
Preliminary Announcement

Year ended 30 September 2012

19 November 2012

DIPLOMAPLC

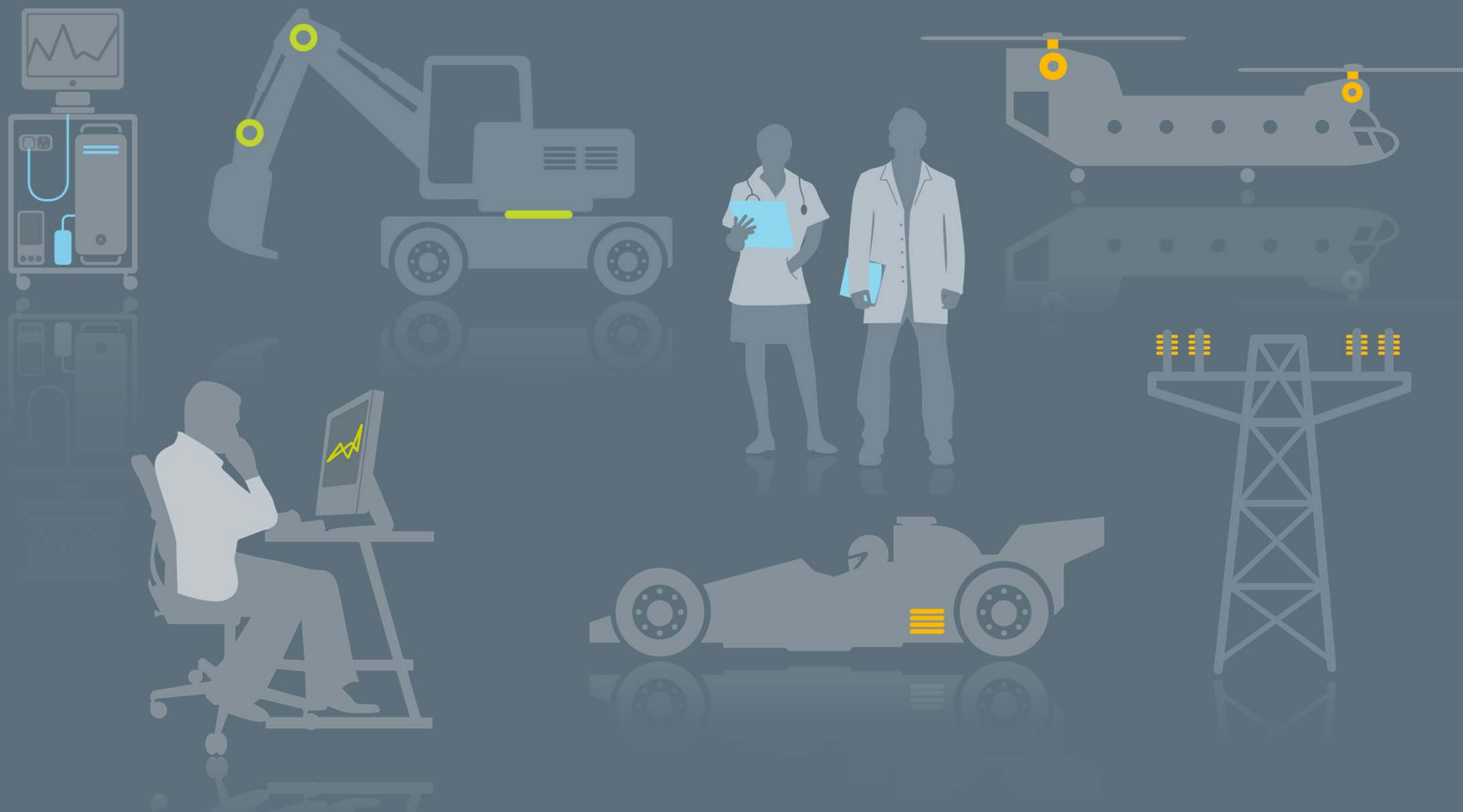


Table of Contents

1. Group Overview
2. Summary of 2012 Results
3. Business Review
4. Financial Highlights
5. Growth Strategy



LIFE SCIENCES

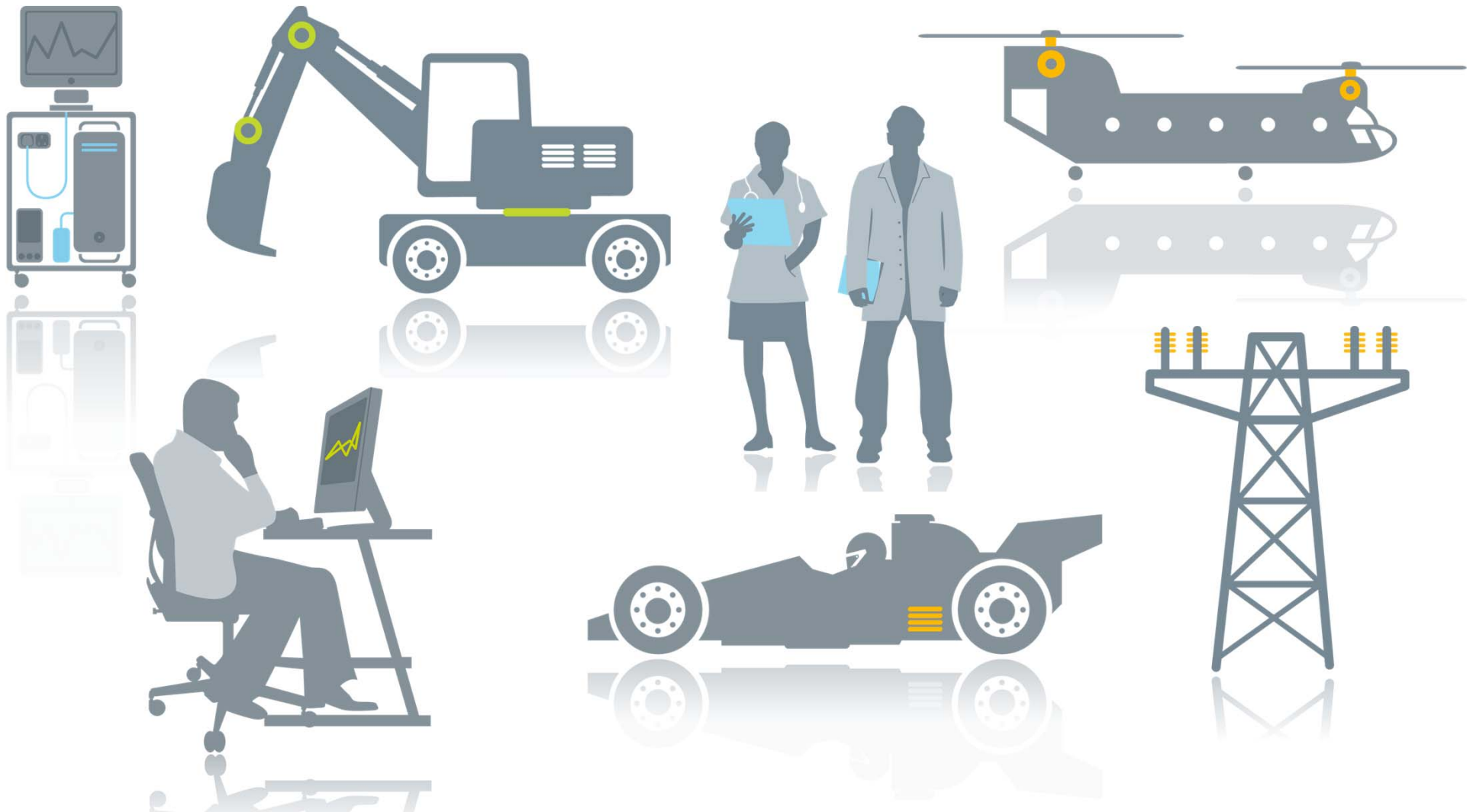


SEALS



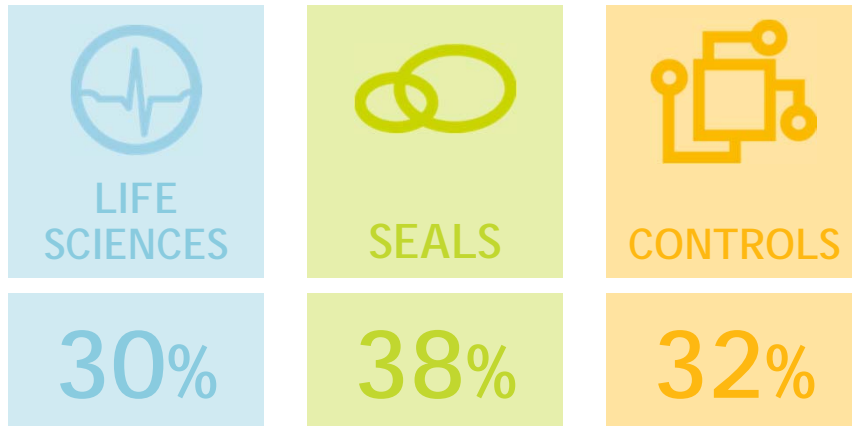
