



Half Year Announcement

Six months ended 31 March 2018



14 May 2018

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Richard Ingram - CEO

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Introduction and Overview

The Diploma Investment Case

Clearly defined strategy, consistent track record



GDP plus underlying revenue growth

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



Acquisitions to accelerate growth

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



Sustainable, attractive margins

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



Strong cash flow

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



Agile and responsive organisation

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



Value creation

We aim to create value by consistently exceeding 20% ROATCE

Half Year Results

Six months ended 31 March

	2018	2017	
Revenue	£234.9m	£217.3m	+8%
Adjusted operating profit	£40.6m	£37.4m	+9%
Adjusted operating margin	17.3%	17.2%	+10bps
Adjusted profit before tax	£40.4m	£37.1m	+9%
Free cash flow	£17.7m	£20.5m	-14%
Acquisition spend	£3.3m	£0.8m	
Net cash	£17.7m	£14.8m	
Adjusted earnings per share	26.7p	23.9p	+12%
Total dividends per share	7.7p	7.0p	+10%

Financial Highlights

Strong growth in revenue and profit, despite currency headwind

- Revenue and adjusted profit before tax increased by **8%** and **9%** respectively; adjusted EPS increased by **12%** reflecting benefit of reduction in US tax rate
- Acquisitions added **5%** to Group revenues and currency movements decreased revenues by **4%**; underlying revenue growth of **7%**
- Adjusted operating margins improved to **17.3%**; in line with Full Year 2017
- Robust free cash flow of **£17.7m**, down **14%** against prior period comparative after investment in working capital to support stronger trading
- Acquisition expenditure of **£3.3m** in the Half Year; pipeline remains healthy
- Net cash of **£17.7m** at 31 March with significant resources available
- Interim dividend increased by **10%** reflecting strong financial position and confidence in Group's growth prospects



Business Review

Life Sciences

Operating Results



Six months ended 31 March	2018	2017	
Revenue	£67.4m	£57.9m	+16%
Adjusted operating profit	£11.7m	£10.3m	+14%
Adjusted operating margin	17.4%	17.8%	-40bps

- Abacus acquisition in April 2017 increased Sector revenues by 11%; currency movements reduced revenues by 4%
- Underlying revenues up 9%, with good growth in consumable sales and new product introductions
- Adjusted operating margins decreased by 40bps:
 - Investment in costs to support new product line
 - One-off operating costs incurred combining the two Australian diagnostics businesses

Life Sciences

Sector Developments



- Underlying revenue growth of 9% in **Healthcare** businesses against background of continuing budget pressures from GPOs
- In Canada, underlying revenues increased by 11% driven by the successful introduction of a premium range of rigid and flexible endoscopes
- In Australia, strong double-digit growth on a like-for-like basis in the newly combined Abacus Dx business
- Continuing pressures in both Canada and Australia in the electrosurgery and smoke evacuation businesses
- TPD continued to deliver solid underlying revenue growth driven by strong capital sales
- In **Environmental**, strong growth in sales in Germany of high-end elemental analysers; growing service revenues across both businesses

Seals

Operating Results

Six months ended 31 March	2018	2017	
Revenue	£99.2m	£94.8m	+5%
Adjusted operating profit	£17.1m	£15.4m	+11%
Adjusted operating margin	17.2%	16.2%	+100bps

- Edco and PSP added 3% to Sector revenues; currency movements reduced revenues by 7%
- Underlying revenues increased by 9%, with strong North American revenues and improved International markets
- Adjusted operating margins increased by 100bps:
 - Stronger revenues providing operating leverage
 - Small decrease in North American gross margins

Seals

Sector Developments



- **North America** revenues increased by 12% as confidence continued in the US economy
- Aftermarket reported 11% increase in underlying revenues with solid performance by core Hercules businesses in US and Canada; HKX attachment kit business delivered strong growth
- Industrial OEM delivered underlying growth of 14% and continued to make good progress developing the cluster of Industrial OEM businesses with a senior management team directing key functions
- **International Seals** underlying revenues increased by 3% driven by strong trading in Kubo as industrial activity increased in Switzerland
- FPE and M Seals together delivered underlying growth of 6% with strong growth in Scandinavia and some improvement in the Oil & Gas market in the UK; good contribution from Edco acquired last year
- Kentek and WCIS experienced more difficult trading conditions and saw underlying revenues reduce by 4% in aggregate

