

Half Year Announcement

Six Months ended 31 March 2014

12 May 2014



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LIFE SCIENCES



SEALS



CONTROLS



1. Overview of Results



The Diploma Investment Case



**GDP+ ORGANIC
REVENUE GROWTH**

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



**ATTRACTIVE
MARGINS**

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



**ACQUISITIONS TO
ACCELERATE GROWTH**

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



STRONG CASH FLOW

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



VALUE CREATION

We aim to create value by consistently exceeding 20% ROTCE

CLEAR AND PROVEN STRATEGY FOR GROWTH

Overview of Half Year

- > Strong underlying performance across all three Sectors
- > Significant currency headwinds from exchange rate movements:
 - > Strengthening of UK sterling has impacted the results of the overseas businesses (75% of Group revenues) on a *translational* basis
 - > Weakening of C\$ and A\$ against US\$ and Euro also impacting Healthcare businesses on a *transactional* basis
- > Acquisition spend higher than last year, but below target levels - held back by lengthy transaction and due diligence processes
- > Strong cash flow as Group's Investment for Growth programme reaches final stages; increased dividend reflects confidence in future growth



2. Half Year Highlights



Half Year Results

Six Months ended 31 March

	2014	2013	
Revenue	£148.6m	£139.7m	+6%
Adjusted operating profit	£27.8m	£27.0m	+3%
Adjusted operating margin	18.7%	19.3%	
Adjusted profit before tax	£27.6m	£26.9m	+3%
Free cash flow	£13.0m	£12.1m	+7%
Adjusted earnings per share	17.5p	17.0p	+3%
Total dividends per share	5.4p	5.0p	+8%

Financial Highlights

- > Underlying revenue and adjusted operating profit up by 9% and 7% respectively, after adjusting for currency effects and acquisitions
- > Significant strengthening in UK sterling limited growth in reported revenue and adjusted operating profit to 6% and 3%, respectively
- > Adjusted profit before tax and EPS both up by 3% to £27.6m and 17.5p, respectively
- > Free cash flow up by 7% to £13.0m helped by lower capital expenditure as Group's Investment for Growth programme reduces
- > Acquisition expenditure of £11.4m; net funds of £8.0m at the end of March
- > Interim dividend up by 8% to 5.4p per share

Foreign Exchange

Average rates in UK Sterling	H1 2014	H1 2013	
US\$	1.65	1.58	+4%
C\$	1.78	1.58	+13%
Euro	1.20	1.20	+0%
A\$	1.82	1.52	+20%

- > Translational impact on Half Year results has been to reduce Group revenues and adjusted operating profit by £7.3m and £1.8m respectively

