



DIPLOMA PLC

# DIPLOMA DELIVERS

Half year ended 31 March 2023

15 May 2023



# AGENDA

1 Overview

2 Financial Performance

3 Business Review

4 Q&A

# Overview

Johnny Thomson  
Chief Executive Officer



## Strong first half, upgrading full year guidance

- Another **strong performance**, building on our long term compounding track record
- Revenue diversification driving continued strong **volume-led organic revenue** growth in H1
- Focused **portfolio development**: eight high quality acquisitions, one disposal
- Continued scaling of our value-add model underpinning **margin improvement**
- **Upgrade to full year guidance** underscores our resilience
- Strong balance sheet and **encouraging acquisition pipeline**
- Delivering Value Responsibly (DVR): **net zero targets submitted to SBTi** for validation

Continued quality compounding

## Strong results

Organic  
revenue growth

**10%**

Model:  
**5%**

Revenue growth

**30%**

Model:  
**10%+**

Adjusted operating  
profit margin

**18.8%**

Model: H1 2022:  
**17%+ 18.4%**

Adjusted EPS growth

**26%**

Model:  
**15%**

Free cash flow  
conversion

**70%**

H1 2022:  
**64%**

Net debt / EBITDA

**0.7<sub>x</sub>**

Model:  
**<2.0<sub>x</sub>**

ROATCE

**17.8%**

Model: H1 2022:  
**High teens 17.5%**

Dividend per share  
(DPS) growth

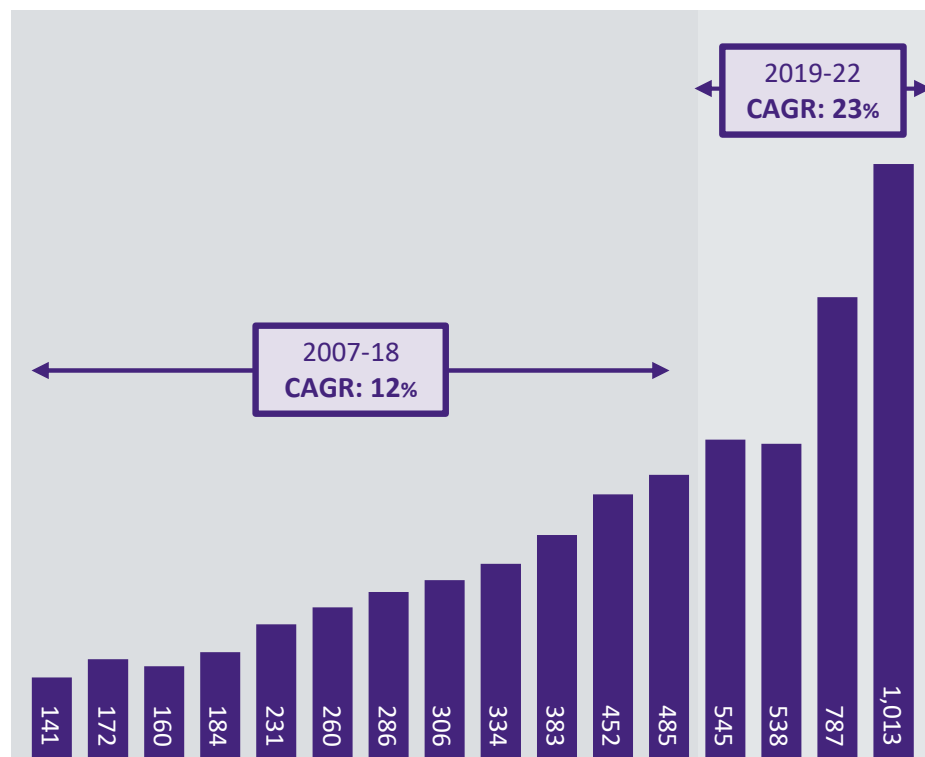
**10%**

Interim dividend:  
**16.5p**

Compounding double-digit growth at attractive returns

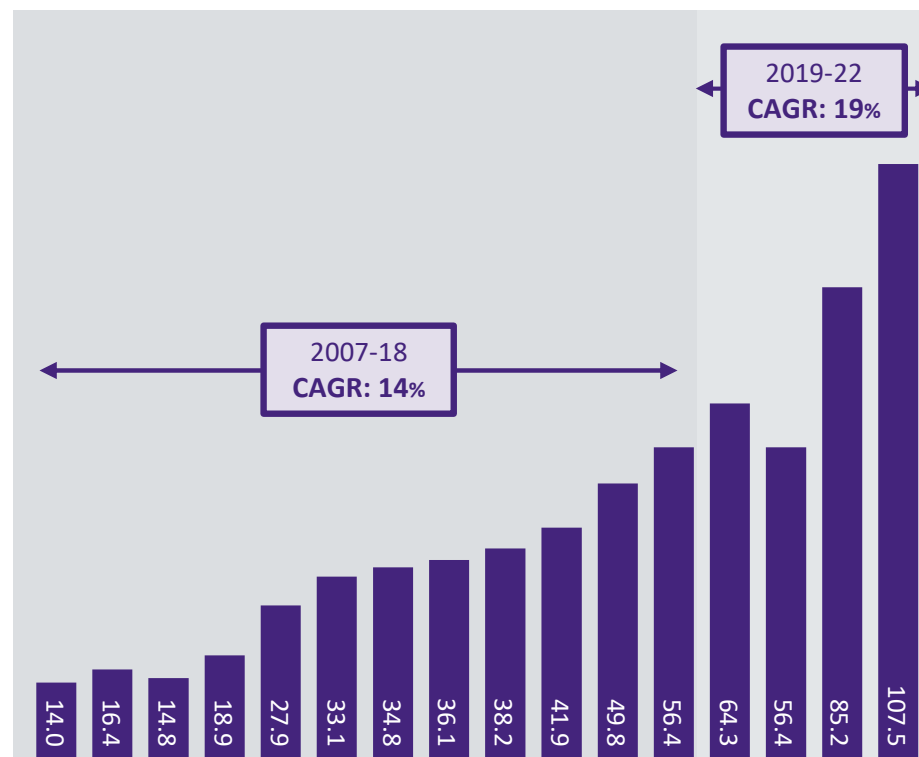
# Track record of compounding

Reported revenue (£m)



