

# DIPLOMA PLC

## Consistently delivering value

Diploma PLC  
Full Year Results for the Year Ended 30 September 2021

22 November 2021



# AGENDA

- 1 Overview
- 2 Financial performance
- 3 Strategy update

# Overview

**Johnny Thomson**  
Chief Executive Officer



**Windy City Wire**  
Controls Sector

# Significant progress in 2021

- Building high quality, scalable businesses for organic growth
- Brilliant management teams and colleagues navigating the pandemic
- Developing the organisation for scale
- Delivering Value Responsibly: ESG at the centre of our strategy
- Organic revenue initiatives and recovering demand driving strong growth for all Sectors
- Value-add model enabling us to manage labour/supply chain challenges, sustaining strong margins
- Portfolio development: 10 strategically important acquisitions
- Outstanding performance from Windy City Wire
- Strong financial results and balance sheet

**Well-positioned for long-term growth at sustainably high margins**

# Delivering Value Responsibly

## Our Colleagues

- Brilliant leadership in our businesses
- High Engagement Survey index score of 79%
- Safe-working practices, flexible working and mental health awareness

## Our ESG Priorities

- Clearly defined framework, priorities and measures
- Positive Impact Revenue integral to our growth
- Active management of a sustainable supply chain
- Increasingly embedded in commercial and operational strategy