CONTROLS

1. Group Overview

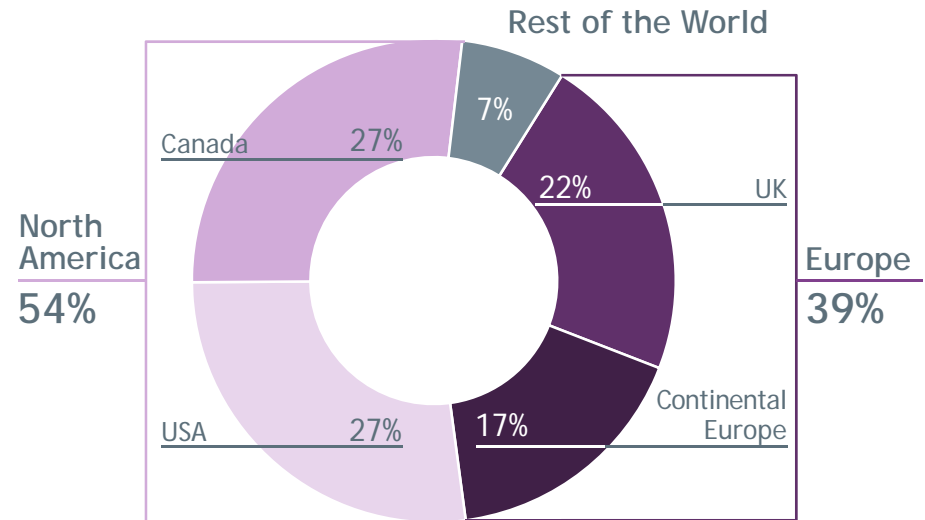


Group Overview

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



Revenue by Geography*



*By destination

A BALANCED AND DIVERSE PORTFOLIO OF BUSINESSES BY SECTOR AND GEOGRAPHY

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 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