15 year revenue CAGR: 14%

Adjusted EPS (pence)



15 year EPS CAGR: 15%

# Colleagues and culture

## Brilliant colleagues

- Excellent levels of employee engagement (79%)
- Constant focus on wellbeing: mental health, flexibility, community activity
- Promoting a more diverse and inclusive environment: leadership gender diversity increased to 28% (2019: 20%)

## Strength of decentralised culture as we scale

- Preserving the local culture
- Common Diploma Identity: purpose and values
- Managing effectively through lean structures
- Building management capability through internal development programs
- Creating networks of best practice




Codie Whadcock  
Motorsport Technical Sales Apprentice

Lucy Nash  
Purchasing Administrator Apprentice

Danya Parks  
Industrial Sales Apprentice

Apprenticeship development programmes

Meet the Apprentices

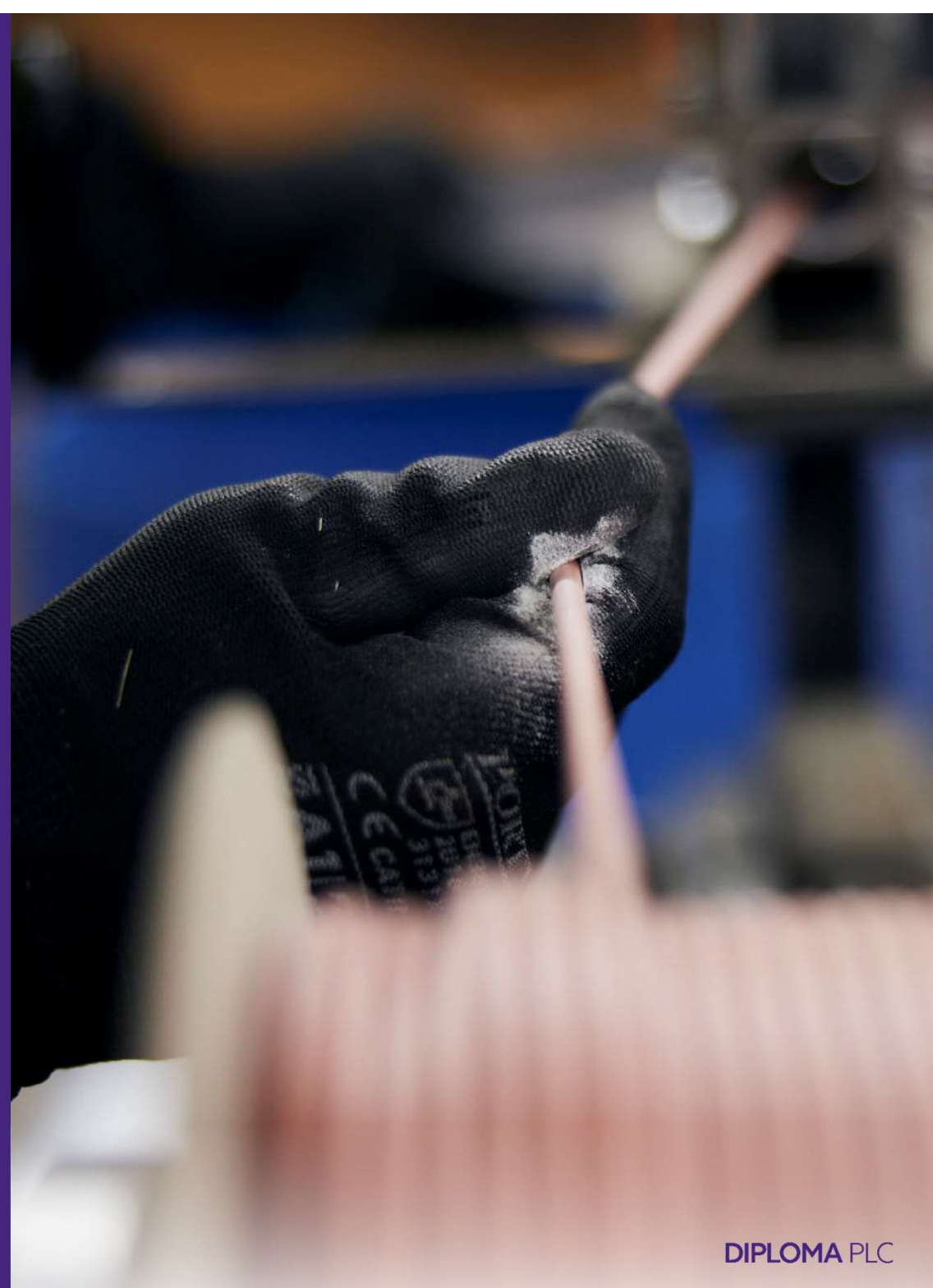


STRESS AWARENESS MONTH

Employee wellness initiatives

# Financial Performance

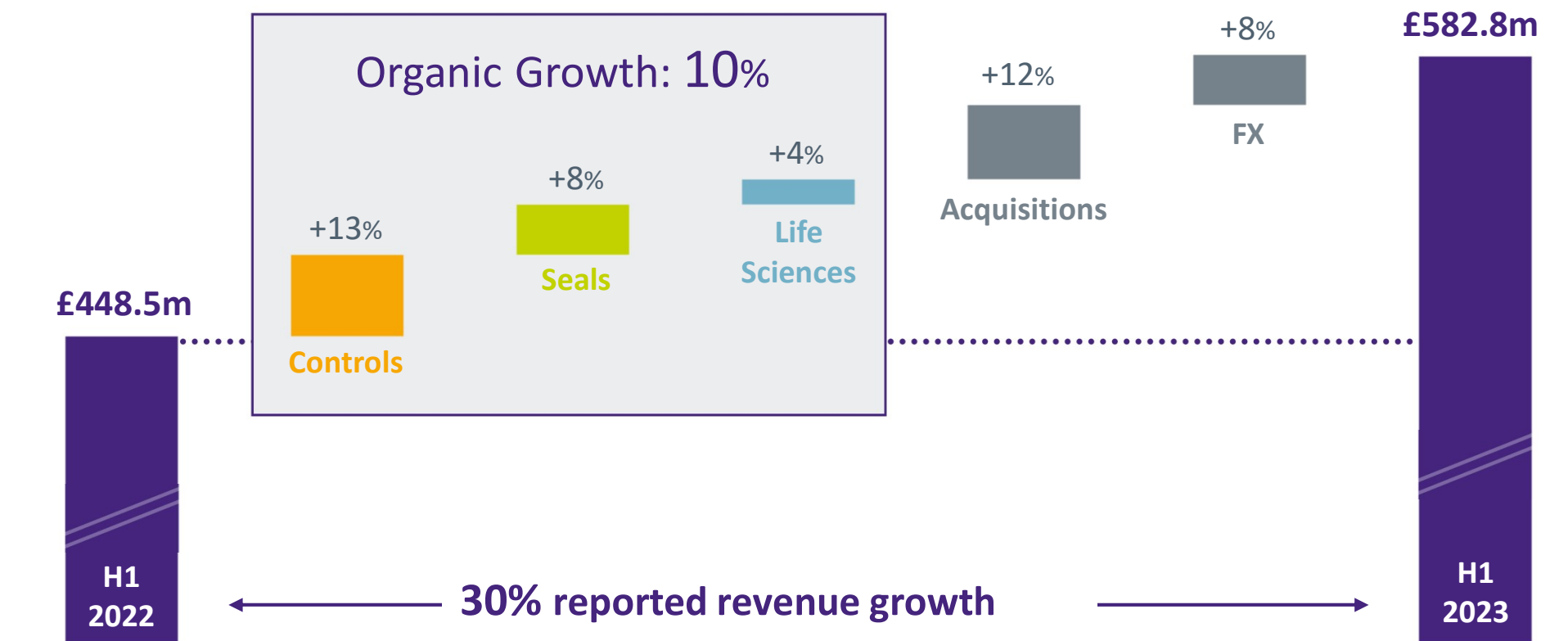
Chris Davies  
Chief Financial Officer





# Revenue

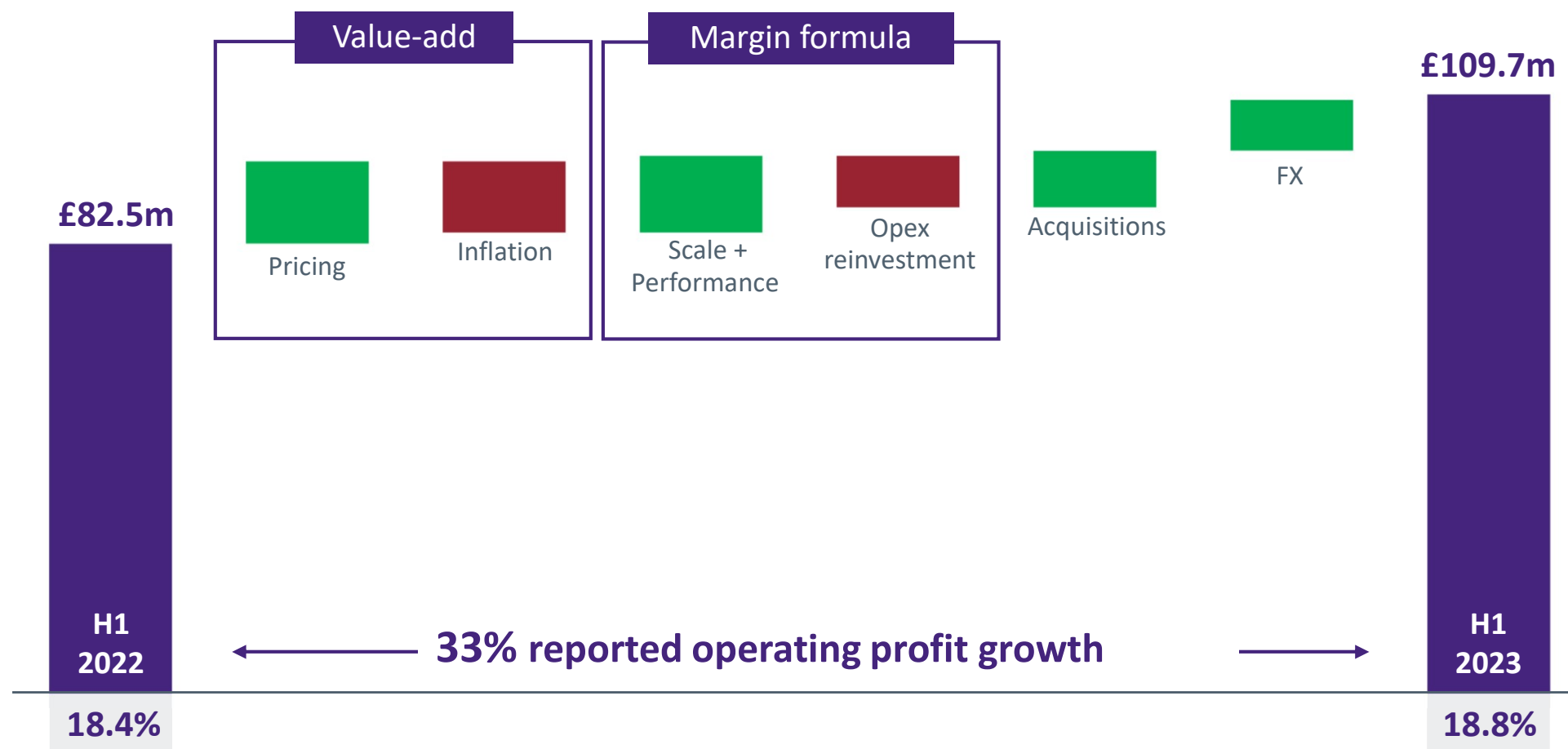
Half Year ended 31 March



**Revenue diversification driving very strong organic growth**

# Adjusted operating profit

Half Year ended 31 March



Value-add driving strong operating margin, up 40bps

# Income statement

Half Year ended 31 March

	H1 2023 £m	H1 2022 £m	Change
Revenue	582.8	448.5	+30%
Adjusted operating profit	109.7	82.5	+33%
Adjusted operating margin (%)	18.8%	18.4%	
Interest expense	(11.0)	(3.9)	
Adjusted profit before tax	98.7	78.6	+26%
<i>Adjusted effective tax rate</i>	<i>25%</i>	<i>25%</i>	
Adjusted earnings	74.1	58.5	+27%
Adjusted earnings per share	59.1p	47.0p	+26%
Total dividend per share	16.5p	15.0p	+10%