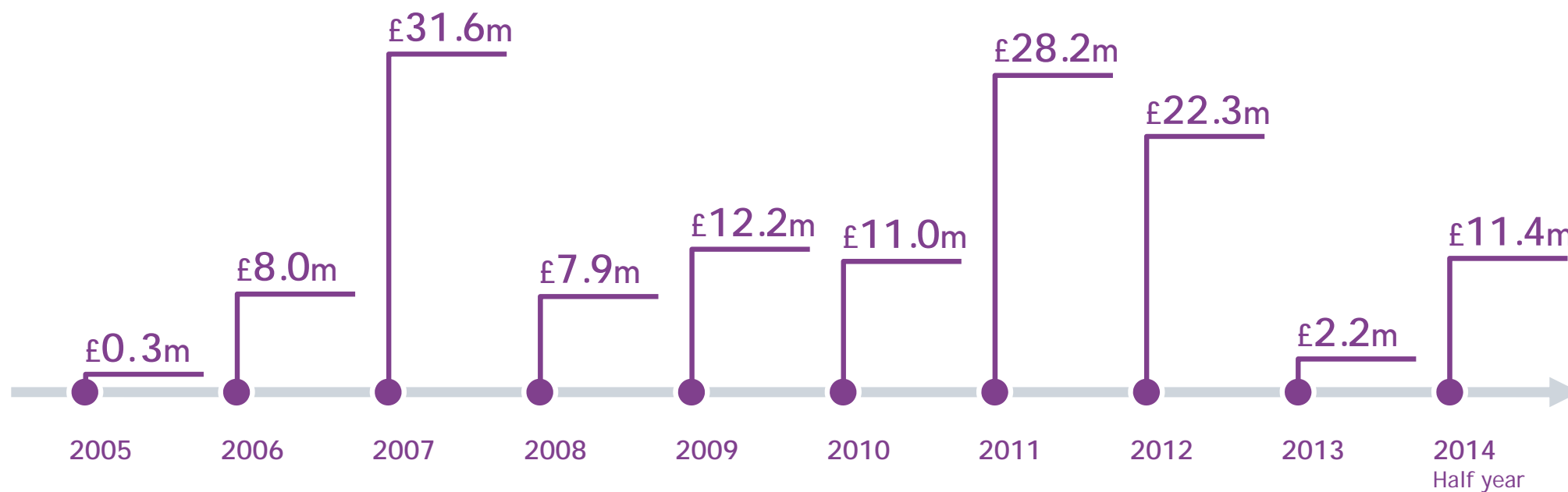
Operational Highlights

- > Life Sciences underlying revenues up by 10% with good growth in both Healthcare and European Environmental businesses
- > Seals underlying revenues up by 5% reflecting strong performance from Industrial OEM businesses and modest growth in Aftermarket businesses
- > Acquisition of Kentek Oy extends reach of Group's Aftermarket Seals businesses to Finland, Russia and Baltic States
- > Controls underlying revenues up by 11% reflecting a strong recovery in UK and German markets and Aerospace and Motorsport sectors in particular
- > Group's Investment for Growth programme substantially complete (Canadian Healthcare ERP project ongoing) with benefits starting to accrue in H2

Acquisitions

- > Acquisitions remain an integral part of the Group's growth strategy
- > £11m spent on acquisitions in Half Year:
 - > Kentek Oy - extension of Aftermarket Seals into Finland, Russia and Baltic States
 - > Ramsay Services & AB Seals - small bolt-on acquisitions in Seals
 - > Sacee - small bolt-on acquisition in Controls
 - > DSL - 6% minority shareholding; remaining 14% to be acquired in H2
- > Promising pipeline of opportunities and additional resources in place
- > Lengthy transaction and due diligence processes continue to delay completions

Acquisition Spend





3. Financial Results



Profit Before Tax

Six Months ended 31 March

	2014 £m	2013 £m	
Revenue	148.6	139.7	+6%
Adjusted operating profit	27.8	27.0	+3%
<i>Operating margin</i>	<i>18.7%</i>	<i>19.3%</i>	
Net interest expense	(0.2)	(0.1)	
Adjusted profit before tax	27.6	26.9	+3%
Acquisition related charges	(3.4)	(2.8)	
Fair value remeasurements	-	(0.3)	
Reported profit before tax	24.2	23.8	+2%

Underlying Results

Six Months ended 31 March

		Revenue £m	Adjusted operating profit £m
As reported - HY2014		148.6	27.8
Forex	Translation	7.3	1.8
Acquisitions	Kentek, Ramsay, AB Seals, Sacee	(3.9)	(0.5)
	Rayquick	(0.2)	(0.1)
Underlying - HY2014		<u>151.8</u>	<u>29.0</u>
As reported - HY2013		139.7	27.0
Increase in underlying results		9%	7%

Taxation

Six Months Ended 31 March

	2014 £m	2013 £m	
Adjusted profit before tax	<u>27.6</u>	<u>26.9</u>	
Reported taxation	(7.2)	(7.1)	
Adjustments	<u>(0.5)</u>	<u>(0.5)</u>	
Adjusted tax	<u>(7.7)</u>	<u>(7.6)</u>	
<i>Effective adjusted tax rate</i>	<i>27.9%</i>	<i>28.3%</i>	
Earnings per share			
Adjusted	17.5p	17.0p	+3%
Basic (Reported)	<u>14.9p</u>	<u>14.7p</u>	+1%