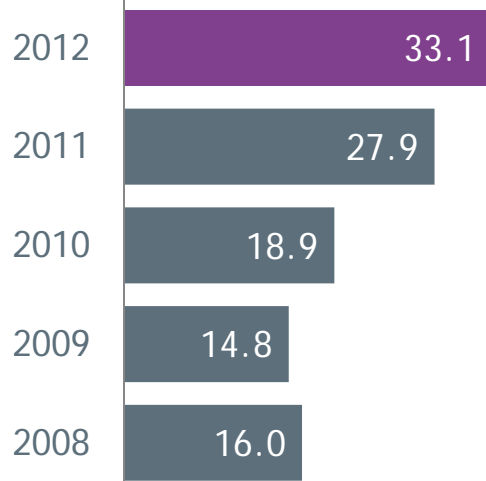
GROW

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

Financial Track Record

EPS growth

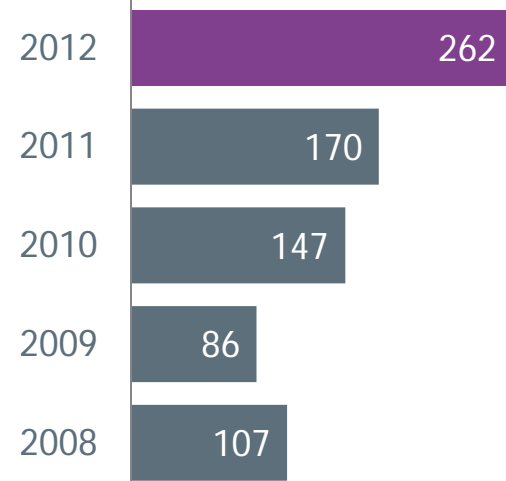
+20% p.a.



Adjusted EPS in pence

TSR growth

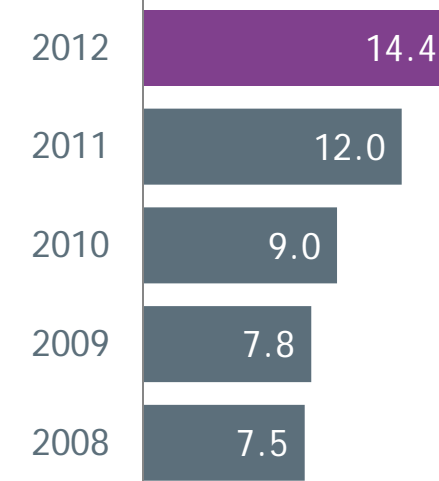
+21% p.a.



TSR index, end Sept 2007 = 100

Dividend growth

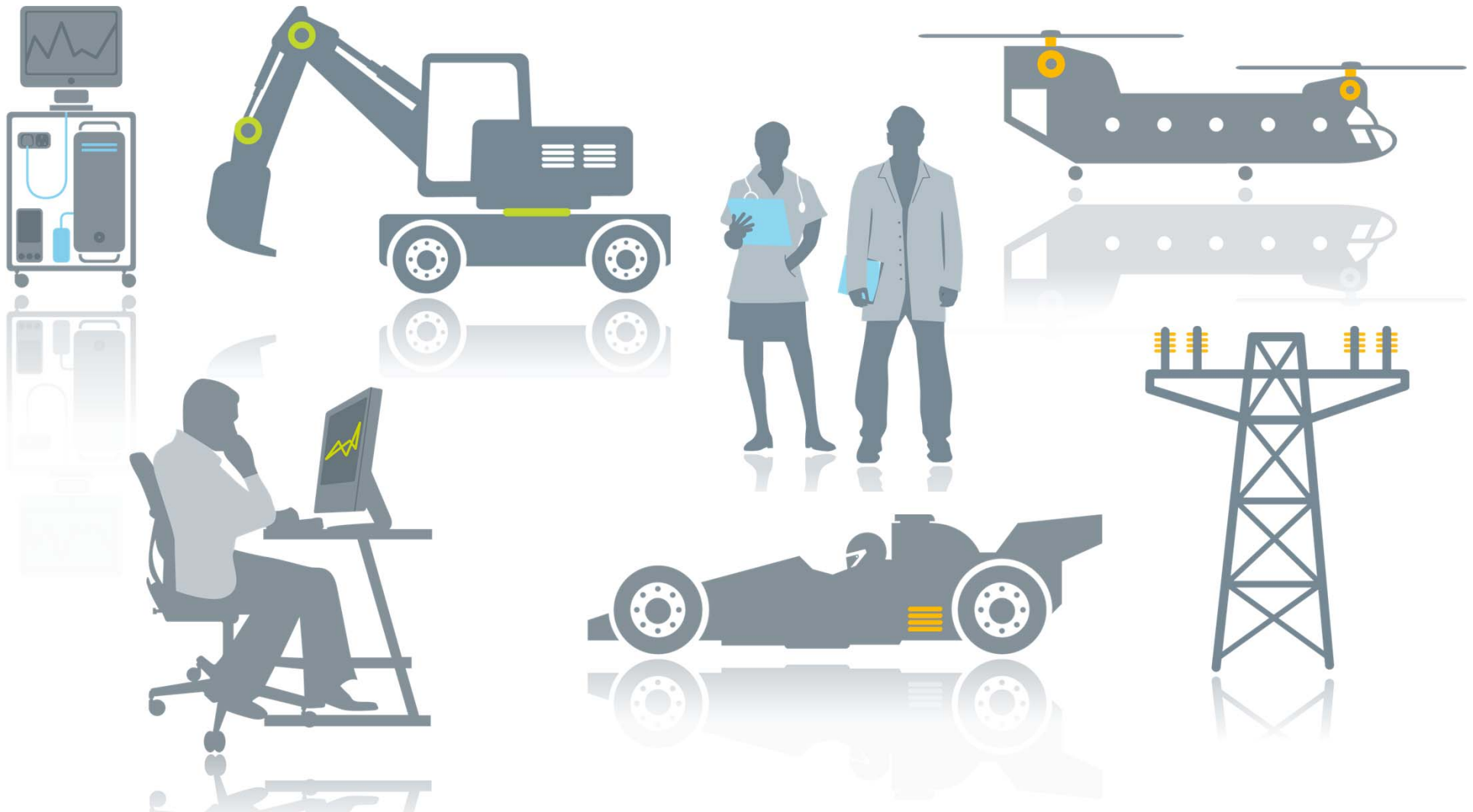
+22% p.a.



