in line with expectations.

Filcon reported a 13% increase in revenues against a weak comparative, with strong demand from its three core markets: Military Aerospace, Space and Motorsport. In Military Aerospace, public spending increased in Germany following pressure to meet NATO's defence spending targets. There was strong growth in the Space sector driven by a new customer acquisition and geographic expansion and in Motorsport, demand increased due to new project wins across the existing customer base and the addition of new applications within Formula E.

The CCA Group comprising Cablecraft and FS Cables (acquired in August 2018) together reported a 3% decrease in underlying revenues. Cablecraft revenue suffered from a reduction in demand from the rail sector when the new five-year funding cycle (Control Period 6) opened in April 2019. This led to a combination of a change to the funding process and a delay in commencement of major projects, which are now anticipated to ramp up in early 2020. The wholesale and distribution sectors were also relatively flat as activity levels in the wider construction sector slowed sharply in the second half of the year. During the year, Cablecraft has launched a new e-commerce platform with enhanced functionality providing encouraging indications of revenue growth in the second half of the year from both existing and new customers.

FS Cables, an established and leading supplier of specialist cable products, was acquired in August 2018. The revenues were broadly flat on a like-for-like basis with solid export revenues (which account for ca. 20% of total revenues), offset by weaker revenues in its core UK commercial construction market.

The CCA Group has recently been created to take advantage of cross-selling opportunities across both Cablecraft and FS Cables and to provide a strong platform for future growth under a single leadership team.

Specialty Fasteners

The Clarendon business now accounts for 21% of Controls revenues and reported an increase in underlying revenues of 21%, after adjusting for currency and a small acquisition in the prior year. In a buoyant Civil Aerospace sector, revenue growth continued to be driven by both increased demand from existing customers and further penetration into new customers across Europe and Asia. These customers, along with their sub-contractors, are manufacturing aircraft seating and cabin interiors and Clarendon supports many of these customers by supplying product through its automatic inventory replenishment system (Clarendon AIR). The number of customers using Clarendon AIR saw significant growth reflecting the high-quality service and responsiveness provided by Clarendon.

In Clarendon's other major market of Motorsport, underlying revenue grew, despite the number of Formula 1 races remaining unchanged and there being no significant changes to engine regulations. Revenues also benefited from demand on "supercar" development projects with major automotive OEMs and from the supply of pre-assembled and captive fasteners and bespoke engineered solutions to the Defence and Industrial sectors.

Clarendon's US business, acquired early last year, delivered robust growth during the year from gaining new customers within the US aircraft seating and cabin interiors sector, as well as solid revenues generated in the space and urban air mobility ("UAM") markets.

Our Controls Sector will focus on growing revenues in core markets across Europe, develop new product opportunities and seek to expand our footprint in North America.

Fluid Controls
The Hawco Group of Fluid Controls businesses accounts for 16% of Controls revenues and supplies temperature, pressure and fluid control products, principally to the Food & Beverage industry. Revenues increased by 1% against the prior year with growth coming from the OEM refrigeration market as tighter environmental regulations drove demand; however overall revenue growth was held back by a challenging UK industrial market.

Hawco's revenue growth in the OEM Refrigeration equipment market came from OEMs exporting into the US, supplying into the Refrigerated Transport Home Delivery market and from the ongoing development of store formats in Convenience stores and Petrol forecourts. Contractor revenues were marginally up on prior year with refrigeration spares sales improving, but installation of air conditioning units reduced because of a slowdown in construction projects. Revenues to OEMs for the supply of heating and temperature control products slowed in the financial year as demand weakened and projects were deferred.

Abbeychart revenues declined slightly during the year, where strong revenues from the Coffee, Soft Drinks and Water sectors were more than offset by a weaker Vending sector. In the Vending sector, OEMs reduced production of new machines to match softer demand and operators reduced spare parts held for the Aftermarket. Good progress was made in North America, which delivered growth on the prior year. Additional sales resource was added in the second half of the year to support future growth plans. In May 2019, Abbeychart consolidated its inventory with Hawco's inventory held in Bolton and relocated its operations into a new leasehold facility in Swindon.