Free Cash Flow

Six Months ended 31 March

	2014 £m	2013 £m	
Adjusted operating profit	27.8	27.0	
Depreciation	1.2	1.2	
Working capital	(6.6)	(4.2)	
Pension and share schemes, net	0.2	0.4	
Operating cash flow	22.6	24.4	-7%
Interest paid, net	(0.1)	(0.2)	
Taxation	(7.0)	(8.9)	
Capital expenditure, net	(0.7)	(2.6)	
Purchase of own shares	(1.8)	(0.6)	
Free cash flow	13.0	12.1	+7%

Net Funds

Six Months ended 31 March

	2014 £m	2013 £m
Free cash flow	13.0	12.1
Acquisition cash paid	(11.3)	(1.5)
Deferred consideration	(0.1)	-
Dividends	(12.2)	(11.7)
	<u>(10.6)</u>	<u>(1.1)</u>
Net funds brought forward	19.3	7.9
Exchange adjustments	(0.7)	0.5
Net funds	<u>8.0</u>	<u>7.3</u>
<i>Comprising:</i>		
Cash funds	13.0	14.3
Borrowings	<u>(5.0)</u>	<u>(7.0)</u>

Shareholders' Funds

	31 Mar 2014	30 Sept 2013
	£m	£m
Goodwill	78.8	78.5
Acquisition intangible assets	29.7	26.7
Investment	0.7	0.7
Tangible assets	13.8	14.7
	<u>123.0</u>	<u>120.6</u>
Net working capital	54.3	47.8
Trading capital employed	177.3	168.4
Retirement benefit obligations	(4.5)	(4.7)
Deferred tax, net	(2.3)	(1.7)
Future purchases of minorities	(4.0)	(2.8)
Deferred consideration	(1.1)	(0.2)
Net funds	8.0	19.3
	<u>173.4</u>	<u>178.3</u>
less: minority interests	(2.8)	(1.4)
Total shareholders' equity	<u>170.6</u>	<u>176.9</u>