**Continuing our long track record of double-digit earnings growth**



# Net debt and cash flow

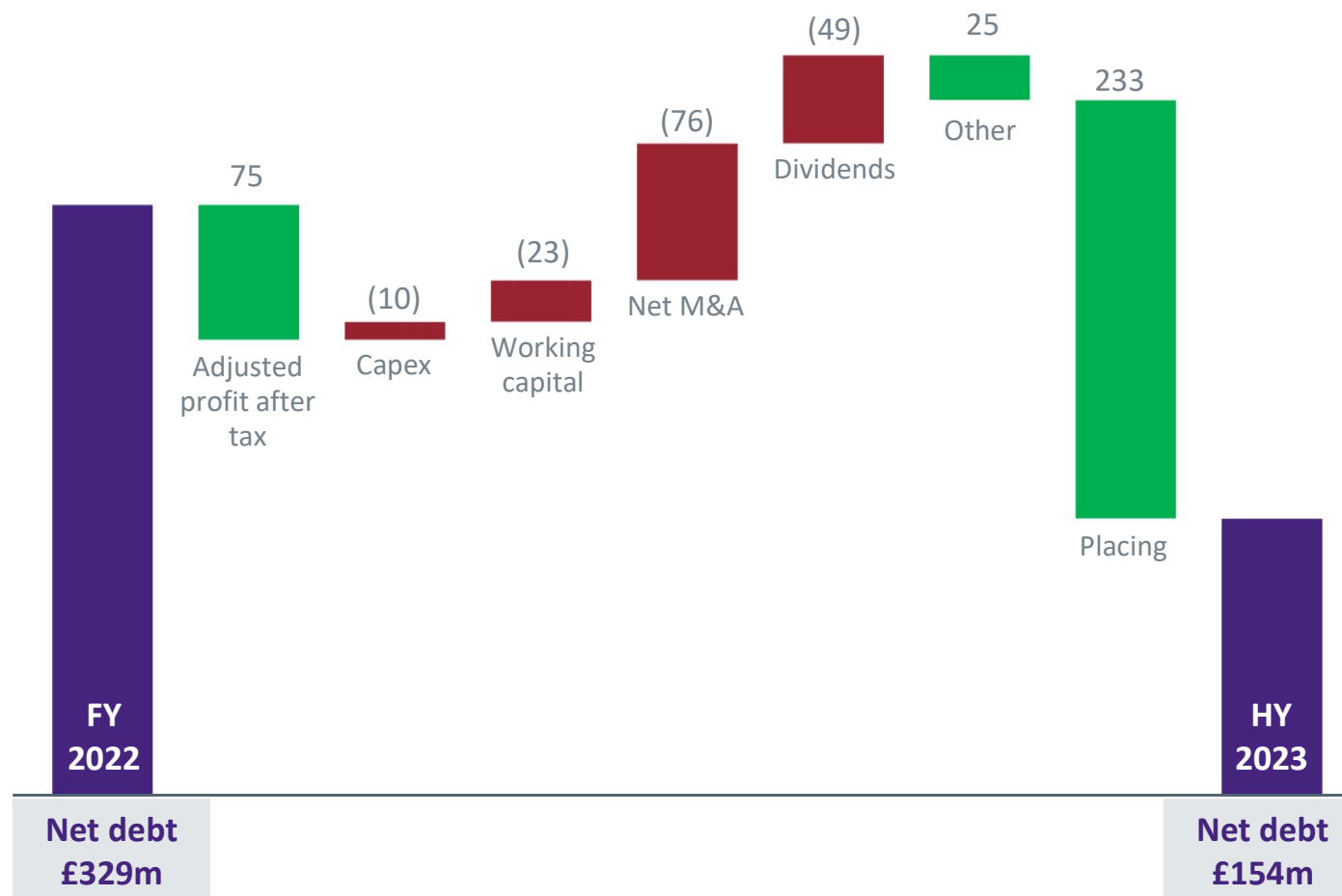
Half Year ended 31 March

Free cash flow  
conversion

**70%** H1 2022:  
64%

Leverage

**0.7<sub>x</sub>**



**Highly cash generative with a strong balance sheet**

# Financial Capacity

Half Year ended 31 March

## Current Facilities

Type	Currency	Amount	GBP equivalent
Term Loan	USD	\$110.5m	£89.3m
Term Loan	USD	\$66.0m	£53.3m
Term Loan	GBP		£45.3m
RCF	Multi		£359.7m
<b>Total Facilities at 31.03.23</b>			<b>£547.6m</b>

Cash & undrawn facilities: **£390m**

Headroom to leverage covenant: **£555m**

- Facility maturities extended to December 2025
- Reviewing longer-term financing structure
- Pension in surplus
- 70% of drawn debt interest hedged (blended 3% + spread)
- 24 month rolling FX hedging programme (6 months 100% hedged)

**Prudent balance sheet management**

# Disciplined portfolio development

## Strong track record

Total investment since FY19

**£840m**

Average organic growth  
since acquisition

**15%**

Average ROATCE

**>16%** and growing

Group ROATCE

**17.8%** Up 30 bps

## Year-to-date

Acquired TIE for £76m

- Entry to strategically important Industrial Automation end market in the US
- Strong organic growth potential at accretive operating margins

Continued small bolt-ons to our core business lines

- Completed seven for £23m
- Average EBIT multiple under 5x
- £24m of annual revenue
- Accretive EBIT margins and 20% year one ROATCE