**Strong business engagement with our DVR agenda**

---



Please Keep Safe  
Maintain 2m Distance

**Positive Impact:**  
Developing the main-bearing seals for the world's largest wind turbine

---



# Results

Revenue growth

**46%**

Model:  
**10%+**

Underlying  
revenue growth

**12%**

Model:  
**5%**

Adjusted operating  
profit margin

**18.9%**

Model:  
**17%+**

Adjusted EPS  
growth

**51%**

Model:  
**Double digit**

Free cash flow  
conversion

**103%**

Model:  
**ca.90%+**

Net debt / EBITDA

**1.1x**

Model:  
**<2.0x**

ROATCE

**17.4%**

Model:  
**High teens**

Dividend cover

**2.0x**

Model:  
**ca. 2x**

**A strong performance**

# Financial performance

**Barbara Gibbes**  
Chief Financial Officer

Somagen, Canada  
Life Sciences Sector



# Financial Highlights

Strong financial performance

Revenue



**£787.4m**

2020: £538.4m

**+46%**

Adjusted  
operating profit



**£148.7m**

2020: £87.1m

**+71%**

Adjusted  
operating margin



**18.9%**

2020: 16.2%

**+270**<sub>bps</sub>

Free cash flow  
conversion



**103%**

2020: 113%

Net debt/EBITDA

**1.1x**

2020: net cash

ROATCE



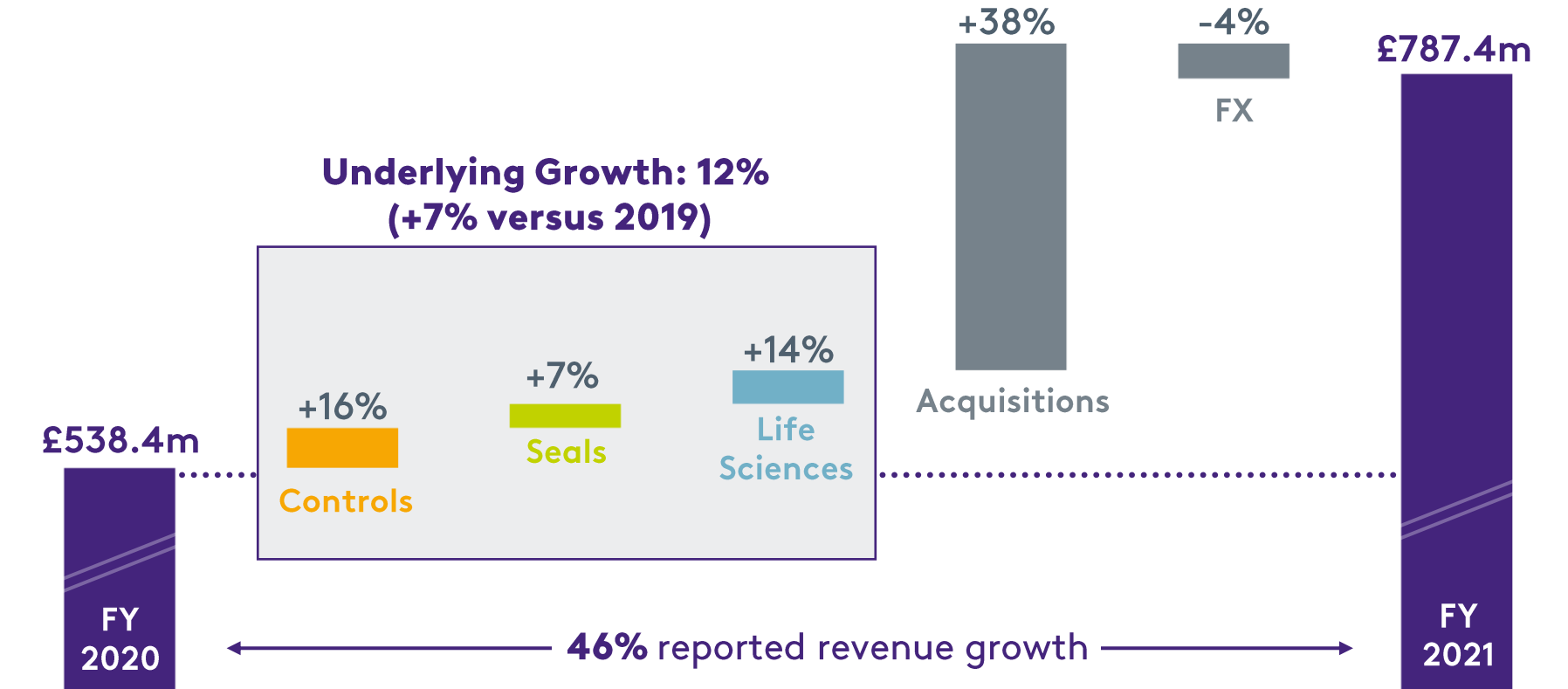
**17.4%**

2020: 19.1%



# Revenue

Year ended 30 September

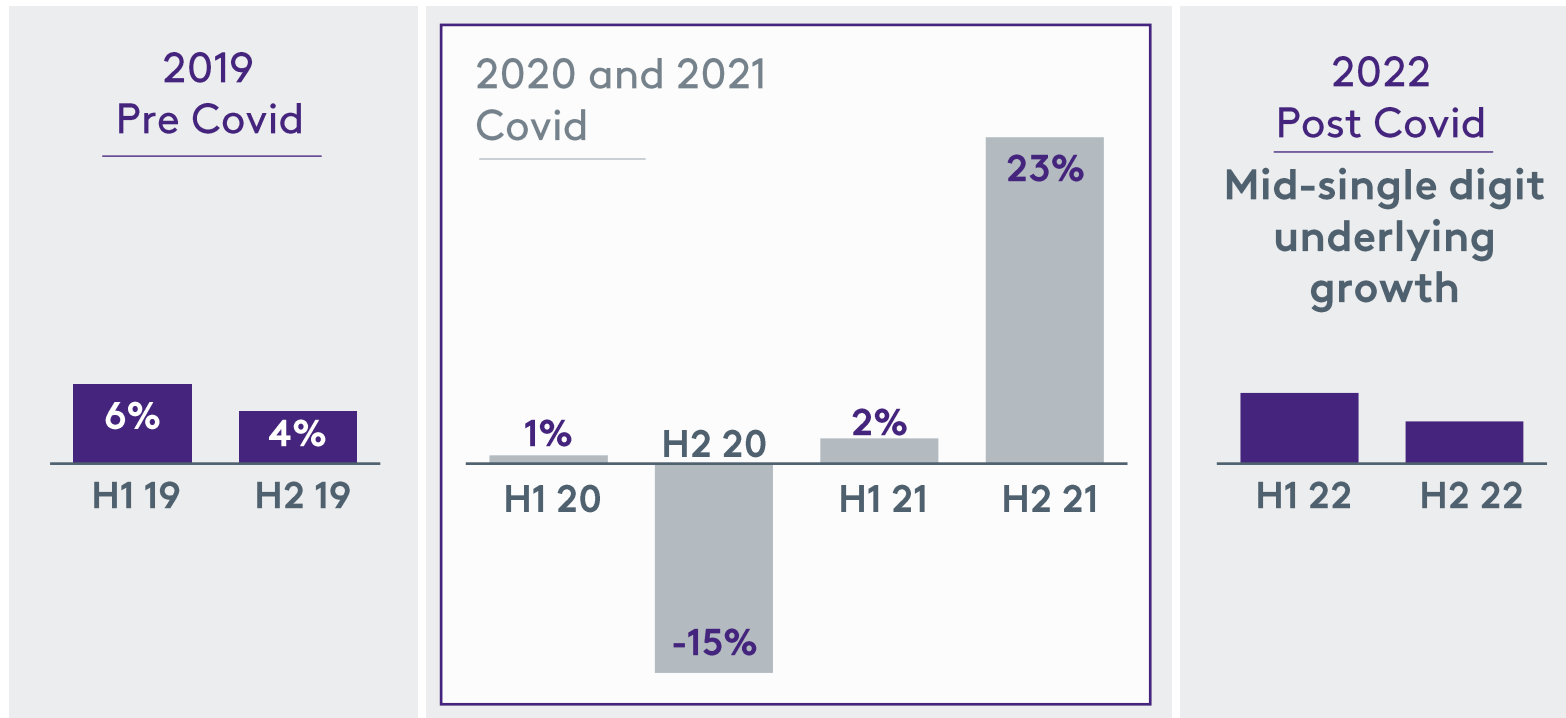