4. Business Review and Outlook



Our Sectors

Revenue by Sector and Destination



LIFE SCIENCES

31% of group revenues

338 employees

68% Canada

19% Europe

13% Rest of World



SEALS

37% of group revenues

632 employees

71% North America

20% Europe

9% Rest of World



CONTROLS

32% of group revenues

305 employees

57% UK

34% Europe

9% Rest of World

Life Sciences

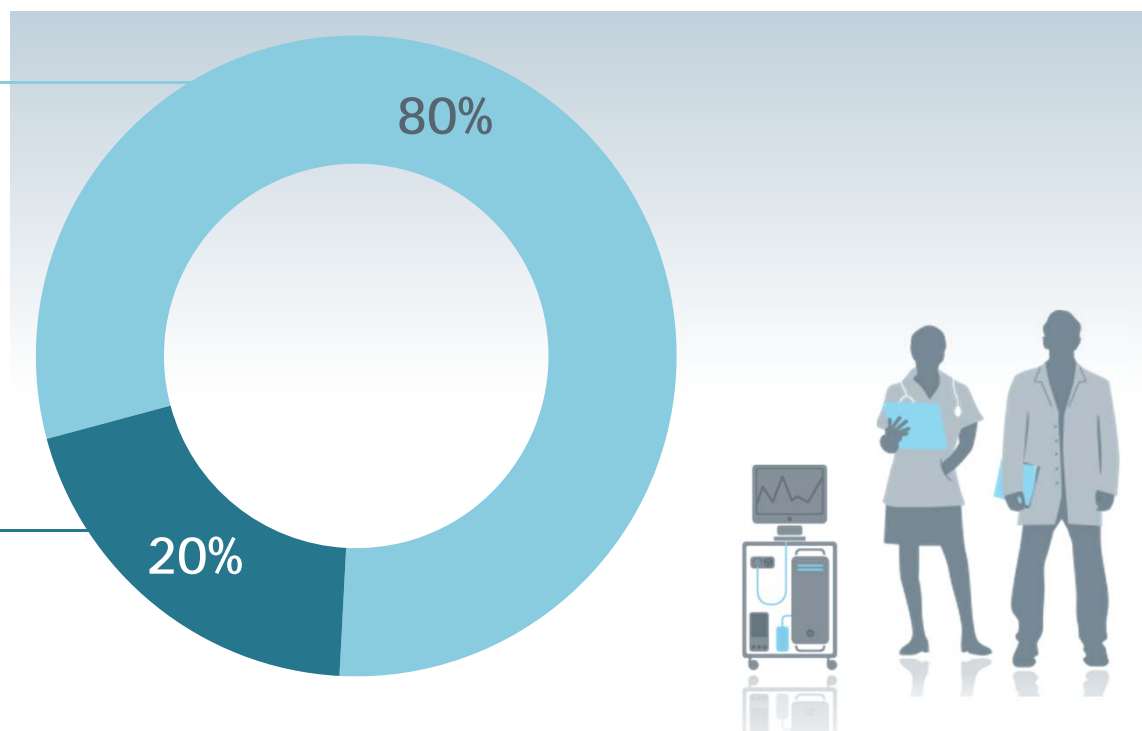
Segmentation

Healthcare

Diploma Healthcare Group (“DHG”) supplies medical devices and related consumables and services to the healthcare industries in Canada and Australia

Environmental

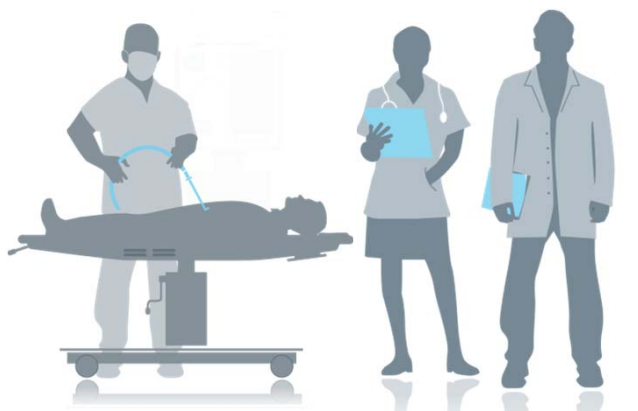
The a1-group supplies environmental analysers, containment enclosures, emissions monitoring systems and gas detection devices



80% OF REVENUES FROM STEADILY GROWING HEALTHCARE MARKETS

Life Sciences

Operating Results

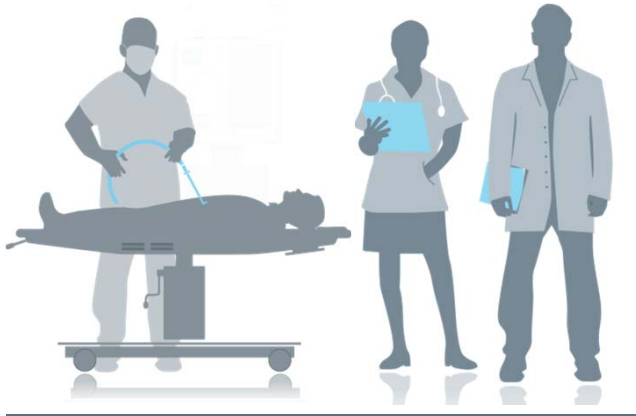


Six months ended 31 March	2014	2013	
Revenue	£46.6m	£46.7m	-
Operating profit	£10.6m	£11.0m	- 4%
Operating margin	22.7%	23.6%	

- > Underlying revenues increased by 10% after adjusting for currency
- > Good growth in both Healthcare and Environmental businesses
- > Gross margins impacted on transactional basis by currency; operating costs managed tightly

Life Sciences

Sector Developments



- > Very strong growth in consumable and service sales across all **Healthcare** businesses
- > Somagen the strongest performer – growth with all key suppliers, boosted by roll-out of colorectal cancer screening programmes
- > Good progress in implementing major new ERP project in Canadian Healthcare businesses – Somagen complete, Vantage to go live in calendar H2, AMT in 2015
- > Australian Healthcare businesses gaining scale and efficiency benefits from shared operations and back office functions
- > Strong growth across **Environmental** businesses