Continued portfolio management discipline

- Disposal of non-core business for £23m

**Acquisitions accelerating organic growth**



# Increasing full year guidance

## CURRENT TRADING

Positive start to H2

---

Resilient, diversified  
business

---

Confident in another  
strong FY performance

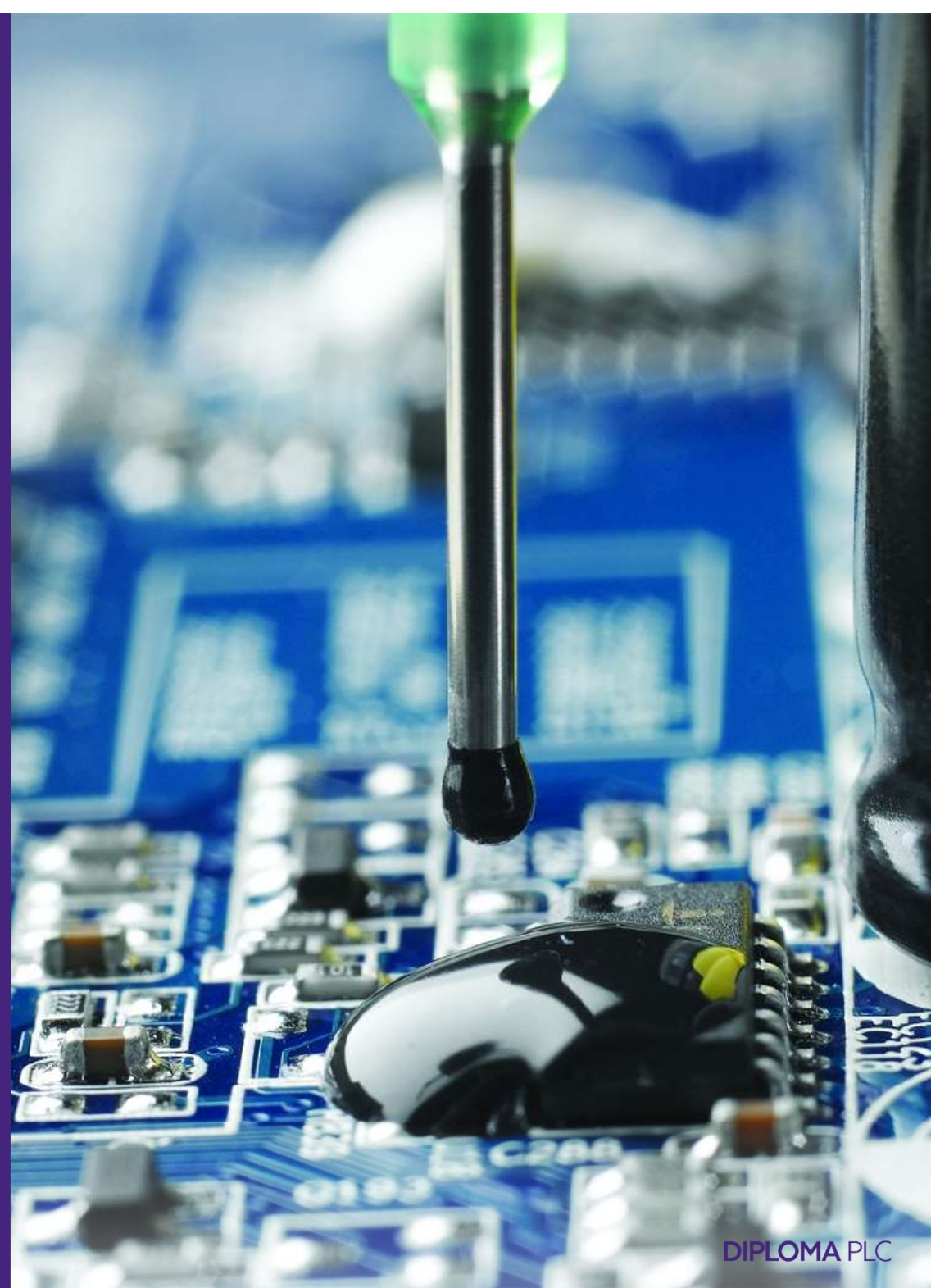
## UPGRADED FY 2023 GUIDANCE

- Double digit revenue growth:
  - Organic growth: c.7%
  - Acquisitions: c.7%
- Operating margin at top of guided range, c.19%
- Free cash flow conversion of c.90%
- Year-end leverage < 0.4x before further acquisitions

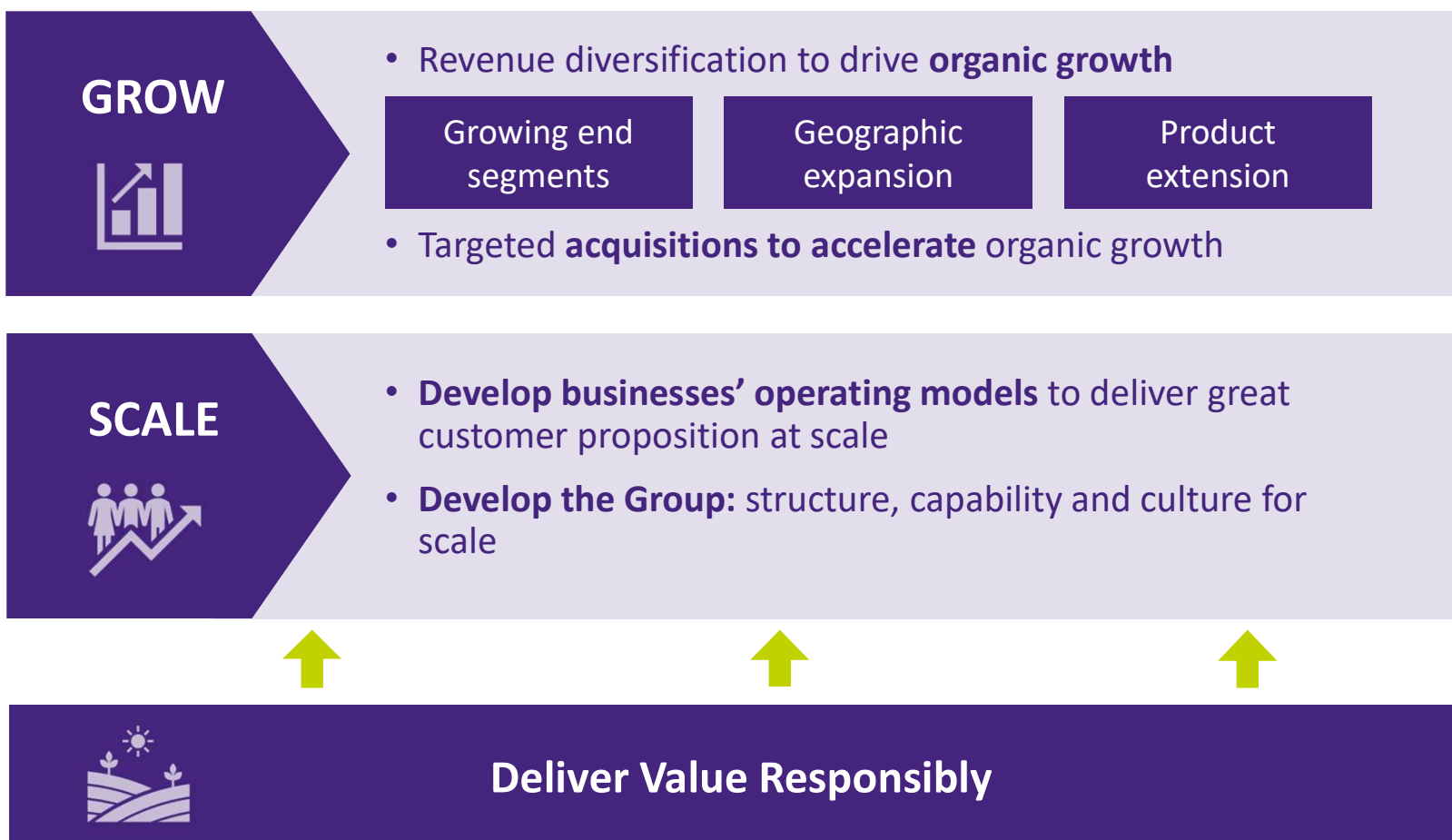
**Continued strong growth + increasing resilience = FY upgrade**