**Strong underlying growth in all three Sectors**

# Underlying revenue profile through Covid

Year ended 30 September

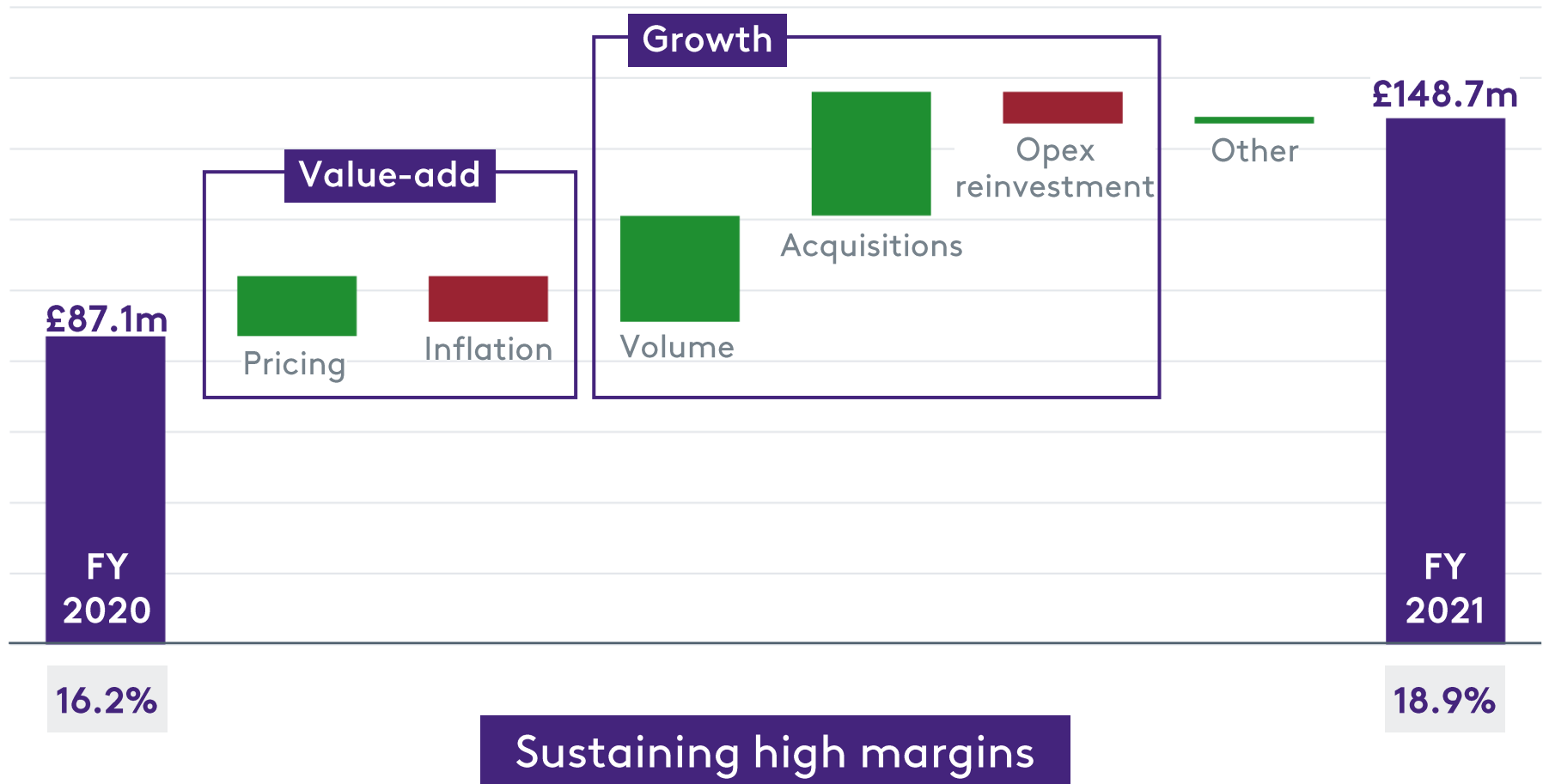
## Underlying revenue growth (%)



**Sustaining mid-single digit underlying growth**

# Adjusted operating profit

Year ended 30 September



# Sector performance

## Controls



45%

Revenue: £343.3m

+16%

Underlying

+119%

Reported

Adj operating profit: £72.4m

21.1%

Margin

+480bps

Year on year

- International Controls underlying growth 8%
- WCW underlying growth 26%
- Margin +480bps:
  - Full year benefit of FY 2020 restructuring
  - WCW accretion
  - Operational leverage

## Seals



32%

Revenue: £263.7m

+7%

Underlying

+9%

Reported

Adj operating profit: £46.5m

17.6%

Margin

+90bps

Year on year

- North American Seals underlying growth 5%
- International Seals underlying growth 9%
- Margin +90bps:
  - Operational leverage
  - Investment in growth

## Life Sciences



23%

Revenue: £180.4m

+14%

Underlying

+29%

Reported

Adj operating profit £43.2m

23.9%

Margin

+210bps

Year on year

- Underlying growth 14%, including £9m of ventilator sales
- Margin +210bps:
  - Travel-related cost savings
  - Operational leverage
  - Acquisition accretion

