

DIPLOMA PLC

Consistently delivering value

Diploma PLC
Half Year Ended 31 March 2022

16 May 2022



AGENDA

- 1 Overview
- 2 Financial Performance
- 3 Business Review
- 4 Q&A

Overview

Johnny Thomson
Chief Executive Officer



Successfully executing our strategy

- Building high quality, scalable businesses for organic growth
- Revenue diversification initiatives delivering organic growth, building scale and increasing resilience
- Increased operating margin: value-add model supports management of supply chain challenges, labour pressures and inflation
- Strong H1 performance: confident in materially upgraded full year guidance in April
- Three strategically important acquisitions
- Developing structures and management capability for scale
- Delivering Value Responsibly gaining momentum

Great strategic progress and financial performance

Results

Reported revenue
growth

23%

Underlying
revenue growth

16%

Adjusted operating
margin

18.4%

Adjusted EPS
growth

22%

Free cash flow
conversion

64%

Net debt / EBITDA

1.2x

ROATCE

17.5%

Dividend growth

20%

A strong performance

Prioritising our Colleagues

Valuing our People

- Wellbeing: prioritising physical and mental health
- Engagement: excellent ongoing engagement scores and activity
- Management development
- Community: collaboration around social and environmental causes
- Cost of living: continuous compensation reviews

Ukraine

- Supporting colleagues affected
- Fundraising for disaster relief
- No direct business exposure