Dividends in pence

TRACK RECORD OF DELIVERING STRONG RETURNS FOR SHAREHOLDERS

2. Summary of 2012 Results



Overview of Results

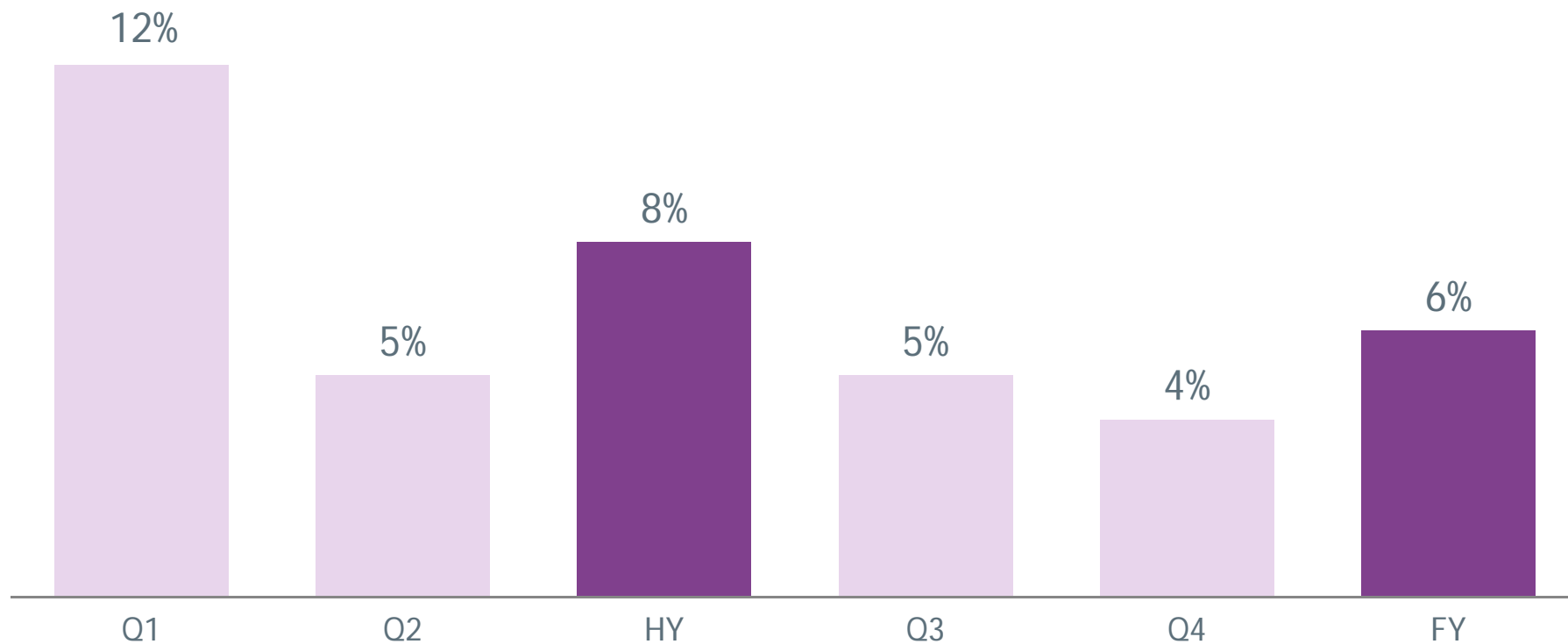
Year ended 30 September

	2012	2011	
Revenue	£260.2m	£230.6m	+13%
Adjusted operating profit	£52.8m	£45.2m	+17%
Adjusted operating margin	20.3%	19.6%	
Adjusted profit before tax	£52.6m	£44.9m	+17%
Free cash flow	£32.7m	£25.0m	+31%
Adjusted earnings per share	33.1p	27.9p	+19%
Total dividends per share	14.4p	12.0p	+20%

Financial Highlights

- > Revenues increased by 13% to £260.2m; adjusted operating profit increased by 17% to £52.8m
- > Adjusted operating margin of 20.3% (+70bps) - driven by strong operational leverage in North American Seals
- > Underlying revenue and operating profits increased by 6% and 11% respectively
- > Free cash flow increased by 31% to £32.7m despite increased capital investment
- > Net funds of £7.9m at end of year, after investing £22.3m in acquiring businesses - plus a further £1.0m cash invested after the year end
- > Total dividends increased by 20% to 14.4p per share

Underlying Revenue Trends



TRENDING BACK TO GDP+ GROWTH AGAINST STRONG COMPARATIVES

Operational Highlights

- > Underlying growth of 13% in Seals; particularly strong growth in North American Aftermarket
- > Good underlying growth of 5% in Life Sciences; strong sales of capital equipment in first half
- > Underlying growth of 2% in Controls, held back by reduced activity in Continental Europe and UK Food & Beverage
- > Positive contributions from new businesses acquired during period - J Royal in the US; Abbeychart and Amfast in the UK; DSL in Australia
- > Significant progress made with planned investments to support future growth of the business - £2.1m of cash investment in 2012




Investment for Growth

- > Major facility moves:
 - > RT Dygert and All Seals in the US; Vantage in Canada and IS-Rayfast in the UK
- > New IT systems in Seals, Controls and Environmental businesses; Healthcare to follow
- > Additional management resource in major businesses and at Group
- > Impact on operating margins of 50-100bps over next 2-3 years

	Cash investment (£m)			
	2012	2013	2014	Total
Facilities	1.5	1.6	-	3.1
IT infrastructure	0.2	0.9	0.8	1.9
	1.7	2.5	0.8	5.0
Additional management resources	0.4	0.9	1.0	
Estimated impact on adjusted operating profit	0.9	1.5	1.7	

INVESTING TO SUPPORT SUSTAINABLE GROWTH FOR THE NEXT 5 YEARS

Acquisition Development

Financial Year	Acquisition Spend (£m)	 Life Sciences	 Seals	 Controls
2008	7.9	Somagen (12%) - Canada	Snijders - Holland	Hitek - UK
2009	12.2	Meditech - Canada	RT Dygert - US	
2010	11.0	BGS (80%) - Australia Somagen (8%) - Canada	All Seals - US	ET Fisher - Germany
2011	28.2	AMT (25%) - Canada Carsen Medical - Canada		
2012	22.3	DSL (80%) - Australia	J Royal - US JRPP (10%) - China	Amfast - UK Abbeychart - UK
5 Yr Total = £81.6m (average £16.3m p.a.)				