Delivering our strategy

Addressable market

Interconnect

Europe	$1.3bn	Market Share	7%

Cabling

Europe	$800m	Market Share	4%

Speciality Fasteners

Europe	$650m	Market Share	8%

- **Underpenetrated European market**
  - Foothold for Interconnect in France (Gremtek)
  - Developing Interconnect Germany (Sommer)
- **Longer term: enter US market**
- **Significant product adjacencies**
- **Scaling opportunities**
  - Four principle business units: ISG, Fasteners, CCA, Fluid Controls

Potential for growth

- Grow the Interconnect business geographically within Europe and broaden the product offer to include more own branded solutions
- Accelerate cross-selling opportunities in CCA Group and maximise sales and marketing channels
- Specialty Fasteners will build on strong positions in Civil Aerospace and Motorsport and focus expansion within Europe and the US
- Target growth from new refrigeration product in Fluid Controls and drive export business into North America

Finance Review

"The Group delivered another year of strong double-digit growth in revenues and adjusted operating profit"

ROATCE

22.9%

Free cash flow

£56.5m

Adjusted operating margin

17.8%

Reported and underlying results in 2019

Reported revenues increased by 12% to £544.7m (2018: £485.1m) and adjusted operating profit increased by 14% to £97.2m (2018: £84.9m). The results benefited from a strong contribution from acquisitions, a currency tailwind and an improvement in adjusted operating margins.

The underlying results present the performance of the Group on a like-for-like basis by adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired last year) and for the impact on the translation of the results of the overseas businesses from the weakening in the UK sterling exchange rate in the second half of the year, primarily against the US and Canadian dollars. After adjusting for the currency tailwind and for the incremental contribution from acquisitions (net of a small disposal), underlying revenues and underlying adjusted operating profits increased by 5% and 7%, respectively.

Adjusted operating margin

The Group's adjusted operating margin improved by 30bps this year to 17.8% (2018: 17.5%) largely reflecting stronger gross margins from a combination of robust price increases implemented earlier in the financial year, improved focus on other gross margin support costs and tight control of operating costs.

In Life Sciences, adjusted operating margins benefited from strong operational leverage. However, headwinds from adverse currency transactional effects led to slightly weaker gross margins, despite favourable currency hedges partly mitigating the impact from weaker Australian dollar and Canadian dollar spot exchange rates relative to the US dollar and Euro. In Seals, adjusted operating margins remained unchanged as much stronger gross margins from robust price increases to customers and stronger freight recoveries, were offset by increased revenue investments in the US Industrial OEM business to resolve the difficulties with the ERP implementation. In Controls, adjusted operating margins improved marginally reflecting operating leverage from stronger revenues, a small positive mix effect on gross margins, partly offset by initial margin dilution from acquired businesses.

Adjusted profit before tax and adjusted EPS

Adjusted profit before tax increased by 14% to £96.5m (2018: £84.8m). The interest expense this year increased to £0.7m (2018: £0.1m), including £0.4m on increased borrowings to finance acquisitions, a small arrangement fee to extend the expiry of the revolver facility and an increase in the notional interest expense on the Group's pension deficit.

Adjusted earnings per share ("EPS") increased by 14% to 64.3p, compared with 56.4p last year and statutory EPS increased by 15% to 54.7p (2018: 47.5p).

Maintaining financial discipline

Nigel Lingwood
Group Finance Director

Free cash flow

Free cash flow represents cash available to invest in acquisitions or return to shareholders. The Group generated strong free cash flow this year of £56.5m compared with £60.5m last year which benefited from £4.0m received on the sale of a small non-core US business. The reduction in free cash flow conversion to 78% (2018: 95%) of adjusted earnings reflects a combination of a larger cash outflow into working capital and increased capital investment this year.