Controls

Operating Results

Six months ended 31 March	2018	2017	
Revenue	£68.3m	£64.6m	+6%
Adjusted operating profit	£11.8m	£11.7m	+1%
Adjusted operating margin	17.3%	18.1%	-80bps

- Acquisition of Coast added 3% to Sector revenues and currency movements had a limited impact
- Underlying revenues increased by 3%, against background of strong comparatives which included major project activity in Filcon
- Adjusted operating margins decreased by 80bps:
 - Interconnect gross margins reduced as IS-Group used strategic pricing to penetrate new customers within the EMEA region
 - Clarendon margins modestly diluted from investment in US resources and lower initial margin in Coast

Controls

Sector Developments



- **Interconnect** underlying revenues increased by 2% with strong growth across the IS-Group and Cablecraft businesses held back by the absence of major project activity in Filcon
- IS-Group and Cablecraft increased aggregate revenues by 9% in UK sterling terms with a major contribution from the EMEA region as IS-Group broadens its customer base
- **Clarendon** continued to perform strongly with underlying revenues increasing by 8% as the Aerospace market remains buoyant
- Acquisition of Coast provides a base in the US for supporting Clarendon's existing and new customers, as well as giving access to major US fastener suppliers
- **Fluid Controls** revenues increased by 1% with strong growth in the core coffee segment of the Abbeychart business offset by weaker sales in Hawco in the Refrigeration and Contractor segments



Financial Results and Outlook

Profit before Tax

Six Months ended 31 March

	2018 £m	2017 £m	
Revenue	234.9	217.3	+8%
Adjusted operating profit	40.6	37.4	+9%
<i>Adjusted operating margin (%)</i>	<i>17.3%</i>	<i>17.2%</i>	<i>+10bps</i>
Interest expense	(0.2)	(0.3)	
Adjusted profit before tax	40.4	37.1	+9%
Acquisition related charges	(4.7)	(4.3)	
Chief Executive Officer transition cost	(0.2)	-	
Fair value remeasurements	(0.1)	0.1	
Reported profit before tax	35.4	32.9	+8%

Taxation and Earnings per Share

Six Months ended 31 March

	2018	2017	
Adjusted profit before tax (£m)	<u>40.4</u>	<u>37.1</u>	
Adjusted tax	<u>(9.9)</u>	<u>(9.8)</u>	
Group effective adjusted tax rate	24.5%	26.4%	-190bps
US effective adjusted tax rate	29.3%	37.7%	-840bps
Earnings per share (pence)			
Adjusted	26.7p	23.9p	+12%
Basic (Reported)	23.0p	21.0p	+10%

Free Cash Flow

Six Months ended 31 March

	2018 £m	2017 £m	
Adjusted operating profit	40.6	37.4	
Depreciation	2.4	2.4	
Working capital	(11.2)	(7.1)	
Pension and share schemes, net	0.1	0.2	
Operating cash flow, before acquisition expenses	31.9	32.9	-3%
Interest paid	-	(0.2)	
Tax paid	(9.7)	(8.9)	
Capital expenditure	(2.3)	(1.0)	
Asset in course of construction	-	(1.6)	
EBT - share scheme funding	(2.2)	(0.7)	
Free cash flow	17.7	20.5	-14%
Cash conversion	59%	76%	

Net Cash

Six Months ended 31 March

	2018 £m	2017 £m
Free cash flow	17.7	20.5
Acquisition cash paid	(3.2)	(0.2)
Deferred consideration	(0.1)	(0.6)
Dividends	(18.3)	(15.8)
	<u>(3.9)</u>	<u>3.9</u>
Net cash brought forward	22.3	10.6
Exchange adjustments	(0.7)	0.3
Net Cash at 31 March	<u>17.7</u>	<u>14.8</u>
Comprising:		
Cash balances	19.7	22.8
Borrowings	(2.0)	(8.0)

Shareholders' Funds

	31 Mar 2018 £m	30 Sept 2017 £m
Tangible assets and investments	23.0	24.0
Goodwill and intangible assets	166.6	176.8
Net working capital	78.7	68.4
Trading capital employed - reported	268.3	269.2
 <i>Working capital (% revenues)</i>	 <i>15.8%</i>	 <i>15.0%</i>
ROATCE	23.9%	24.0%
 Retirement benefit obligations	 (9.5)	 (9.9)
Acquisition liabilities	(4.7)	(6.6)
Net cash funds	17.7	22.3
Minority interests and deferred tax	(10.0)	(13.0)
Total shareholders' equity	261.8	262.0