ACQUISITIONS ARE AN INTEGRAL PART OF SECTOR GROWTH STRATEGIES

Financial KPIs

Five Year Trends

	2008	2009	2010	2011	2012
Revenue	£156.2m	£160.0m	£183.5m	£230.6m	£260.2m
<i>Total growth</i>	+25%	+2%	+15%	+26%	+13%
<i>Organic growth</i>	+8%	-12%	+11%	+17%	+6%
Operating margin	17.0%	16.0%	17.5%	19.6%	20.3%
Working capital (% revenues)	17.2%	17.6%	15.4%	16.1%	16.5%
ROTCE	22.4%	19.0%	22.1%	25.4%	26.6%
Free cash flow	£17.7m	£23.5m	£29.8m	£25.0m	£32.7m
<i>% of PAT</i>	93%	131%	131%	78%	87%

Over five years:

CAGR REVENUE
GROWTH

16% p.a.

OPERATING
MARGINS

18%

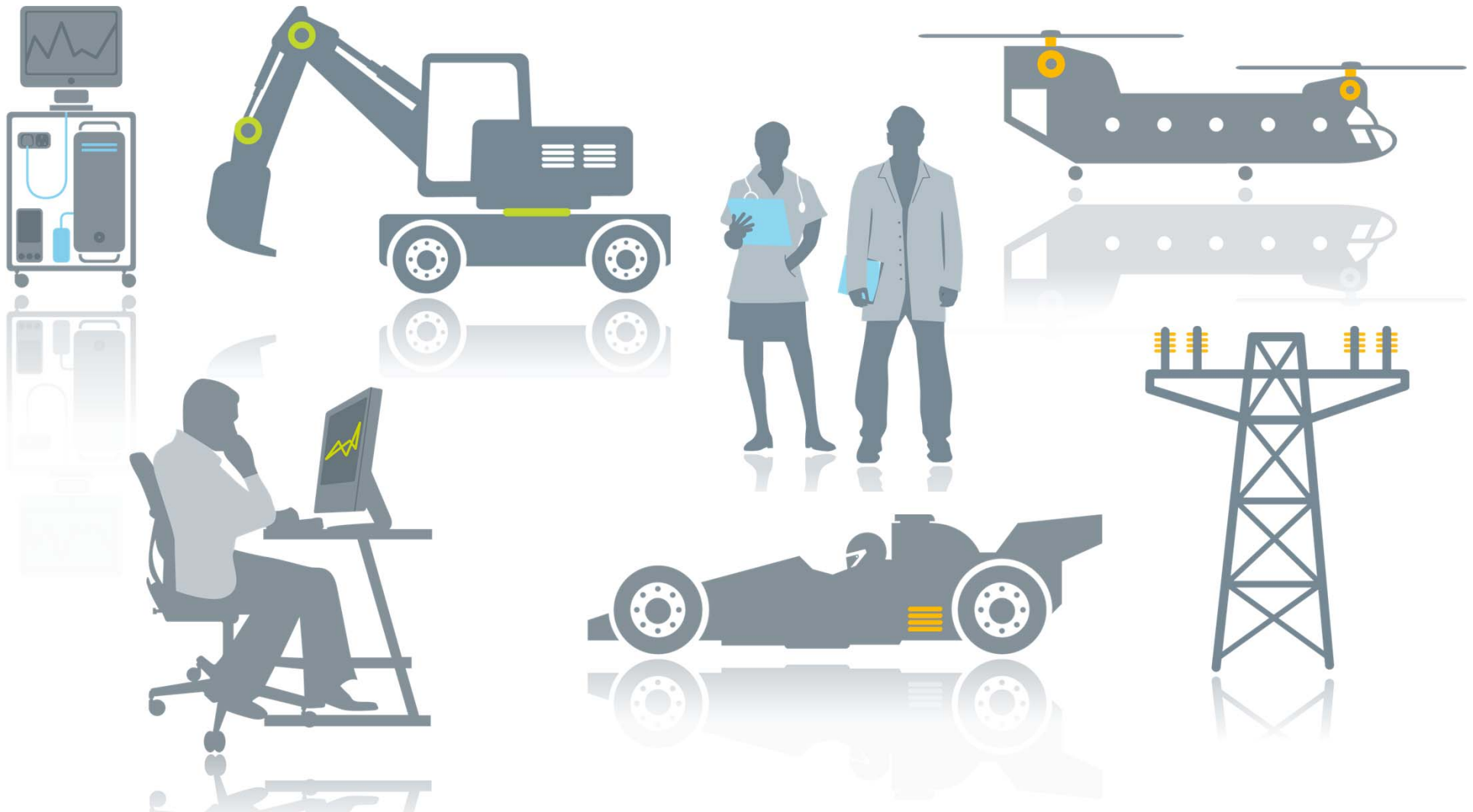
ROTCE AVERAGE

23%

FCF CONVERSION
AVERAGE




100%

3. Business Review



Our Sectors

Revenue by Sector and Destination

 LIFE SCIENCES	 SEALS	 CONTROLS
30% of group revenues	38% of group revenues	32% of group revenues
270 employees	489 employees	292 employees
75% Canada 17% Europe 8% Rest of World	76% North America 12% Europe 12% Rest of World	58% UK 35% Europe 7% Rest of World