Seals

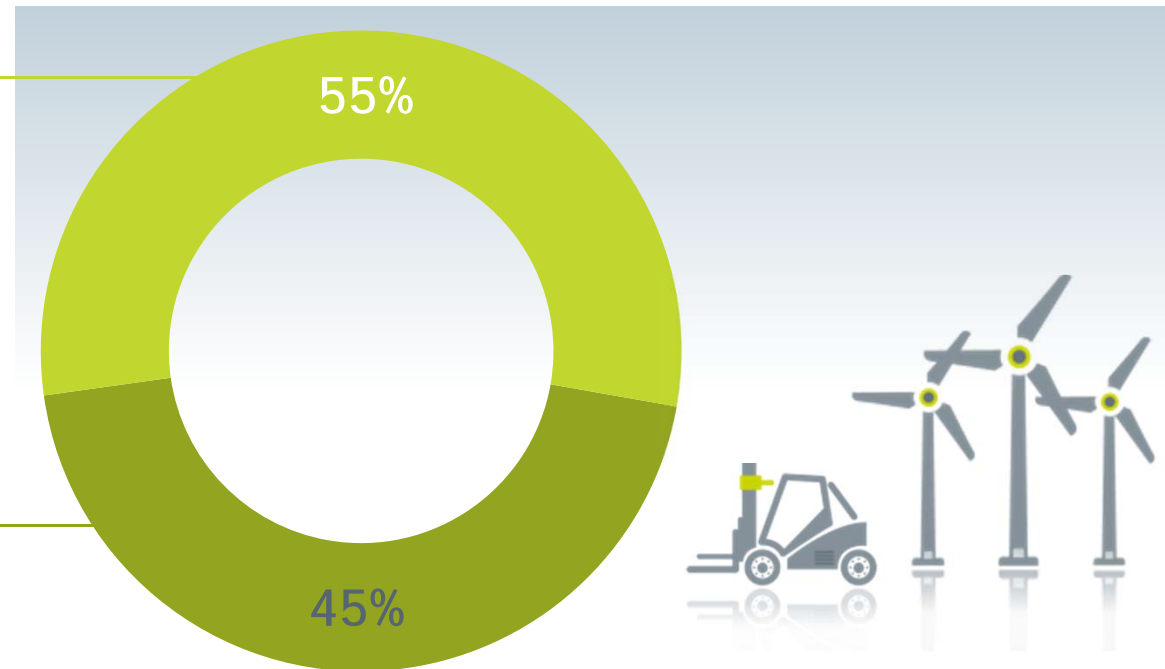
Segmentation

Aftermarket

Next day delivery of seals, seal kits, O-rings, gaskets and cylinder components for the repair of heavy mobile machinery

Industrial OEMs

Supply of seals, O-rings and custom moulded and machined parts to manufacturers of specialised industrial equipment



TWO RESILIENT REVENUE STREAMS

Seals

Operating Results



Six Months ended 31 March	2014	2013	
Revenue	£54.9m	£50.5m	+9%
Operating profit	£9.3m	£9.1m	+2%
Operating margin	16.9%	18.0%	

- > Underlying revenues increased by 5% after adjusting for currency and acquisitions:
 - > Aftermarket businesses up by 2%
 - > Industrial OEM businesses up by 9%
- > Operating margins reduced by 110 bps reflecting slightly higher operating costs (will reduce in H2) and lower initial Kentek margins

Seals

Sector Developments



- > In **Aftermarket**, modest revenue growth in North America, constrained by extreme weather and re-equipping of rental fleets
- > In Europe, good organic growth in recovering markets; emerging markets in South and Central America and the Middle East weaker
- > Kentek acquisition extends Seals businesses into new and emerging markets; FPE's bolt-on acquisition of AB Seals strengthens UK business
- > In **Industrial OEM**, strong performance across all US businesses, driven by new projects at new and existing accounts
- > Good growth in Scandinavia; Ramsay acquisition opens up new UK growth opportunities

Kentek Acquisition



- > Kentek Oy acquisition completed in January 2014 following approval of Russian competition authorities
- > Kentek is a specialised distributor of filters and related products; based in Finland with operations in Russia and the Baltic States
- > Trading in line with expectations, though impacted by weakening Russian rouble; €4.4m revenue contribution in three months