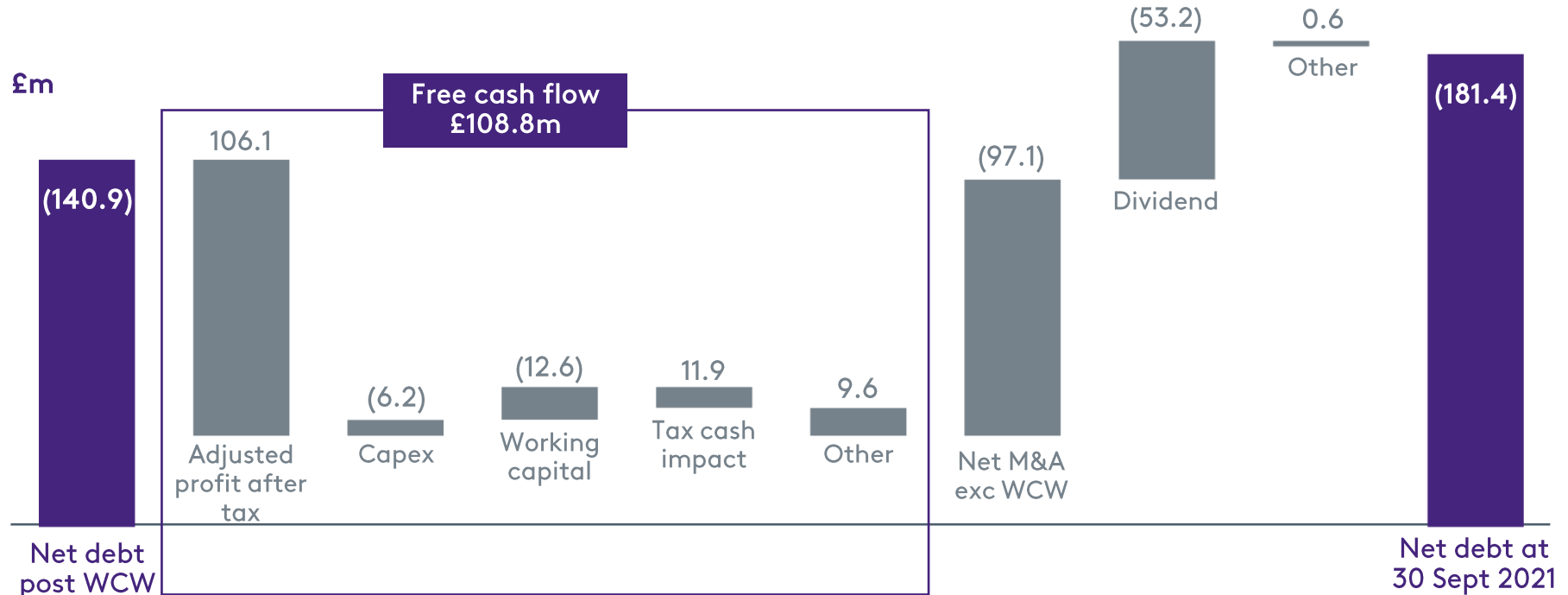
# Income statement

Year ended 30 September

	2021 £m	2020 £m	Change
Revenue	787.4	538.4	+46%
Adjusted operating profit	148.7	87.1	+71%
Adjusted operating margin (%)	18.9%	16.2%	+270bps
Interest expense	(6.8)	(2.7)	
Adjusted profit before tax	141.9	84.4	+68%
<i>Adjusted effective tax rate</i>	25.4%	24.0%	
Adjusted profit after tax	106.1	64.5	+64%
Adjusted earnings per share	85.2p	56.4p	+51%
Total dividend per share	42.6p	30.0p	+42%

**Adjusted EPS +51%**

# Net debt and cashflow



Free cash flow  
conversion: 103%

target:  
**ca.90%+**

Net debt/EBITDA: 1.1x  
(0.8x pre Q4 M&A)

target:  
**<2.0x**

**Strong balance sheet to support future growth**

# M&A: disciplined portfolio development

## Acquisitions excluding WCW

	No. of acquisitions			Acquisition spend		
	H1	H2	FY	H1	H2	FY
Controls	1	3	4	£3m	£38m	£41m
Seals	2	-	2	£16m	-	£16m
Life Sciences	1	2	3	£31m	£17m	£48m
	4	5	9	£50m	£55m	£105m

Average  
acquisition  
multiple  
**ca. 7x**

- Acquisitions – annualised revenues of ca. £90m
- Two small non-core disposals
- FY 2022: net impact of M&A adds ca. 5% to revenue

# Current trading and guidance

## Current trading

- Supply chain disruption / inflation under close management
- Access to labour and wage inflation under close management
- Continued good growth into 2022

## Positive outlook

- Mid-single digit underlying revenue growth, in-line with our financial model, H1 weighted
- Acquisitions and disposals add ca. 5% to revenue
- Sustainable margin: adjusted operating margin around 2021 level at 18% to 19%
- Cash conversion in-line with financial model