Life Sciences

Operating Results

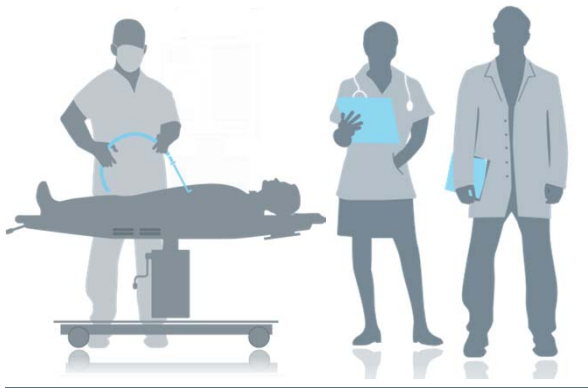


Year ended 30 Sept	2012	2011	
Revenue	£78.4m	£74.4m	+5%
Operating profit	£18.0m	£17.1m	+5%
Operating margin	23.0%	23.0%	
Free cash flow	£13.3m	£11.6m	+15%

- > DHG revenue growth of 5% in Canadian dollars after adjusting for:
 - > Acquisitions of DSL in 2012 and CMI in 2011
 - > Exceptional sale of face shields in 2011
- > Environmental revenue growth of 5% after adjusting for currency and divestment of small Swiss operation

Life Sciences

Sector Developments



-
- > The **Healthcare** businesses account for over 80% of sector revenues
 - > Investment in newly formed Vantage business (CMI and AMT Endoscopy):
 - > Sales team integration and training
 - > Strengthened management in service and operations
 - > Move to new facility in October 2012
 - > Investment in new Minimally Invasive Surgery business within AMT
 - > Acquisition of DSL business in Australia
 - > **Environmental** businesses simplified and now showing steady growth

Seals

Operating Results



Year ended 30 Sept	2012	2011	
Revenue	£99.9m	£80.0m	+25%
Operating profit	£20.4m	£14.9m	+37%
Operating margin	20.4%	18.6%	
Free cash flow	£13.7m	£6.9m	+99%

- > Aftermarket businesses - revenue growth of 14% after adjusting for currency
- > Industrial OEM businesses - revenue growth of 11% after adjusting for currency and J Royal acquisition
- > Increase in operating margin of 180 bps from operational leverage

Seals

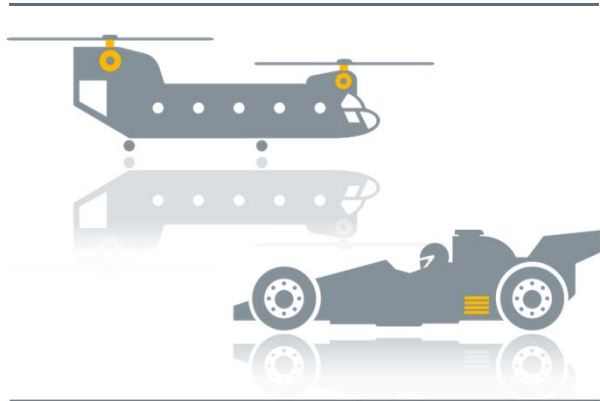
Sector Developments



- > Continued strong growth in **Aftermarket** businesses (ca. 60% of sector revenues):
- > Further operational leverage in core North American business
- > Significant investment in **Industrial OEM** businesses (ca. 40% of sector revenues):
 - > Acquisition of J Royal in US and 10% of JRPP in China
 - > Consolidation of RT Dygert operations in new facility in Minneapolis
 - > All Seals move to new facility
 - > New IT system in development at M Seals (to go live in 2013)

Controls

Operating Results

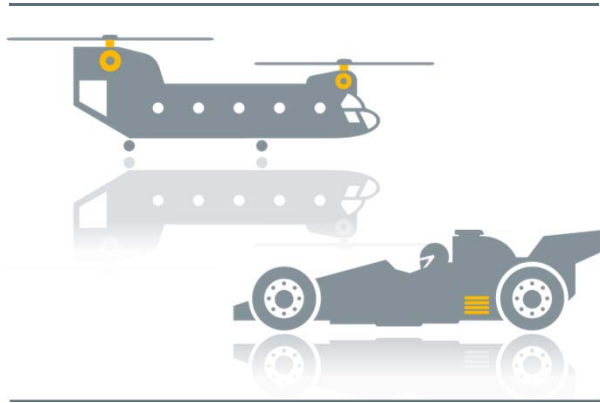


Year ended 30 Sept	2012	2011	
Revenue	£81.9m	£76.2m	+7%
Operating profit	£14.4m	£13.2m	+9%
Operating margin	17.6%	17.3%	
Free cash flow	£10.0m	£9.8m	+2%

- > Underlying revenue growth of 2% after adjusting for currency and acquisitions of Abbeychart and Amfast
- > Revenue growth in Aerospace & Defence, Motorsport and in Energy and Industrial
- > Reduced activity in Continental Europe and Food & Beverage