# CEO Review

Johnny Thomson  
Chief Executive Officer



# Building high quality, scalable businesses for sustainable organic growth





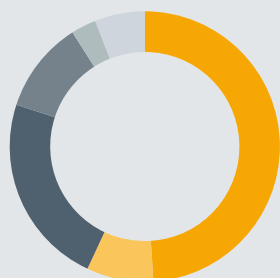
# Controls



## % of Group revenue \*

48%

## Sector revenue mix \*



● Windy City Wire	49%
● Wire & Cable (UK)	8%
● Interconnect	23%
● Fasteners	11%
● Adhesives	3%
● Automation	6%

\* Pro forma revenues adjusted for acquisitions and disposals completed during the year

	H1 2023	H1 2022	Change
Revenue	£278.8m	£224.0m	+24%
Organic growth	+13%	+28%	
Adjusted operating profit	£64.3m	£47.0m	+37%
Adjusted operating margin	23.1%	21.0%	+210bps

## H1 2023 highlights

- WCW organic +10%: sustained double-digit growth against strong prior year comparator
- Excellent performance in International Controls with organic growth +15%:
  - Market share gains in recovering civil aerospace markets
  - Structural tailwinds in defence and energy markets
  - Strong footholds in Europe/US across established end markets and growing well
- Portfolio development
  - Adhesives: strong organic growth, two bolt-on acquisitions
  - Industrial Automation market entry with TIE
  - Disposal of non-core Hawco business
- Margin +210bps:
  - Scale benefits and performance
  - Disposal of Hawco will be margin accretive to the Sector



## Acquisition of TIE



### Differentiated, value-add proposition

- Very strong aftermarket capability
- Deep technical expertise, speed to market
- Circular economy: refurb & lifecycle support

### Exciting Industrial Automation end market

- Attractive end segment
- Onshoring US manufacturing
- Growing aging base of CNC machines/robots

### Excellent growth prospects and track record

- Track record of strong growth at accretive margins
- Geographic and product growth potential
- Benefits of being part of the Diploma Group

Growth, margin and earnings enhancing in FY 2023

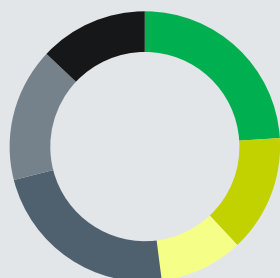
# Seals



## % of Group revenue \*

34%

## Sector revenue mix \*



● UK Aftermarket	24%
● European OEM	14%
● Australia	10%
● NA Aftermarket	23%
● US OEM	16%
● US MRO	13%

\* Pro forma revenues adjusted for acquisitions and disposals completed during the year

	H1 2023	H1 2022	Change
Revenue	£198.4m	£137.4m	+44%
Organic growth	+8%	+15%	
Adjusted operating profit	£35.7m	£25.8m	+38%
Adjusted operating margin	18.0%	18.8%	-80bps

## H1 2023 highlights

- International Seals +12% organic:
  - Excellent trading performance in R&G
  - Strong performance in water management segment in Australia
- North American Seals +4% organic against strong comparator (H1 2022: +19%)
  - Strong double-digit growth in North American Aftermarket and MRO
  - Softer performance in US Industrial OEM this half
- Portfolio development
  - Two bolt-ons in North American Seals
  - Three bolt-ons in R&G
- Margin -80bps:
  - R&G first year dilution
  - R&G improving margin plus Sector scale/performance benefits see margins improve in H2



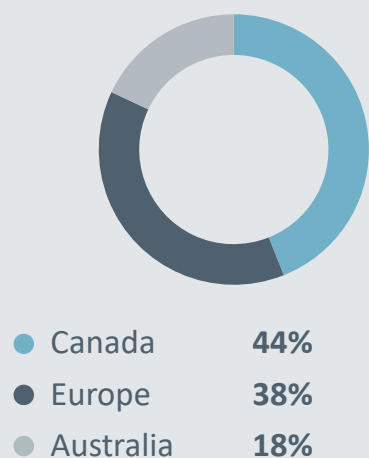
# Life Sciences



## % of Group revenue \*



## Sector revenue mix \*



\* Pro forma revenues adjusted for acquisitions and disposals completed during the year