The Group's operating cash flow increased this year by 9% to £92.3m (2018: £84.3m), but was partly offset by an increase in working capital outflows of £9.4m (2018: £5.1m). There was a strong inflow of cash from working capital in the second half of the year as the strategic build of inventories at 31 March 2019 to meet both Brexit uncertainty and specific customer/product requirements was successfully unwound by the end of the year. However, the initial difficulties that arose on implementation of the new ERP system in the US Industrial OEM business led to a significant build-up in inventories which was necessary to ensure service levels to customers were maintained. The Group's KPI metric of working capital to revenue at 30 September 2019 increased to 16.5% (2018: 15.1%), reflecting the increased inventories held in the US Industrial OEM business at the year end.

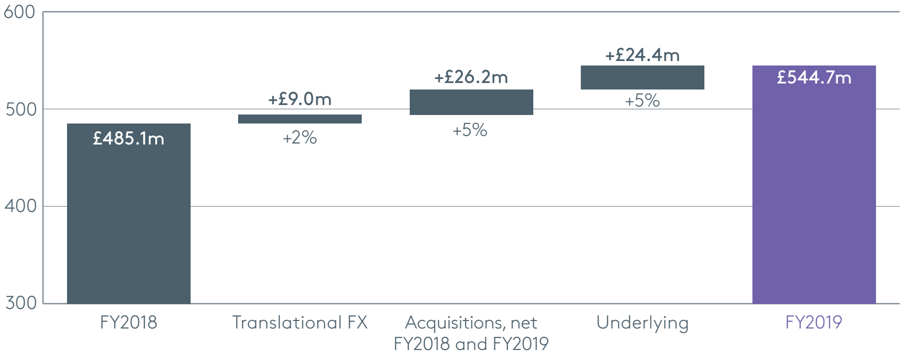
Acquisitions completed during the year

The Group invested £77.2m on acquiring new businesses this year and paid a further £1.1m of deferred consideration for businesses acquired last year. As indicated last year, the increasing uncertainty about the future direction of global economies contributed to a greater number of sellers of private businesses to take advantage of several years of robust financial performance and sell their businesses.

With a more receptive M&A market for these businesses the Group completed a record spend on acquisitions this year. After a lengthy structured sale process, the Group completed the acquisition of VSP Technologies in July for initial consideration of £57.2m, net of expenses and cash acquired in the business. VSP Technologies is a leading supplier of high-quality gaskets and fluid sealing products and the acquisition provides an exciting opportunity to extend our Seals activities in North America, consistent with the Group's strategy.

A further three bolt-on businesses were also acquired in the year for aggregate consideration of £20.0m net of acquisition expenses, and cash acquired. In October last year Gremtek, a small Interconnect business based in Paris, France was acquired for total consideration of £6.9m and in September this year both DMR Seals, based in Sheffield, UK and Sphere Surgical, based in Melbourne, Australia were acquired for initial consideration of £7.3m and £6.6m, respectively. These three businesses are good examples of Diploma bolt-on acquisitions which provide each of the Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering leading to increased value to shareholders.

Revenue bridge – FY2019 (£m)



GBP vs G10 currency basket

Return on adjusted trading capital employed and capital management

A key metric used to measure the overall profitability of the Group and its success in creating value for shareholders is the return on adjusted trading capital employed ("ROATCE"). At a Group level, this is a pre-tax measure that is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings. At 30 September 2019, the Group ROATCE of 22.9% (2018: 24.5%) was weakened slightly by new acquisitions this year but remained comfortably ahead of our 20% benchmark.

The Group continues to maintain a robust balance sheet with net debt of £15.1m at 30 September 2019, compared with cash funds of £36.0m last year. With undrawn facilities of ca. £54m available at 30 September 2019 and negligible debt leverage, the Group remains confident of seeking additional facilities up to a maximum of ca. 2 times adjusted EBITDA to fund further acquisitions in the new financial year.

