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It is a great pleasure to present my first statement as Chair of Diploma. As you will see throughout this report, my first year has covered a period of considerable achievement and strategic progress. When I was appointed, I felt proud to be joining an organisation with exciting opportunities, a differentiated value-added model delivering sustainable growth and great people. During my first year, I have not been disappointed – I have been impressed by the power of our decentralised model and the pride our employees take in their jobs. Our businesses have strong cultures, but share the same inherent values – they are accountable, entrepreneurial and empowered to deliver critical services and products for their customers.

Very strong financial performance, excellent strategic progress

The Group has delivered another very strong financial performance, with double-digit organic revenue growth and consistent strong operating margins translating into 26% growth in adjusted earnings per share (EPS). Our 15% organic growth shows that our strategy and growth frameworks continue to produce results. We are also seeing growth in a number of areas aligned with positive impact, demonstrating that our businesses are embedding Delivering Value Responsibly, our ESG programme, into their commercial strategies. It has been another busy year for acquisitions, with seven high-quality businesses joining the Group; these will accelerate our future organic growth. In particular, I am very pleased to welcome Accuscience and R&G Fluid Power Group, both exciting additions.

Given the challenges of the external operating environment, sustaining our adjusted operating margin at 18.9% is a great achievement and reflects both our differentiated value-added servicing model and the hard work of colleagues across the Group.

Ensuring the sustainability of our growth is paramount, and the team has continued to build scale, investing across our businesses and the Group to ensure we can continue to deliver for customers as we grow. Throughout this, we remain financially disciplined, maintaining high-teens ROATCE of 17.3%, and our strong balance sheet allows us to invest in growth. I would like to thank the management team and all of our businesses for another great year at Diploma.

Colleagues and culture

As a customer-service organisation, our colleagues are critical to our success. Since joining, I have really enjoyed visiting the businesses and meeting colleagues. I have been impressed by their commitment to their customers, and the great sense of loyalty they feel for their businesses. This is underlined by the very positive results of this year's Colleague Engagement Survey. The Board remains committed to ensuring Diploma is a diverse and inclusive organisation and is pleased to have set targets for 2023 that we will continue to evolve and drive forward. I look forward to meeting more of our people in the year ahead.

Our Group Colleague Engagement Survey continues to show excellent levels of engagement. The learnings from this survey will inform future actions and activity to ensure colleagues continue to view Diploma as a great place to work. The results and learnings were also discussed by the Board, helping to shape and inform our views on culture and diversity.

Diploma's culture continues to be critical to accelerating our strategy, aligning decentralised businesses and providing competitive advantage. The Board is very conscious of its role in fostering and monitoring this positive culture. Although, as a decentralised Group, there isn't one, single culture, all of our businesses share core values. Alongside our strong, local cultures, we are steadily building Diploma networks based on best practice and knowledge sharing.

While we have much more to do, we are increasingly leveraging the collective power of the Group whilst maintaining local agility.

Board changes

After nearly nine years on the Board, John Nicholas stepped down from the role of Chair and the Board in January 2022. The Board and I would like to thank John for his support, and I look forward to building on all that he achieved during his tenure.

Barbara Gibbes stepped down from the Board and the role of Chief Financial Officer on 30 September 2022. On behalf of the Board, I would like to thank Barbara for her leadership and dedication. The Nomination Committee led a thorough selection process and, in August 2022, we announced the appointment of Chris Davies as Chief Financial Officer. Chris joined us on 1 November 2022, bringing a wealth of experience and an excellent track record of leadership in decentralised, service-led, multinational organisations.

Two of our independent Non-Executive Directors, Anne Thorburn and Andy Smith, are due to retire from the Board in 2024 at the end of their third and final terms. As per our standing succession planning, we have already commenced the search to ensure successors are appointed in time for an orderly handover. Further information on this and the diversity of the Board can be found in the Nomination Committee Report. It remains our intention that the diversity of the Board will increase over time.

Dividends

The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with growth in adjusted EPS. The combination of very strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a 29% increase in the final dividend to 38.8p (2021: 30.1p) taking the total dividend to 53.8p (2021: 42.6p). This represents dividend cover of 2x. Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 3 February 2023 to shareholders on the register at 20 January 2023 (ex-div 19 January 2023).

Outlook

The Group started the new financial year from a position of strength. While the wider backdrop is one of macroeconomic uncertainty and volatility, the achievements of the last three years mean that our Group is larger, more diverse and therefore more resilient than ever. We have a differentiated, value-added business model, a proven strategy for delivering sustainable growth, and great teams.

On behalf of the Board, I would like to take this opportunity to thank all of our colleagues for their welcome contribution to our success over the last year and, personally, for giving me such a warm welcome.

David Lowden
Chair