**Sustainable growth and margins**



# Strategy update

**Johnny Thomson**  
Chief Executive Officer

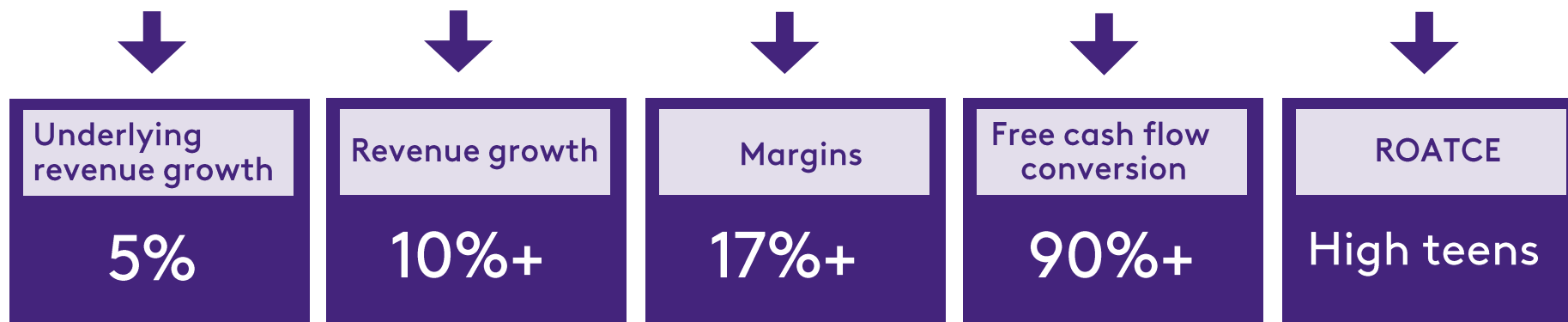


**Louisville**  
Seals Sector

# Strategy:

## A Reminder

- Building high-quality, scalable businesses for long-term organic growth
- Diversifying and scaling our businesses through market penetration/product extension
- Portfolio: disciplined acquisitions to focus on key scalable businesses
- Developing the Core Competencies of our value-add business model to maintain high margins
- Incremental investment in talent, technology and facility to execute at scale
- Build the structures and culture to deliver the model
- Delivering Value Responsibly at the centre of our strategy



# Significant growth runway

## Significant Market Opportunity

- ✓ Under-penetrated in large developed economies
- ✓ Expanding addressable market = adjacent product categories
- ✓ Fragmented market = significant acquisition opportunity

## Businesses

- ✓ Diversify revenue streams, particularly in structurally high growth end segments
- ✓ Route to Market core competency development
- ✓ Executing the business model at scale: Core Competencies and Capability

## Group Portfolio Focus

- ✓ Focus on scalable businesses in each Sector
- ✓ Developing management structure to sustain scale
- ✓ Disciplined approach to acquisitions and disposals

**Sustainable double-digit growth**

# Controls



Revenue

**£343m** +119% y/y  
+16% underlying

Margin

**21.1%**

% of Group revenue\*

45%

Sector revenue mix\*



\* Pro forma

## Strategy: significant growth runway

- **Structurally positive end segments:** technology, renewables, infrastructure
- **Diversify** businesses by end segment, product, geography
- Build **scale in US/Europe/UK** in Interconnect, Specialty Fasteners, Wire & Cable
- Material new **business line opportunities**

## Progress in 2021

- Strong recovery in International Controls through **product/customer diversification**
- **WCW:** US scale, fast-growing end segments and market share potential
- **H2 acquisitions** (AHW/SWA) build scale/diversification in Specialty Fasteners and Wire & Cable
- Adhesives: Techsil acquisition starts **exciting new business line**

# Seals



Revenue

£264m

+9% y/y  
+7% underlying

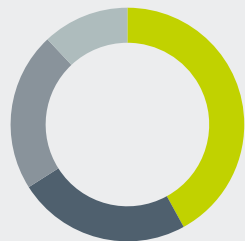
Margin

17.6%

% of Group revenue\*



Sector revenue mix\*



● International Seals	42%
● N. American Aftermarket	24%
● US Industrial OEM	22%
● US MRO	12%

\* Pro forma

## Strategy: significant growth runway

- **Structural tailwinds:** US and European infrastructure/ renewables investment
- **Louisville:** accelerate US Aftermarket share gains
- Develop **US OEM/MRO scale** through acquisitions in key industrial regions
- **US product and end segment diversification**
- Portfolio: build scale in the best markets in Europe and Australia

## Progress in 2021

- **Strong underlying growth** of 7% after a resilient 2020
- **Successful transition** to Louisville facility
- **Acquisitions** in OEM/MRO in US (PDI) and Australia (FITT) building scalable platforms for growth
- Disciplined **portfolio management** : Kentek disposal

# Life Sciences



Revenue

**£180m** +29% y/y  
+14% underlying

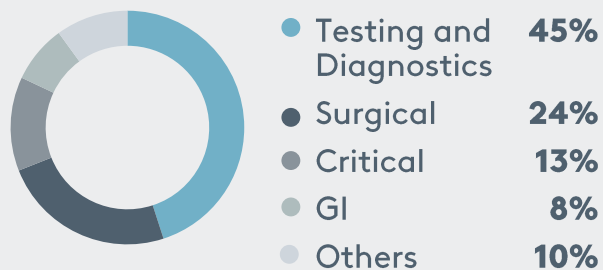
Margin

**23.9%**

% of Group revenue\*



Sector revenue mix\*



\* Pro forma

## Strategy: significant growth runway

- **Structural growth** drivers: surgical backlog, increasing diagnostics investment
- **Product lifecycle management:** build resilience and scale
- Develop **new healthcare segments**
- Build out **Europe** as 'third leg'