Financial Performance

Barbara Gibbs
Chief Financial Officer



Financial Highlights

Strong financial performance

Revenue



£448.5m

H1 2021: £365.2m

Underlying growth: **16%**

Adjusted
operating profit



£82.5m

H1 2021: £66.6m

+24%

Adjusted
operating margin



18.4%

H1 2021: 18.2%

+20_{bps}

Free cash flow
conversion



64%

H1 2021: 72%

Net debt/EBITDA



1.2x

FY 2021: 1.1x

ROATCE

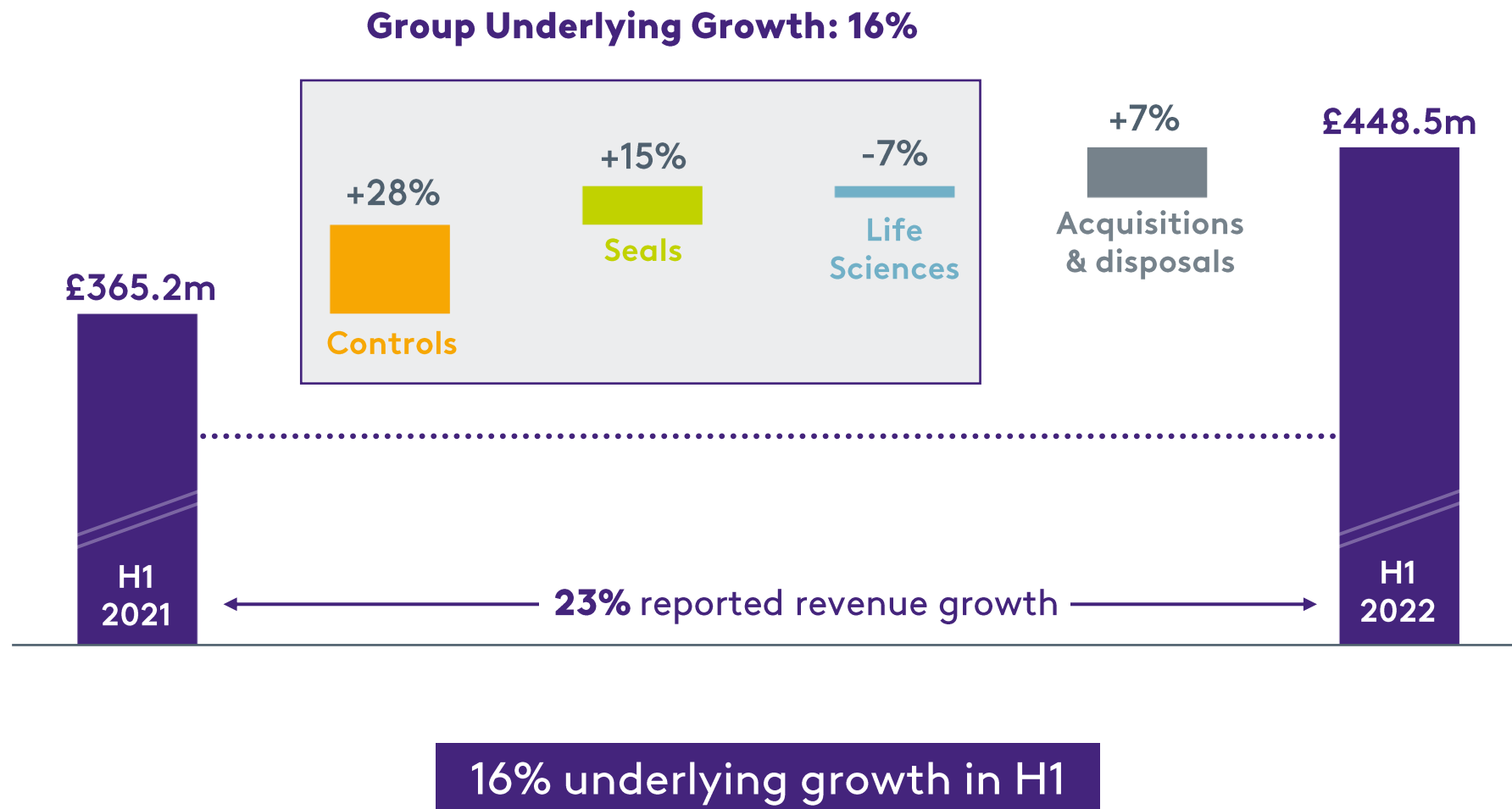


17.5%

H1 2021: 16.5%

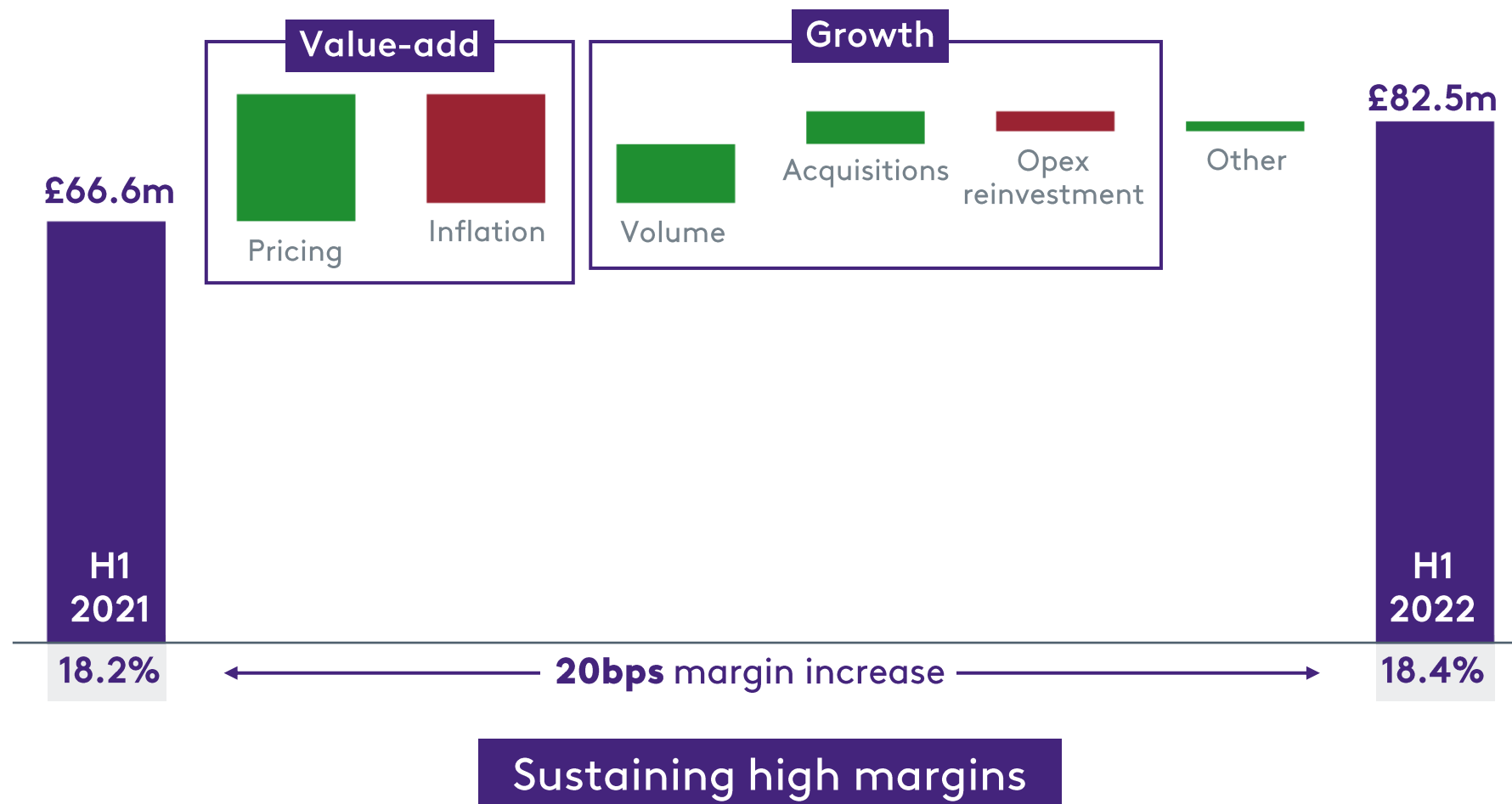
Revenue

Half Year ended 31 March



Adjusted operating profit

Half Year ended 31 March



Income statement

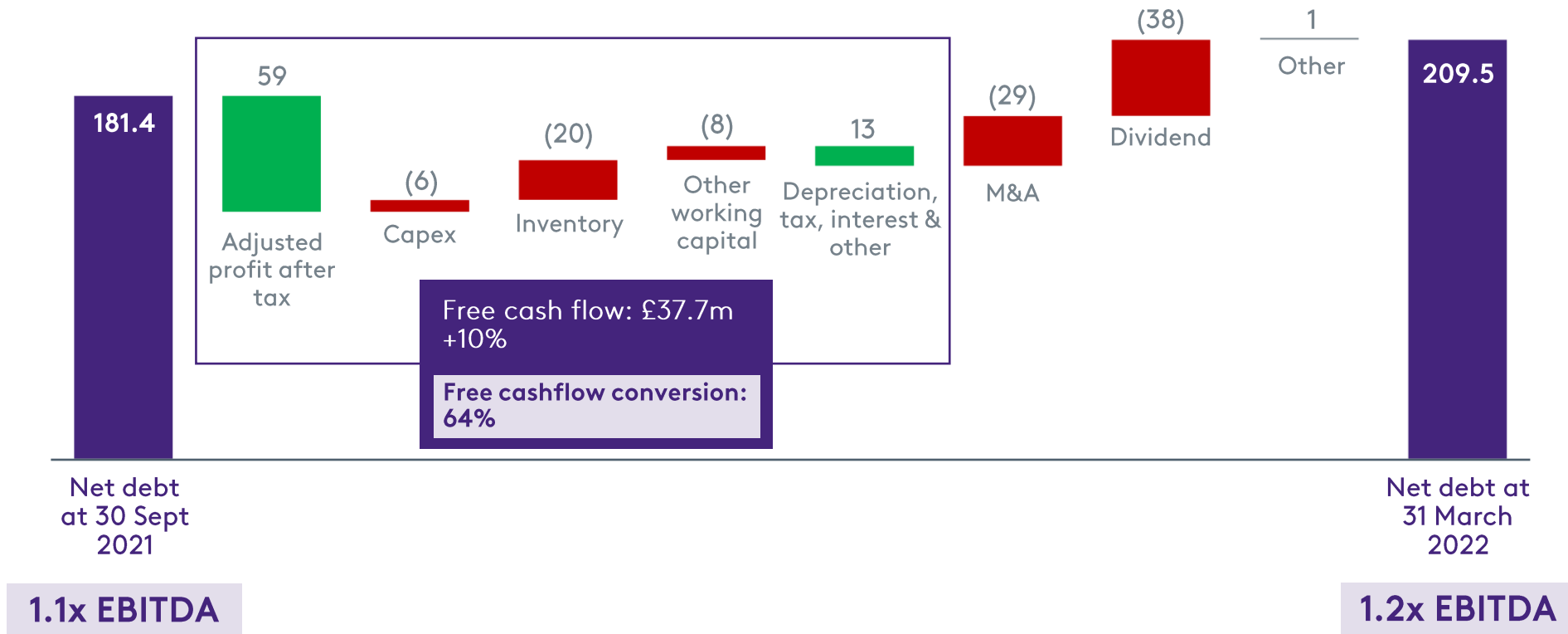
Half Year ended 31 March

	H1 2022 £m	H1 2021 £m	Change
Revenue	448.5	365.2	+23%
Adjusted operating profit	82.5	66.6	+24%
Adjusted operating margin (%)	18.4%	18.2%	+20bps
Interest expense	(3.9)	(3.4)	
Adjusted profit before tax	78.6	63.2	+24%
<i>Adjusted effective tax rate</i>	<i>25%</i>	<i>24%</i>	
Adjusted profit after tax	58.8	48.0	+23%
Adjusted earnings per share	47.0p	38.4p	+22%