Controls

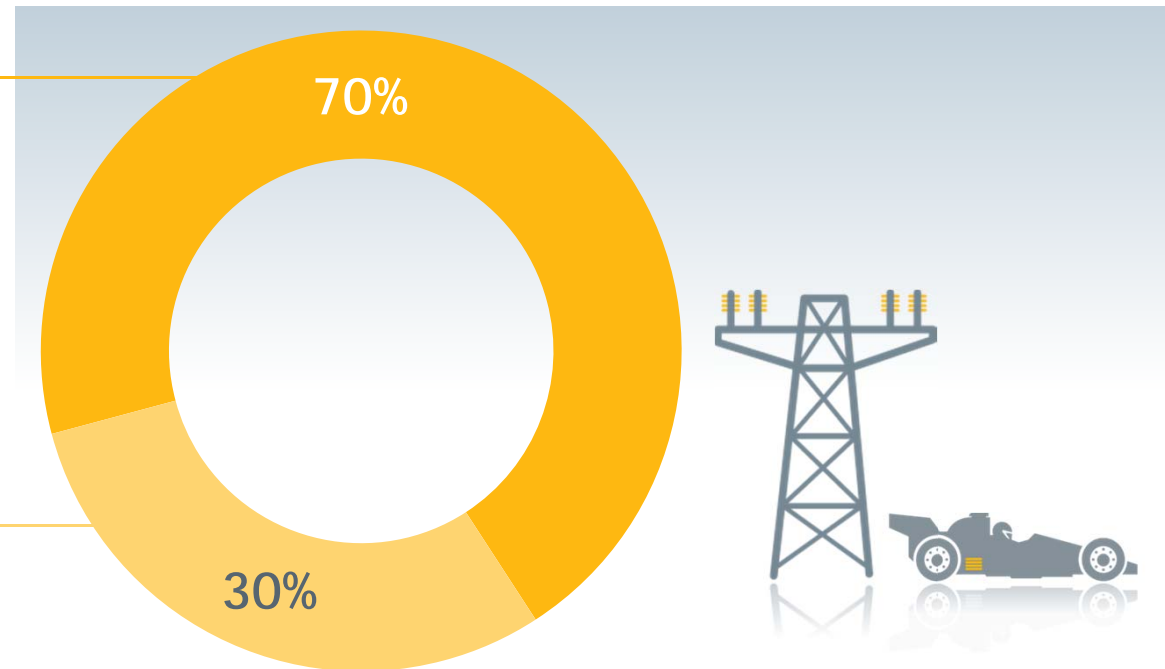
Segmentation

Interconnect

Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial

Fluid Controls

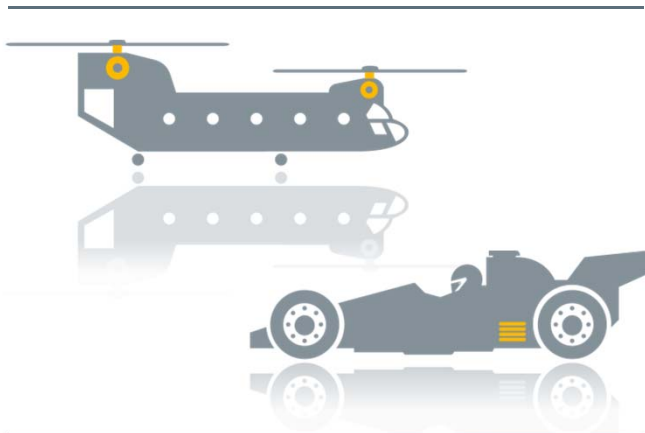
Temperature, pressure and fluid control products used in the Food, Beverage and Catering industries



A BROAD RANGE OF SPECIALISED, HIGH PERFORMANCE PRODUCTS

Controls

Operating Results

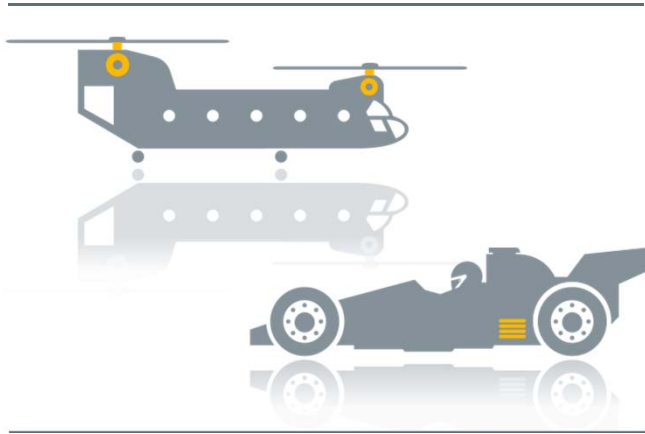


Six Months ended 31 March	2014	2013	
Revenue	£47.1m	£42.5m	+11%
Operating profit	£7.9m	£6.9m	+14%
Operating margin	16.8%	16.2%	