## Progress in 2021

- **Product pipeline** in surgical/diagnostics underpins strong growth
- **Diversifying and growing** in urology, obesity, gynaecology
- **Europe:** acquisitions of quality Scandinavian businesses S&W/Kungshusen
- Disciplined **portfolio management:** a1-CBISS disposal

# Positive Impact: Growing Responsibly

## US MRO: pollution control

Gasket leak calculator enables customers to prevent pollution and leakage



## Healthcare: life saving diagnostics

Diagnostic solutions to effectively identify life threatening illnesses



## WCW: safety

Making buildings safer – access and security – and keeping first responders connected



## Positive Impact Revenue



- Health & wellbeing
- Safe & sustainable communities
- Waste & pollution management
- Other

## Well-positioned for future investment

- Preventative medicine = diagnostics
- Surgical backlog
- Renewable energy in Seals
- Electrification and digital connectivity in Controls

Responsible growth

# Acquisitions to accelerate our strategy

## Key attributes

- Value-add servicing, high gross margins
- Accessing organic growth with scale potential
- Capable, established management teams

## How we add value to businesses

- Underlying growth (investment)
- Careful cross selling
- Management expertise, sharing best practice
- Some scale/integration benefits

## Strategic/disciplined approach

- Portfolio focus on scalable businesses
- Structured market mapping and relationships
- Strong focus on ROATCE

### Windy City Wire

- Value-add distributor of premium, low-voltage cable
- Acquired October 2020 for consideration of up to £357m
- Outperforming our acquisition case

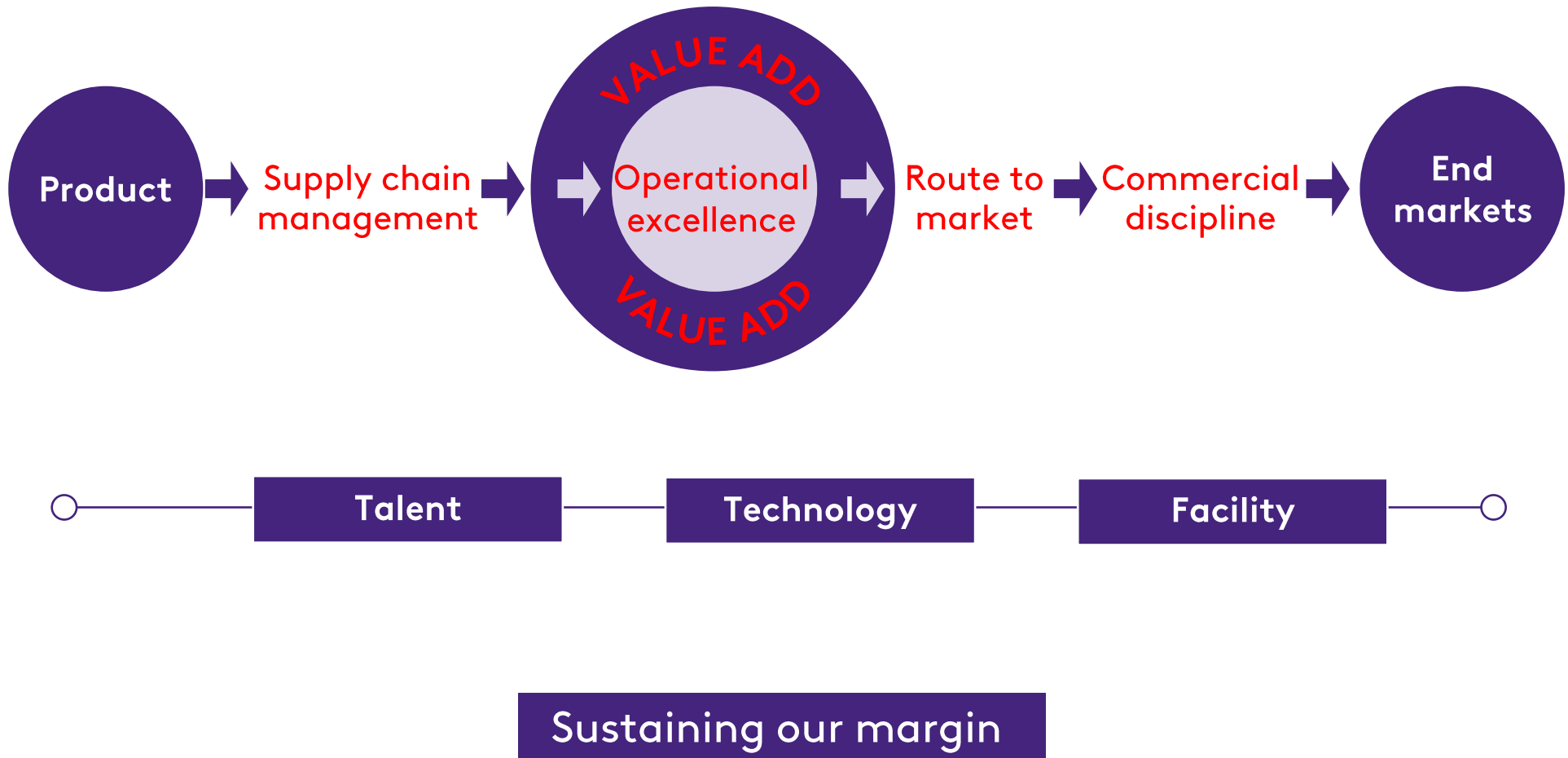


Acquisitions driving future organic growth



# Operational strategy:

Executing our value-add model at scale....