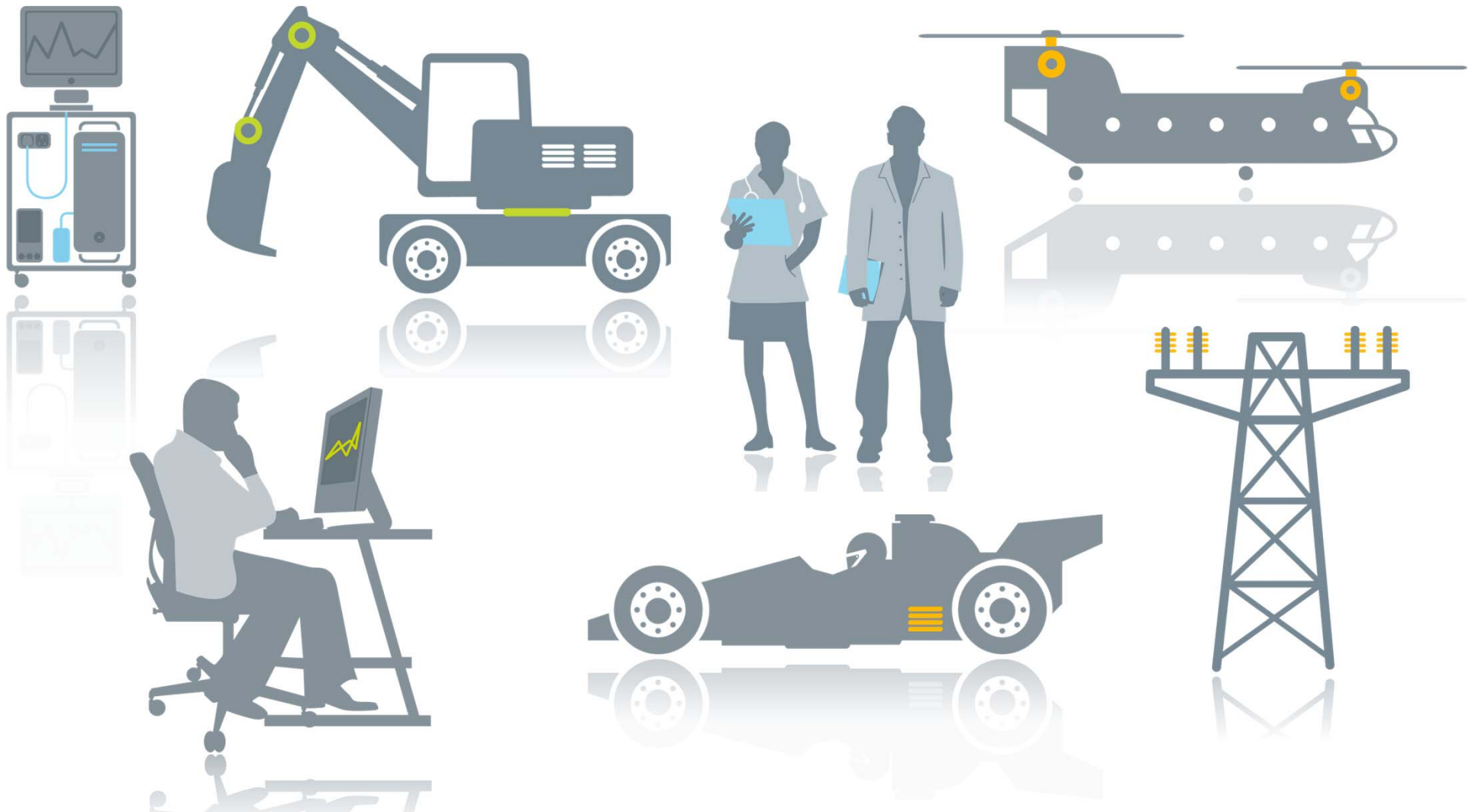
Controls

Sector Developments



-
- > Acquisition of Amfast in May 2012 extends Clarendon fastener business into Civil Aerospace sector - operational and back office functions to be integrated
 - > Acquisition of Abbeychart in March 2012 extends the Hawco Group's involvement in the Food & Beverage sector - good opportunities for cross-selling and operational efficiencies
 - > Relocation of IS-Rayfast business to new location in November 2012 - will become central management and operational hub for IS-Group business in the UK

4. Financial Highlights



Profit Before Tax

Year ended 30 September

	2012 £m	2011 £m	
Revenue	260.2	230.6	+13%
Adjusted operating profit	52.8	45.2	+17%
<i>Operating margin</i>	<i>20.3%</i>	<i>19.6%</i>	
Net interest expense	(0.2)	(0.3)	
Adjusted profit before tax	52.6	44.9	+17%
Acquisition related charges	(6.4)	(4.8)	
Fair value remeasurements	(0.2)	(0.9)	
IFRS profit before tax	46.0	39.2	+17%

Underlying Results

Year ended 30 September

		Revenue £m	Adjusted operating profit £m
As reported - FY2012		260.2	52.8
Forex	Translation	0.7	-
	Transaction	-	(0.5)
		260.9	52.3
Acquisitions	J Royal	(9.1)	(1.4)
	Abbeychart, Amfast, DSL, CMI	(9.3)	(1.3)
Divestment	a1-envirosciences (Switzerland)	1.9	0.4
		244.4	50.0
Increase in underlying results		6%	11%
As reported - FY2011		230.6	45.2

Taxation

Year ended 30 September

	2012 £m	2011 £m	
Adjusted profit before tax	52.6	44.9	
IFRS taxation	(14.4)	(11.6)	
Adjustments	(0.7)	(1.3)	
Adjusted tax	(15.1)	(12.9)	
<i>Effective adjusted tax rate</i>	<i>28.7%</i>	<i>28.7%</i>	
Earnings per share			
Adjusted	33.1p	27.9p	+19%
Basic (IFRS)	27.9p	24.0p	+16%

Free Cash Flow

Year ended 30 September

	2012	2011
	£m	£m
Operating profit	52.8	45.2
Depreciation	2.1	2.1
Working capital	(5.2)	(7.4)
Pension and share schemes, net	0.5	0.4
Operating cash flow	50.2	40.3
Interest paid, net	(0.3)	(0.5)
Taxation	(13.7)	(12.4)
Capital expenditure	(3.5)	(1.7)
Purchase of own shares	-	(1.6)
Disposal of business	-	0.9
Free cash flow	32.7	25.0