- > Underlying revenues also increased by 11% after adjusting for currency and acquisitions
- > Operating margins increased by 60bps to 16.8%. Gross margins broadly stable, but operational leverage improving with benefits from the Investment for Growth Programme

Controls

Sector Developments



- > In **Interconnect**, underlying revenue increased by 10%, benefiting from improving industrial economies in the UK and Germany
- > Boost to Motorsport revenues from new F1 regulations and scheduled replacement of NASCAR harnesses
- > Building position as leading supplier of aircraft seating components in buoyant Civil Aerospace market
- > Sacee acquisition absorbed into Filcon and brings expertise in space satellite connectors
- > In **Fluid Controls**, underlying revenue increased by 14%, benefiting from stronger UK economy and increased export sales
- > New Hawco ERP system being rolled-out to Abbeychart - will go live in H2

Current Trading and Outlook

Group

- > Strong underlying performance across all three Sectors
- > Resilient business model
- > Strong balance sheet and cash flow

Life Sciences

- > 10% underlying revenue growth
- > Good growth in both Healthcare and Environmental

Seals

- > 5% underlying revenue growth
- > Strong Industrial OEM performance
- > Modest growth in Aftermarket businesses

Controls

- > 11% underlying revenue growth
- > Strong recovery in UK and German markets
- > Strong Aerospace and Motorsport markets

Acquisitions

- > Good acquisition pipeline and additional resources in place
- > Lengthy transaction and due diligence processes

THE BOARD REMAINS
CONFIDENT OF FUTURE
GROWTH FROM
CONTINUED ORGANIC
GROWTH AND
ACQUISITIONS



5. Appendix: Group Overview



Our Business Model

Essential Products

= recurring income and stable revenue growth

- > Focus on essential products and services
- > Funded by customers' operating rather than capital budgets
- > "GDP plus" organic revenue growth

Essential Solutions

= sustainable and attractive margins

- > Highly responsive customer service
- > Deep technical knowledge and support
- > Value adding activities

Essential Values

= agility and responsiveness

- > Entrepreneurial culture
- > Decentralised management model
- > Decisions made close to the customer