# Core competencies:

## Continuous improvement

### Route to market

- Defining / growing / prioritising addressable markets in key business lines
- Positioning in structural growth end segments, including Positive Impact
- B2B sales process and capability
- Digitalisation

### Supply chain

- Proactive procurement processes
- Category management
- Environmental & social criteria for partnership

### Operational excellence

- Standard core warehouse processes/systems
- Machining and automation
- Health & Safety culture
- Waste and emissions reduction

**Strategic, structured, systematic execution at scale**

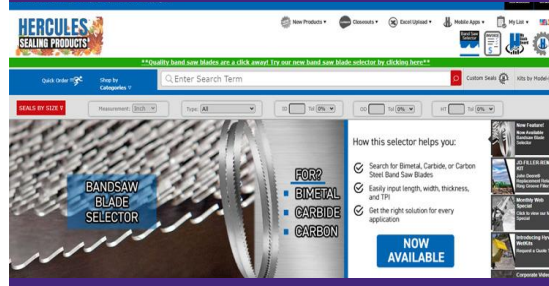
# Evolving our capability for scale: Talent, Technology, Facility

## Talent



- Developing the organisational structure for scale
- Development, succession planning, talent management processes
- Evolving sales, supply chain, finance capability
- Colleague engagement: communication, flexible working, mental health, diversity

## Technology



- Measured and decentralised approach
- E-commerce: leverage webstore capability
- Digitalising operations: warehouse management and financial backbone

## Facility



- Upgrading facilities for scale and environmental considerations
- Machining and automation
- Careful network consolidation

# Delivering Value Responsibly: Operationalising ESG

## Our Colleagues

- ✓ Colleague engagement index

## Health & Safety

- ✓ Lost time incident rate

## Diversity, Equity & Inclusion

- ✓ Gender representation on senior management team
- ✓ Ethnic minority representation on senior management team

## Supply Chain

- ✓ Supplier Code

## Environment

- ✓ Carbon intensity ratio
- ✓ Waste intensity ratio

## Good progress with Group-wide framework and KPIs

- Priorities defined
- Excellent business engagement
- Metrics embedded in reporting

## Next steps in FY 2022:

- Set targets
- Start to measure supplier compliance with Code
- Extend metrics to include waste and ethnic minority representation
- Define pathway and timeline to net zero
- Drive business activity/performance against the metrics

# Concluding remarks

- An excellent year of progress
- Very strong results
- Significant long-term growth potential
- Developing our value-add business model to sustain our margins
- Evolving the organization for scale
- Embedding DVR at the centre of our strategy
- Positive outlook for 2022 performance

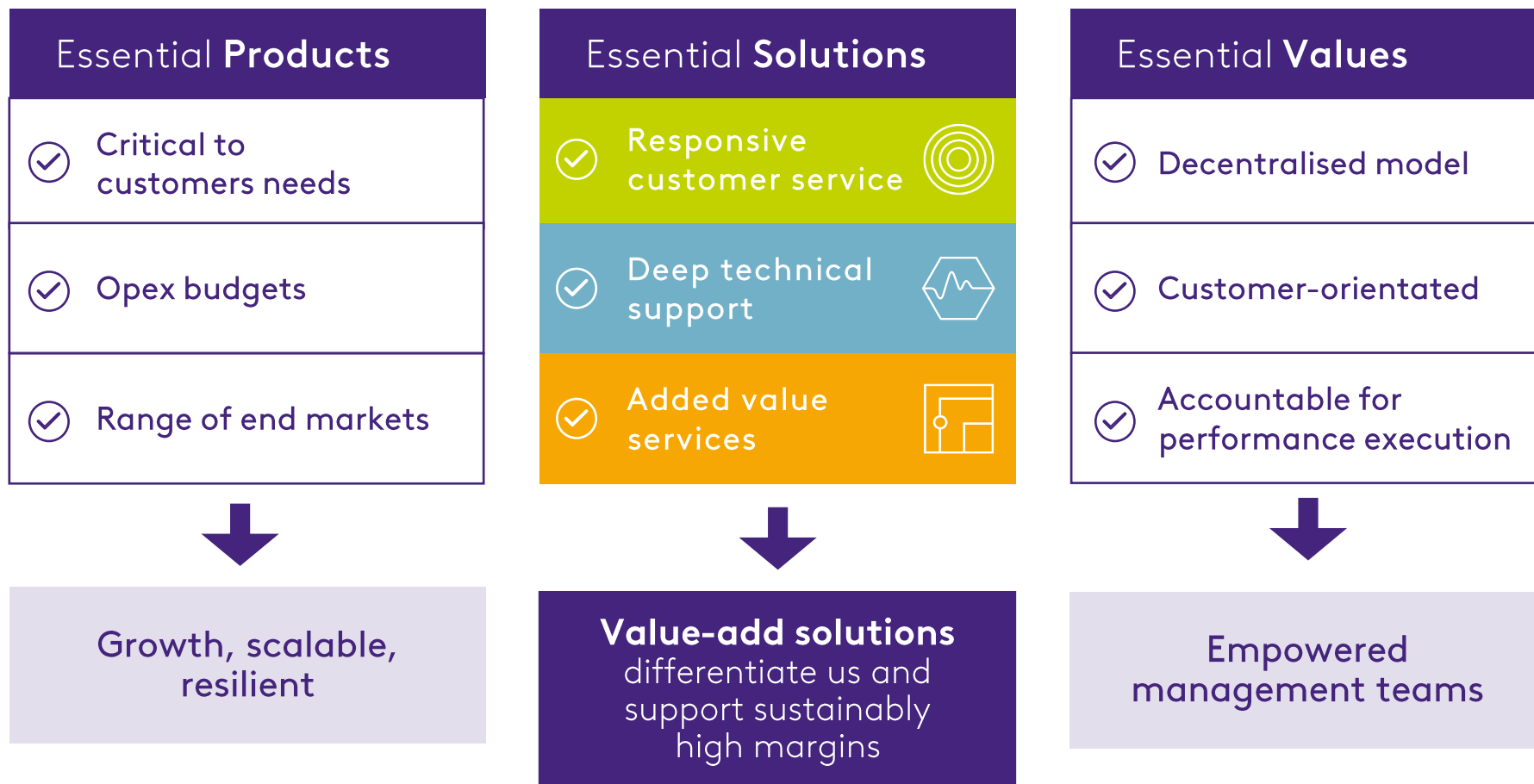
**Well-positioned for long-term growth at sustainably high margins**