Outlook

Robust underlying growth, healthy pipeline of acquisition opportunities

- The Group has a proven business model and growth strategy:
 - Resilient “GDP plus” underlying revenue growth and sustainable attractive margins
 - Carefully selected, value-enhancing acquisitions accelerate growth to target double-digit level
- Group businesses have taken advantage of the continuing strong global trading environment and have delivered a good performance despite currency headwinds
- Acquisitions remain an integral part of the Group’s growth strategy; generally stronger trading conditions in most markets have constrained acquisition activity; pipeline remains healthy
- A proven business model and strong balance sheet, provides the Board with confidence that the Group will make further progress this year



Richard J Ingram

Chief Executive Officer

Richard J Ingram - Introduction

Joined the Board 23 April, assumed full CEO responsibilities 8 May

- Proven track record of growing international, industrial-focused, high margin businesses
- Broad-based industrials experience across detection & screening, automotive, aerospace, oil & gas
- Over 20 years' management experience in industry; engineering background

Career

2014 -2018

Smiths Group

President of Smiths Detection

- Revenues of £700m
- 2,500 employees

2013 -2014

Zodiac Electrical Systems

CEO

1999 - 2012

Goodrich

President, Engine Controls and Electrical Power Systems

Initial Observations

First impressions of Diploma

- Excellent track record for shareholder value creation over many years
- Strong financial position and free cash flow generation
- Highly motivated and capable leadership
- Solid portfolio of businesses with compelling niches in growth markets
- Highly focused product range combined with added value services supports strong sustainable margins
- Significant opportunities for further growth across the Group
- Disciplined approach to integrating and improving acquired businesses
- Customer focused, agile organisation, good at responding to local market conditions
- Opportunities for sharing best practice and common processes within the Sectors



Q&A



Appendix

Group Overview

Balanced portfolio of businesses

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



Life sciences

28%

of revenues

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



Seals

43%

of revenues

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



Controls

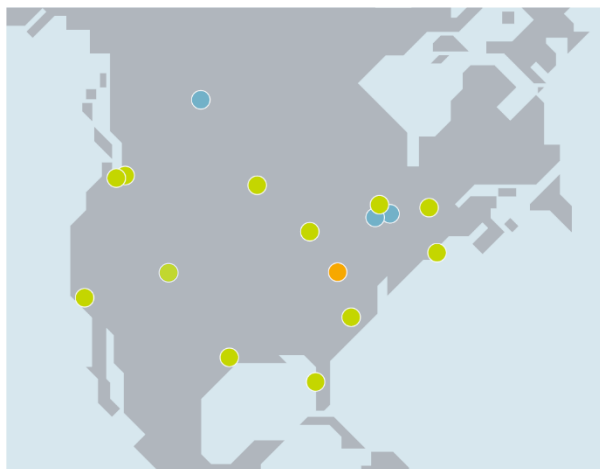
29%

of revenues

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

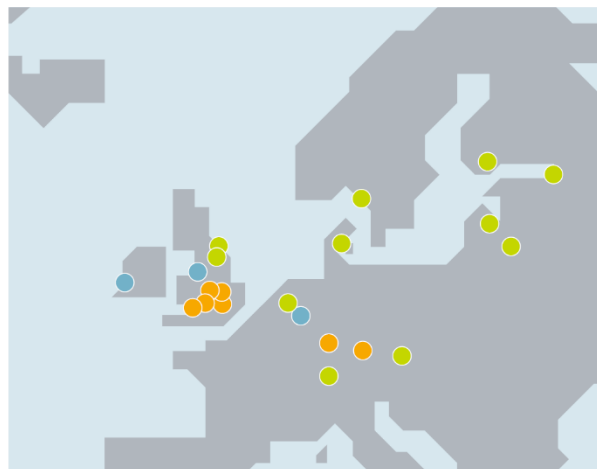
Group Overview

Well diversified by geography



North America revenues
(by destination) by sector

41% of revenues
 23% US
 18% Canada



European revenues
(by destination) by sector

48% of revenues
 22% UK
 26% Continental Europe



Rest of World revenues
(by destination) by sector

11% of revenues

● Life Sciences ● Seals ● Controls

Life Sciences

Segmentation



Healthcare (84% of revenues)

Clinical diagnostic instrumentation, consumables and services supplied to hospital pathology and life sciences laboratories for the testing of blood, tissue and other samples.