WE WANT TO MAKE OURSELVES ESSENTIAL TO OUR CUSTOMERS

Our Sectors

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



LIFE SCIENCES



31%
of revenues



SEALS



37%
of revenues



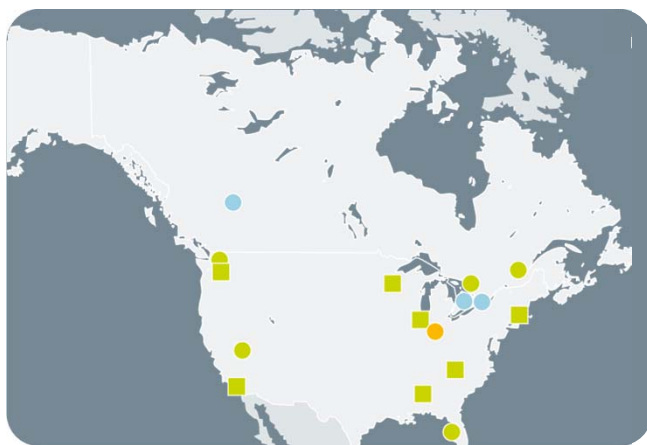
CONTROLS



32%
of revenues

A BALANCED AND DIVERSE PORTFOLIO OF BUSINESSES BY SECTOR

Our Geography



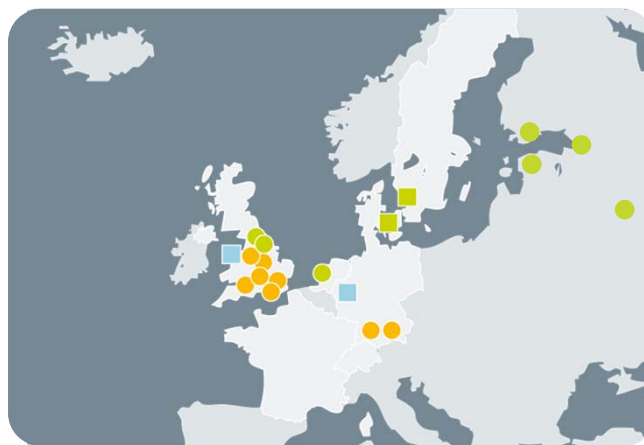
North America

50%
of revenues¹

26% US

24% Canada

Life Sciences Seals Controls
 ● Healthcare ● Aftermarket ● Controls
 ■ Environmental ■ Industrial OEM

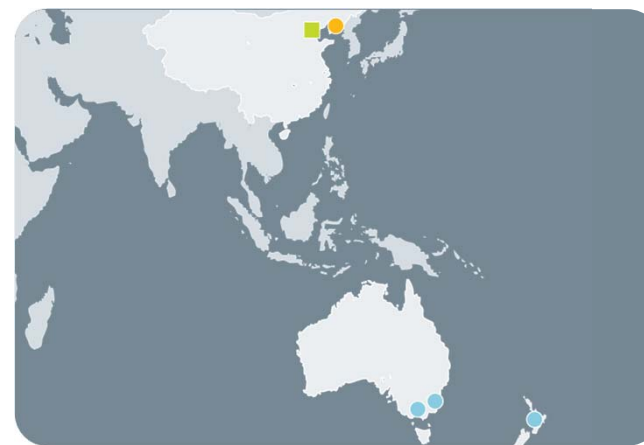


Europe

42%
of revenues¹

23% UK

19% Continental Europe



Rest of World

8%
of revenues¹

¹By destination

Our Growth Strategy

ACQUIRE

- > Fit with Group's business model
- > Marketing led with strong customer relationships
- > Track record of stable profitable growth and cash generation
- > Capable management
- > Target of 20% plus pre-tax ROI

BUILD

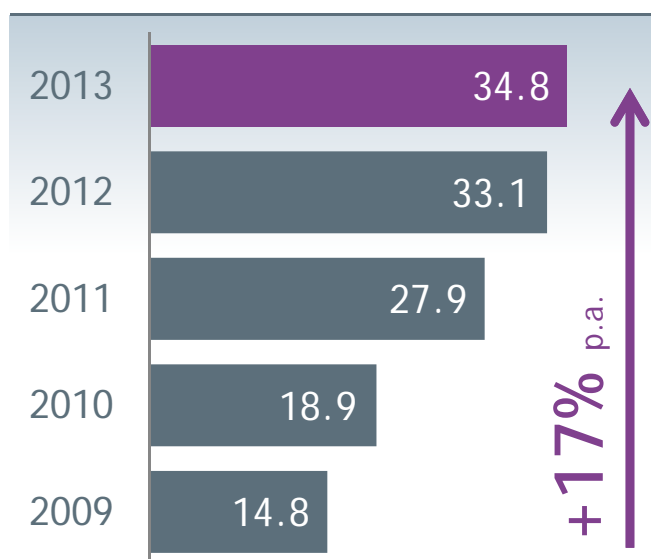
- > Investment to build a solid foundation for growth:
 - > New facilities and IT systems
 - > Increased working capital
 - > Strengthened management

GROW

- > Businesses maintain their distinct sales and marketing identity
- > Synergies managed within business clusters:
 - > Cross-selling
 - > Joint purchasing
 - > Shared back-office operations

Our Corporate Objectives

STRONG DOUBLE-DIGIT EPS GROWTH



Adjusted EPS in pence

UPPER QUARTILE TSR GROWTH



TSR index, end Sept 2008 = 100

PROGRESSIVE DIVIDEND GROWTH



Dividends in pence

TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS

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