# Appendix



**IS Group**  
Controls Sector

# Value-add servicing supports differentiation



# Delivering Value Responsibly



## Positive Impact Revenue

Positioning ourselves for commercial growth with a positive impact on society and the environment



## Sector revenue and profit

	Revenue		
	2021 £m	2020* £m	Change
Controls	343.3	156.6	+119%
Seals	263.7	242.1	+9%
Life Sciences	180.4	139.7	+29%
<b>Group</b>	<b>787.4</b>	<b>538.4</b>	<b>+46%</b>

Underlying growth	
2021 %	2020 %
+16%	-14%
+7%	-5%
+14%	-4%
<b>+12%</b>	<b>-7%</b>

	Adjusted operating profit		
	2021 £m	2020* £m	Change
Controls	72.4	25.5	+184%
Seals	46.5	40.5	+15%
Life Sciences	43.2	30.4	+42%
Central costs	(13.4)	(9.3)	+44%
<b>Group</b>	<b>148.7</b>	<b>87.1</b>	<b>+71%</b>

Adjusted operating margin		
2021 %	2020* %	Change
21.1	16.3	+480bps
17.6	16.7	+90bps
23.9	21.8	+210bps
-	-	-
<b>18.9</b>	<b>16.2</b>	<b>+270bps</b>

\* Re-presented to show central corporate costs separately in line with current year presentation

# Balance sheet

	2021 £m	2020 £m
Goodwill and acquisition intangible assets	605.6	246.2
Tangible and other intangible assets	38.8	30.9
Net lease liabilities	(3.4)	(2.1)
Net working capital	120.6	86.6
Asset held for sale	11.3	-
<b>Trading capital employed - reported</b>	<b>772.9</b>	<b>361.6</b>
<i>Working capital as % of revenue</i>	<i>15.8%</i>	<i>16.0%</i>
<i>ROATCE</i>	<i>17.4%</i>	<i>19.1%</i>
Retirement benefit obligations	(4.9)	(18.3)
Acquisition liabilities	(23.7)	(11.5)
Cash funds/(net bank debt)	(181.4)	206.8
Minority interests and deferred tax, net	(26.6)	(11.6)
<b>Total shareholders' funds (excluding minority interests)</b>	<b>536.3</b>	<b>527.0</b>

# Financial KPIs

Five year trends

	2021	2020	2019	2018	2017
<b>Revenue</b>	£787.4m	£538.4m	£544.7m	£485.1m	£451.9m
<i>Total growth</i>	+46%	-1%	+12%	+7%	+18%
<i>Underlying growth</i>	+12%	-7%	+5%	+7%	+7%
<b>Adjusted operating margin</b>	18.9%	16.2%	17.8%	17.5%	17.3%
<b>Working capital (% revenues)</b>	15.8%	16.0%	16.5%	15.1%	15.0%
<b>Free cash flow</b>	£108.8m	£72.5m	£56.5m	£60.5m	£55.7m
<i>Free cash conversion (%)</i>	103%	113%	78%	95%	99%
<b>ROATCE</b>	17.4%	19.1%	22.9%	24.5%	24.0%

**Average  
over  
five years:**

CAGR revenue  
growth

**16% p.a.**

Adjusted  
operating margin

**17.5%**

ROATCE

**22%**

Free cash flow  
conversion

**97%**