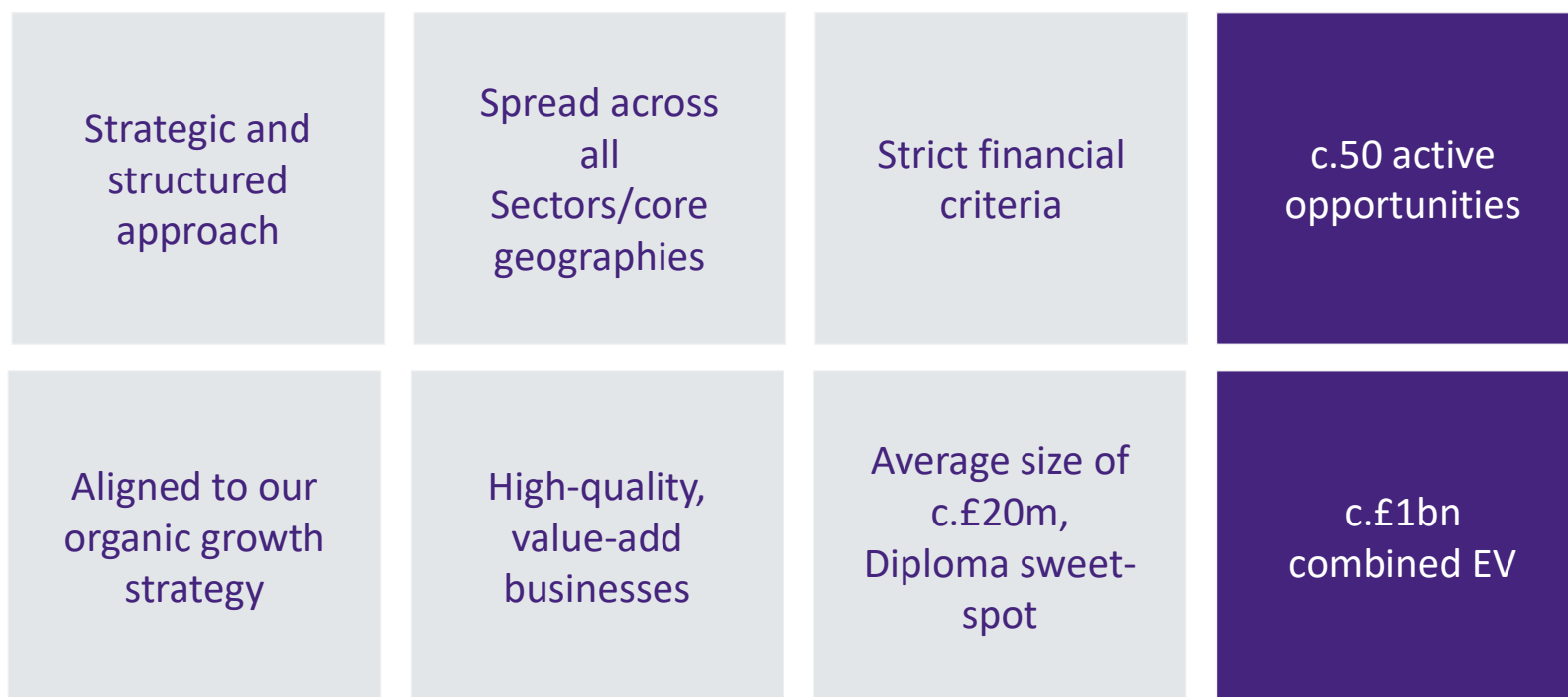
	H1 2023	H1 2022	Change
Revenue	£105.6m	£87.1m	+21%
Organic growth	+4%	-7%	
Adjusted operating profit	£20.9m	£19.6m	+7%
Adjusted operating margin	19.8%	22.5%	-270bps

## H1 2023 highlights

- 4% organic growth
  - Momentum accelerating in Q2
  - Continued recovery in surgical and operating room procedures
  - Normalising healthcare development investment post-pandemic
  - Strong diagnostic performance
- Well positioned for continued growth
  - Elective surgical backlogs
  - Rising diagnostics investment
  - Increasing funding approvals into medical equipment
- Margin -270bps:
  - Accuscience first year acquisition dilution impact, lapped in H2.
  - Mix: more capital this half / more consumable roll-off thereafter at higher margin

# Acquisitions to accelerate organic growth

## Active medium term pipeline



Established team, structured process, quality pipeline

# Delivering Value Responsibly (DVR)



## Building momentum

- Performance plans in place and delivering improvements
- Net zero plans submitted to SBTi (2045 across full value chain)
- Huge positive impact opportunity
- New Sustainability Director

Significant commercial potential

## Concluding remarks

- Strong performance across all our metrics.
- Upgraded guidance for the year, demonstrating our resilience.
- Massive potential for organic growth.
- Great acquisitions delivering, with an active medium term pipeline.
- Scaling the Businesses and the Group for sustainable delivery.