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

Environmental (16% of revenues)

Environmental analysers, containment enclosures and emissions monitoring systems.



Primary growth drivers

- Public and private healthcare spending in Canada, Australasia and Ireland & UK
- Population ageing and increasing life expectancy
- Health & Safety and Environmental regulation

Seals

Segmentation



North America – Aftermarket (32% of revenues)

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

North America – Industrial OEM (29% of revenues)

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

International (39% of revenues)

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



Primary growth drivers

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

Controls

Segmentation



Interconnect (59% of revenues)

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

Speciality Fasteners (18% of revenues)

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

Fluid Controls (23% of revenues)

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



Primary growth drivers

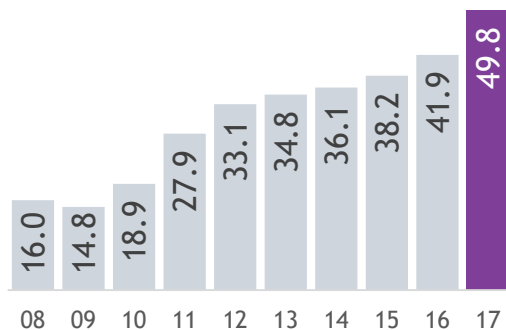
- General growth in UK and Continental European industrial economies (>90% of Sector revenues)
- Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail
- Equipment installation and maintenance in Food, Beverage and Catering

Our Corporate Objectives

Track record of delivering strong returns for shareholders

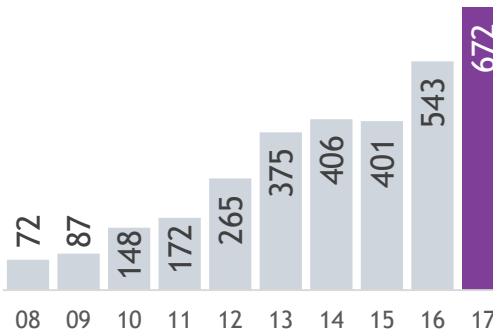
Adjusted EPS growth (pence)

+14%_{p.a.}¹



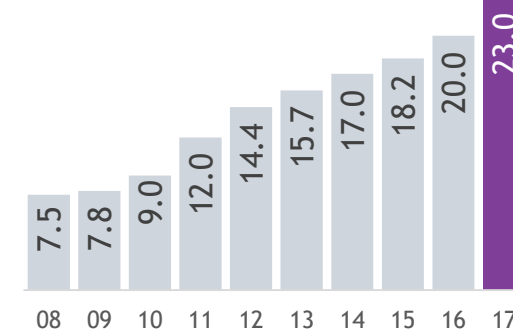
TSR growth (TSR index 2007 = 100)

+21%_{p.a.}¹



Dividend growth (pence)

+16%_{p.a.}¹



¹ Ten-year compound

Financial KPIs

Five Year Trends

	2013	2014	2015	2016	2017
Revenue	£285.5m	£305.8m	£333.8m	£382.6m	£451.9m
<i>Total growth</i>	+10%	+7%	+9%	+15%	+18%
<i>Underlying growth</i>	+4%	+8%	+1%	+3%	+7%
Operating margin	19.0%	18.5%	18.1%	17.2%	17.3%
Working capital (% revenues)	16.7%	17.2%	17.0%	16.6%	15.0%
Free cash flow	£31.6m	£37.8m	£40.3m	£59.0m	£55.7m
<i>Cash conversion (%)</i>	81%	93%	93%	124%	99%
ROATCE	25.8%	25.8%	23.9%	21.1%	24.0%

Average over
five years:

CAGR revenue
growth

12% p.a.