The Board has a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. For 2019, the Board has recommended a final dividend of 20.5p per share (2018: 17.8p) making the proposed full year dividend 29.0p (2018: 25.5p). This represents a 14% increase in the proposed full year dividend with dividend cover remaining unchanged at 2.2 times adjusted EPS.

Impact of Brexit

At an operational level, the impact on the Group's businesses from the current uncertainty over the process and timing of the UK's exit from the European Union is not expected to be significant in terms of the Group's overall profitability. UK based revenues account for 28% of the Group's overall revenues and the UK businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited cross border sales activity.

The Group's financial results this year have been slightly impacted by macroeconomic instability caused by the delayed and uncertain timing of the intended exit from the European Union. This uncertainty has contributed to a weaker UK economy and to a substantial depreciation in UK sterling, particularly in the second half of the year. This has had a negative impact on the Group's operating profits, although the overall Group results this year have benefited on the translation of the results of the Group's overseas businesses into UK sterling.

A prolonged disruption at the UK's borders as a result of Brexit has the potential to impact the supply chain of the Group's UK businesses. In the first half of the year the Group's UK businesses extended the depth of inventories by ca. £2m from building inventory levels of their faster moving product lines which was successfully unwound by 30 September 2019. The Board will continue to monitor closely developments in the Brexit plans, but currently has no intention to re-build inventory levels.

Board of Directors

01

John Nicholas[1,3]

Chairman

Appointed: Joined the Board on 1 June 2013 and appointed Chairman on 21 January 2015.

Skills and experience: A Chartered Certified Accountant with a Masters degree in Business Administration from Kingston University, London. John has a wealth of business and commercial experience and spent much of his early career in technology-focused international manufacturing and service companies involved in analytical instruments, fire protection and food processing.

He has been Group Finance Director of Kidde plc (on its demerger from Williams Holdings) and of Tate & Lyle PLC.

External appointments: John is non-Executive Chairman of Porvair plc.

02

Johnny Thomson

Chief Executive Officer

Appointed: Joined the Board on 25 February 2019 as Chief Executive Officer.

Skills and experience: Johnny worked with Compass Group PLC for nine years to the end of 2018, with the last three years as Group Finance Director and a member of the Board of Compass Group PLC. He has also been Regional Managing Director of both Latin America and CAMEA (Central Asia, Middle East & Africa).

Johnny began his career at PricewaterhouseCoopers LLP after which he joined Hilton Hotels in a senior executive role. Johnny has lived and worked in Europe, North America, Asia and across Latin America.

External appointments: None.

03

Charles Packshaw[1,2,3]

Senior Independent Non-Executive Director

Appointed: Joined the Board on 1 June 2013 and appointed Senior Independent Director on 27 February 2015.

Skills and experience: Charles has over 30 years of City experience, including 15 years at HSBC where he was Head of UK Advisory and Managing Director in HSBC's global banking business. Prior to that, he was Head of Corporate Finance at Lazard in London. Charles has been a non-Executive Director of two listed companies and he is also a Chartered Engineer.

External appointments: Charles is Senior Independent non-Executive Director of BMT Group Limited, non-Executive Director at Fram Farmers Limited and Chair of Prostate Cancer UK.

04

Nigel Lingwood

Group Finance Director

Appointed: Joined the Company in June 2001 and appointed Group Finance Director in July 2001.

Will retire from the Board before 30 September 2020.

Skills and experience: Prior to joining the Company, Nigel was the Group Financial Controller at Unigate PLC where he gained experience of working in a large multinational environment and on a number of large corporate transactions. Nigel qualified as a Chartered Accountant with Price Waterhouse, London.

External appointments: None.

05

Anne Thorburn[1,2,3]

Non-Executive Director

Appointed: Joined the Board on 7 September 2015 and appointed Chair of the Audit Committee on 17 November 2015.