Continued Quality Compounding

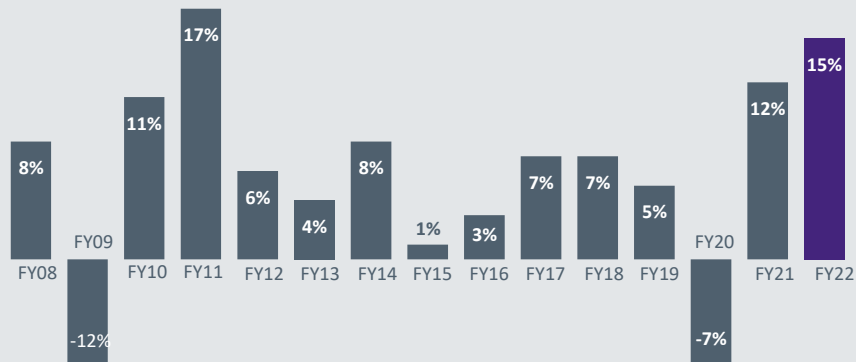
# Appendix



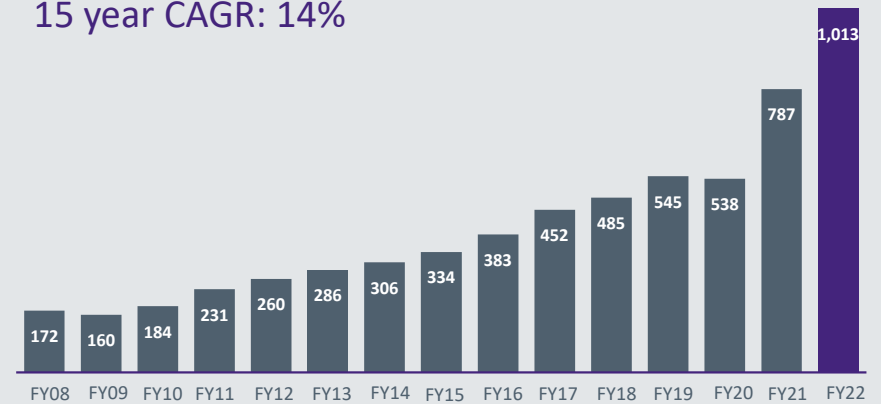


# Fifteen year track record

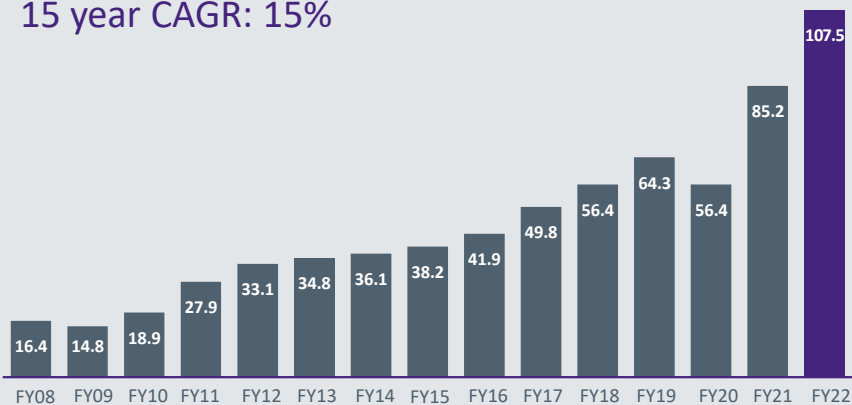
Organic growth  
15 year average: 5.7%



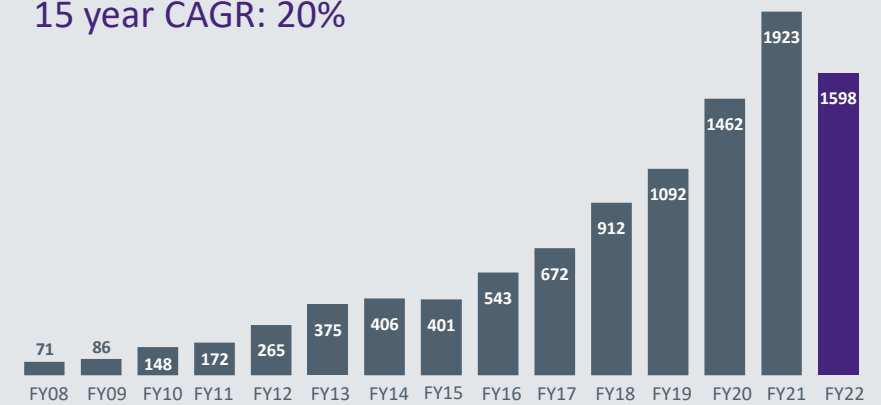
Reported revenue (£m)  
15 year CAGR: 14%



Adjusted EPS (pence)  
15 year CAGR: 15%



TSR growth  
15 year CAGR: 20%



## Sector revenue and profit

### Revenue

	H1 2023 £m	H1 2022 £m	Change
Controls	278.8	224.0	+24%
Seals	198.4	137.4	+44%
Life Sciences	105.6	87.1	+21%
<b>Group</b>	<b>582.8</b>	<b>448.5</b>	<b>+30%</b>

### Organic growth

H1 2023 %	H1 2022 %
+13%	+28%
+8%	+15%
+4%	(7)%
<b>+10%</b>	<b>+16%</b>

### Adjusted operating profit

	H1 2023 £m	H1 2022 £m	Change
Controls	64.3	47.0	+37%
Seals	35.7	25.8	+38%
Life Sciences	20.9	19.6	+7%
Central costs	(11.2)	(9.9)	+13%
<b>Group</b>	<b>109.7</b>	<b>82.5</b>	<b>+33%</b>

### Adjusted operating margin

H1 2023 %	H1 2022 %	Change
23.1	21.0	+210bps
18.0	18.8	-80bps
19.8	22.5	-270bps
-	-	-
<b>18.8</b>	<b>18.4</b>	<b>+40bps</b>

# Balance sheet

As at 31 March

	H1 2023 £m	H1 2022 £m
Goodwill and acquisition intangible assets	826.1	612.1
Tangible and other intangible assets	53.4	39.9
Net lease liabilities	(7.0)	(6.5)
Net working capital	195.5	153.4
Assets held for sale	-	2.9
<b>Trading capital employed - reported</b>	<b>1,068.0</b>	<b>801.8</b>
<i>Working capital as % of revenue</i>	<i>17.1%</i>	<i>17.7%</i>
<i>ROATCE</i>	<i>17.8%</i>	<i>17.5%</i>
Retirement benefit assets/(obligations)	8.8	(4.9)
Acquisition liabilities and assets, net	(23.1)	(17.7)
Net bank debt	(154.0)	(209.5)
Minority interests and deferred tax, net	(43.0)	(22.0)
<b>Total shareholders' funds (excluding minority interests)</b>	<b>856.7</b>	<b>547.7</b>

# Financial KPIs

## Five year trends

	2022	2021	2020	2019	2018
<b>Revenue</b>	£1,012.8m	£787.4m	£538.4m	£544.7m	£485.1m
<i>Total growth</i>	+29%	+46%	-1%	+12%	+7%
<i>Organic growth</i>	+15%	+12%	-7%	+5%	+7%
<b>Adjusted operating margin</b>	18.9%	18.9%	16.2%	17.8%	17.5%
<b>Working capital (% revenues)</b>	15.6%	15.8%	16.0%	16.5%	15.1%
<b>Free cash flow</b>	£120.4m	£108.8m	£72.5m	£56.5m	£60.5m
<i>Free cash conversion (%)</i>	90%	103%	113%	78%	95%
<b>ROATCE</b>	17.3%	17.4%	19.1%	22.9%	24.5%

Average  
over  
five years:

Organic revenue  
growth

6.4%

Adjusted  
operating margin

17.9%

ROATCE

20.2%

Free cash flow  
conversion

96%