Operating
margins

18%

ROATCE




24%

Free cash flow
conversion

98%

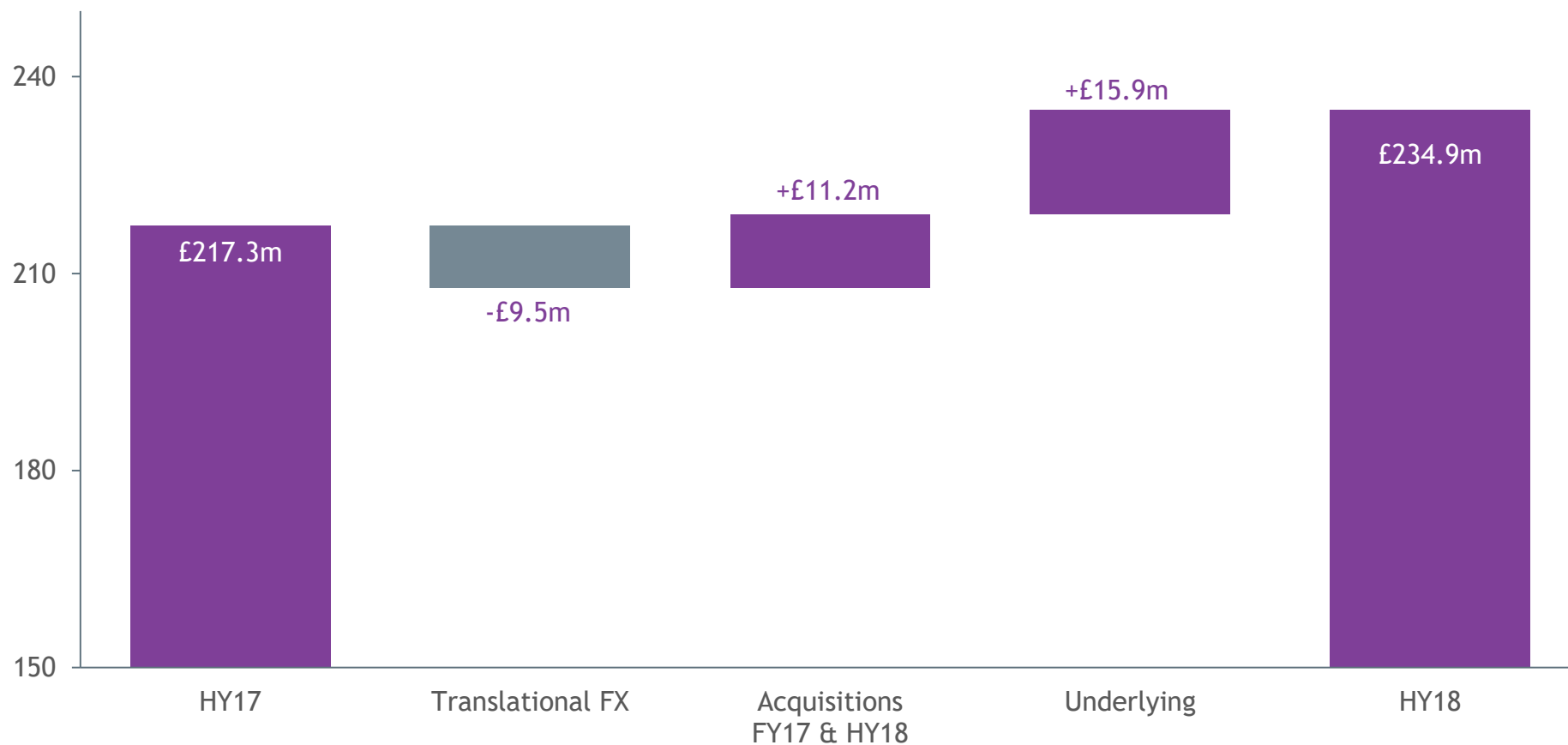
Acquisitions

Building larger, broader-based businesses

	Life Sciences 	Seals 	Controls 
Acquisition spend 2018 £3.3m			<ul style="list-style-type: none"> Coast – US
Acquisition spend 2017 £20.1m	<ul style="list-style-type: none"> Abacus - Australia & New Zealand 	<ul style="list-style-type: none"> PSP - US Edco - UK 	
Acquisition spend 2016 £32.7m		<ul style="list-style-type: none"> WCIS – Australia & New Caledonia 	<ul style="list-style-type: none"> Cablecraft – UK Ascome – France
Acquisition spend 2015 £37.8m	<ul style="list-style-type: none"> TPD – Ireland 	<ul style="list-style-type: none"> Kubo – Switzerland & Austria Swan Seals – UK 	

Revenue Bridge

Six Months ended 31 March



Foreign Exchange

Appreciation in UK sterling led to currency headwind in the first half

GBP vs G10 currency basket securities



Foreign Exchange

Volatile exchange rates keep transactional currency pressures on Healthcare margins

Transactional Impact Base Currency (US\$)





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