Skills and experience: Anne was Chief Financial Officer of Exova Group plc and has many years of experience at Board level in listed international groups. Anne was previously Group Finance Director at British Polythene Industries PLC. Anne is a member of the Institute of Chartered Accountants in Scotland.

External appointments: Anne is a non-Executive Director of TT Electronics plc.

06

Andy Smith[1,2,3]

Non-Executive Director

Appointed: Joined the Board and appointed Chairman of the Remuneration Committee on 9 February 2015.

Skills and Experience: Andy is Managing Director, Severn Trent Business Services with responsibility for the company's non-regulated businesses. He has many years of plc Board level experience having previously served on the Boards of The Boots Company PLC as Group HR Director and Severn Trent PLC as Water Services Director. Andy is a Mechanical Engineering graduate and has significant operational and HR experience. He has worked in the UK and overseas previously with global businesses including BP, Mars and Pepsi.

External Appointments: None.

Committee membership

1 Remuneration Committee
2 Audit Committee
3 Nomination Committee

01

02

03

04

05

06

Five Year Record

Year ended 30 September	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue	**544.7**	485.1	451.9	382.6	333.8
Adjusted operating profit	**97.2**	84.9	78.2	65.7	60.3
Adjusted profit before tax	**96.5**	84.8	77.5	64.9	59.6
Fixed assets	**29.4**	24.8	23.3	24.7	24.0
Working capital	**96.6**	75.2	68.4	63.4	59.9
Goodwill and intangible assets	**251.1**	182.1	176.8	169.8	129.5
Investment	–	0.7	0.7	0.7	0.7
Reported trading capital employed	**377.1**	282.8	269.2	258.6	214.1
Net (debt)/cash funds	**(15.1)**	36.0	22.3	10.6	3.0
Other liabilities	**(37.4)**	(24.5)	(24.7)	(31.4)	(22.3)
Net assets	**324.6**	294.3	266.8	237.8	194.8
Cash flow from operating activities	**92.3**	84.3	79.3	76.6	62.1
Free cash flow	**56.5**	60.5	55.7	59.0	40.3
Acquisition expenditure	**(78.3)**	(20.4)	(20.1)	(32.7)	(37.8)
	Pence	Pence	Pence	Pence	Pence
Adjusted earnings per share	**64.3**	56.4	49.8	41.9	38.2
Dividends per share	**29.0**	25.5	23.0	20.0	18.2
Net assets per share	**286.7**	259.9	235.6	210.0	172.0
	%	%	%	%	%
Adjusted operating margin	**17.8**	17.5	17.3	17.2	18.1
Working capital as percentage of revenue	**16.5**	15.1	15.0	16.6	17.0
Return on adjusted trading capital employed ("ROATCE")	**22.9**	24.5	24.0	21.1	23.9

The information above has been extracted from the audited Annual Report & Accounts of Diploma PLC and does not constitute statutory information. Diploma PLC uses alternative performance measures as key performance 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 ROATCE, as explained in note 2 and 3 to the consolidated financial statements in the Annual Report & Accounts.

Financial Calendar and Shareholder Information

Announcements (provisional dates)

First Quarter Statement released	15 January 2020
Annual General Meeting (2019)	15 January 2020
Second Quarter Statement released	25 March 2020
Half Year Results announced	11 May 2020
Third Quarter Statement released	27 August 2020
Preliminary Results announced	16 November 2020
Annual Report posted to shareholders	4 December 2020
Annual General Meeting (2020)	20 January 2021

Dividends (provisional dates)

Interim announced	11 May 2020
Paid	10 June 2020
Final announced	16 November 2020
Paid (if approved)	27 January 2021

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

Share Registrar – Computershare Investor Services PLC
The Company's Registrar is:
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
AJ Gallagher FCIS
Solicitor
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Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

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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
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London E14 5HP

HSBC Bank plc
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