Net Debt

Year ended 30 September

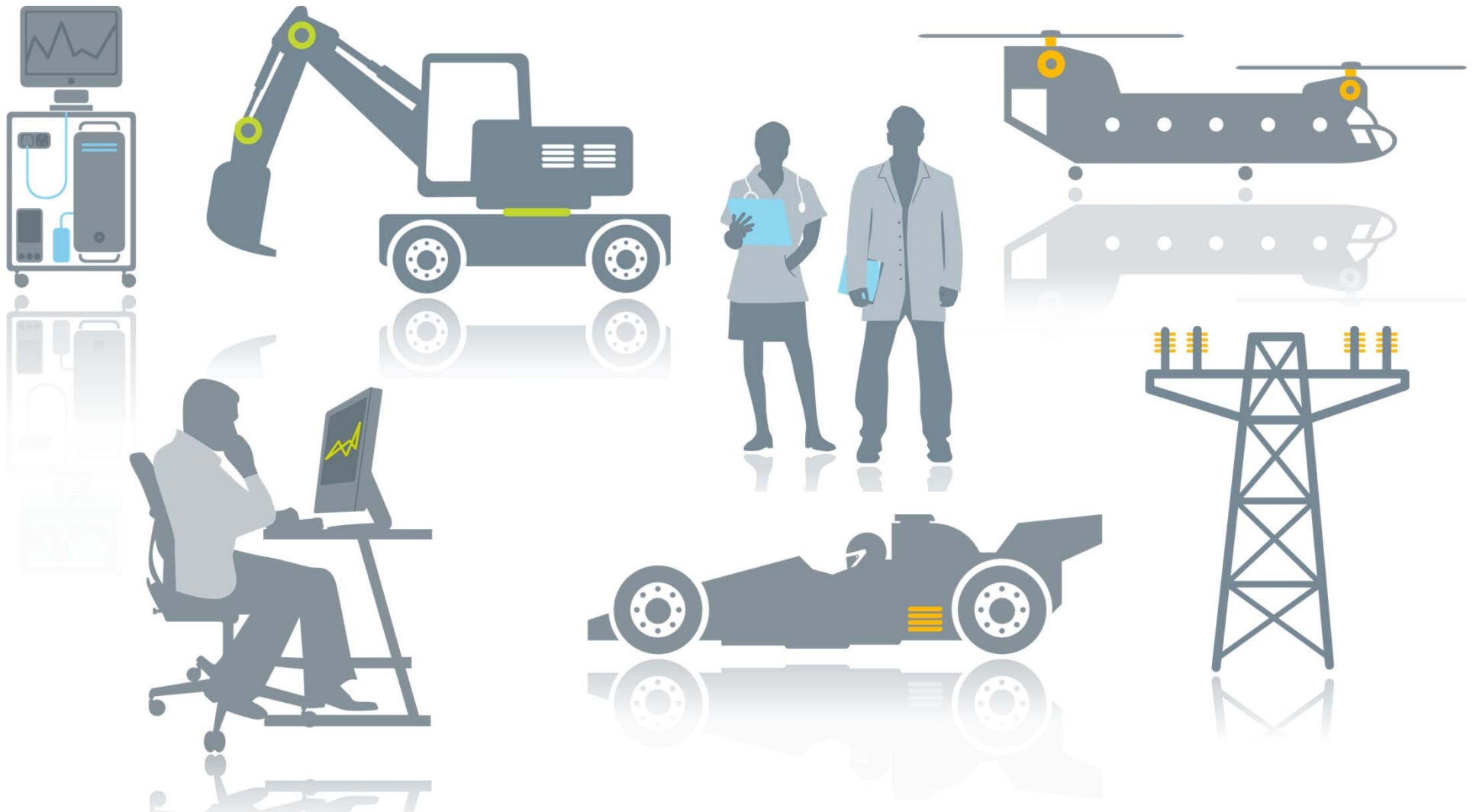
	2012 £m	2011 £m
Free cash flow	32.7	25.0
Acquisition cash paid	(21.5)	(27.3)
Deferred consideration	(0.8)	(0.9)
Dividends	(14.3)	(14.8)
	(3.9)	(18.0)
Net funds brought forward	12.2	30.1
Exchange adjustments	(0.4)	0.1
Net funds	7.9	12.2
<i>Comprising:</i>		
Cash funds	11.4	17.8
Borrowings	(3.5)	(5.6)

Shareholders' Funds

As at 30 September

	2012 £m	2011 £m
Goodwill	79.8	74.4
Acquisition intangible assets	32.2	27.3
Investment	0.7	-
Tangible assets	13.0	11.4
	<u>125.7</u>	<u>113.1</u>
Net working capital	44.4	37.1
Trading capital employed	170.1	150.2
Retirement benefit obligations	(5.4)	(5.4)
Deferred tax, net	(1.6)	(2.0)
Future purchases of minorities	(3.2)	(2.0)
Deferred consideration	(0.6)	(1.1)
Net funds	7.9	12.2
	<u>167.2</u>	<u>151.9</u>
less: minority interests	(1.4)	(0.5)
Total shareholders' equity	165.8	151.4

5. Growth Strategy



Growth Strategy

- > The Group is well diversified by geography and business area
- > Our resilient business model delivers “GDP plus” organic growth
 - > **essential** products and services give recurring income and stable revenue growth
 - > **essential** solutions support sustainable and attractive margins
 - > **essential** values ensure our businesses are agile and responsive to change
- > **Acquire, Build, Grow** strategy designed to deliver strong, double digit growth in earnings
- > Ungearred balance sheet, committed bank facilities and strong cash flow will fund the growth strategy and healthy dividends
- > We are investing to support sustainable growth for the next five years



Current Trading

Group

- > Resilient business model
- > Good geographic spread
- > Strong balance sheet and robust cash flow

Seals

- > Robust underlying growth in key markets in North America
- > Aftermarket continues to be strong

Life Sciences

- > Good start to the year
- > Benefiting from investments made last year to consolidate Canadian Healthcare businesses and to expand in Australia

Controls

- > Benefiting from UK acquisitions completed last year
- > Continental European markets remain challenging

Acquisitions

- > Accelerate and broaden the search for good quality, value-enhancing acquisitions

THE GROUP IS WELL PLACED TO MAKE FURTHER PROGRESS IN THE NEW FINANCIAL YEAR

Contact

Bruce M Thompson
Chief Executive Officer

Tel: +44 (0) 20 7549 5700
Fax: +44 (0) 20 7549 5715
Email: investors@diplomapl.com

Nigel P Lingwood
Group Finance Director

12 Charterhouse Square
London EC1M 6AX

Tulchan Communications

David Allchurch
Martin Robinson
Tel: +44 (0) 20 7353 4200
Email: diploma@tulchangroup.com