Interim dividend per share	15.0p	12.5p	+20%

20%+ growth in revenue, operating profit and EPS

Net debt and cashflow

£m



Resilient cash flow generation

M&A: disciplined portfolio development

M&A year to date



Average
acquisition
multiple
ca. 9x

Strong and
improving returns:
ROATCE +100bps

ROATCE

17.5%
H1 2021: 16.5%

- Acquisitions – annualised revenues over £100m
- Two small non-core disposals – annualised revenues ca. £35m

Current trading and guidance

Current trading

- Mindful of macro economic uncertainties
- Actively managing supply chain, inflation and labour pressures
- The second half has started well

Confident in materially upgraded April guidance

- Low double-digit underlying revenue growth; expect underlying growth to moderate in Q3
- Reported revenue growth a little over 20%
- Accuscience expected to deliver annualised revenue of ca. £35m
- Adjusted operating margin at top end of the 18-19% range
- Cash conversion in line with financial model (ca. 90%)
- Net debt/EBITDA currently expected to be ca. 1.5x by year end

CEO Review

Johnny Thomson
Chief Executive Officer



Strategy:

Building high quality, scalable businesses for organic growth

Organic Growth



- Drive organic growth: high growth end markets, geographic penetration, product extension
- Build scale
- Increase resilience

Portfolio Development



- Focus on scalable businesses
- Acquisitions to complement our organic growth strategy
- Selective disposals

Value-Add



- Developing our business model Core Competencies to maintain high margins
- Incremental investment in talent, technology and facility
- Build capability, structures and culture to sustain the model

Delivering Value Responsibly



- ESG programme at the centre of our strategy

Organic growth driven by business revenue diversification

High growth end markets

Positioning to take advantage of structurally growing end markets, for example:

- ✓ WCW: datacentres, digital
- ✓ Seals: infrastructure, renewable energy
- ✓ Life Sciences: diagnostics, elective surgical backlogs

Geographic penetration

Increasing our penetration of core developed economies, for example:

- ✓ Expansion in the US: LJR/Interconnect acquisition and Louisville/Seals
- ✓ Scale in UK Seals: R&G Fluid Power Group
- ✓ Building out Life Sciences' European pillar: Accuscience




Product range extension

Extending our product ranges to expand addressable markets, for example:

- ✓ R&G: broadens Seals' product capability in hydraulics, pneumatics
- ✓ New adhesives business line growing very strongly within Controls
- ✓ Product pipeline management in Life Sciences

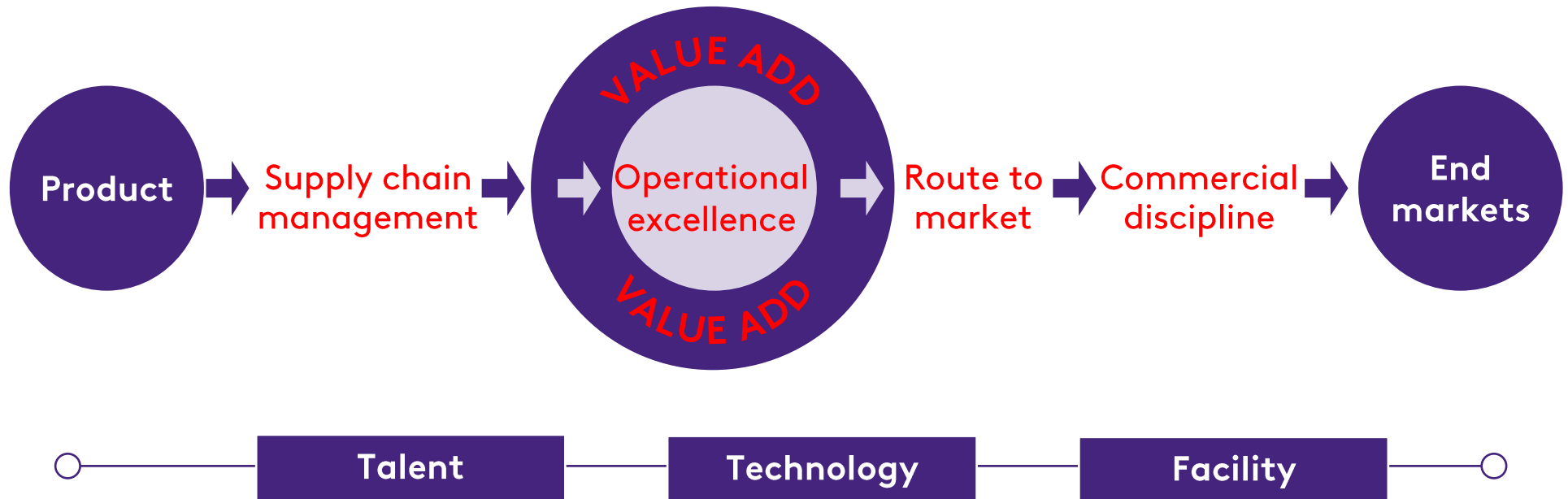
Revenue diversification driving growth, scale and resilience

Portfolio development

Acquisitions to accelerate organic growth		<div>£100m</div> <div>R&G</div> <div>FLUID POWER GROUP</div> <div></div>	<div>£21m</div> <div>LJR</div> <div></div> <div></div>	<div>£51m</div> <div>Accuscience</div> <div>A Pharmed Group Company</div> <div></div>
CHARACTERISTICS	<ul style="list-style-type: none">✓ UK value-add aftermarket distributor✓ Extensive UK reach✓ Fluid Power product range	<ul style="list-style-type: none">✓ US value-add distributor✓ Electrical interconnect products✓ Ohio, US	<ul style="list-style-type: none">✓ Market-leading life sciences distributor✓ Scaled across island of Ireland	
VALUE DRIVERS	<ul style="list-style-type: none">✓ Organic growth✓ Continued 'buy & build'✓ Streamline operations to improve margin	<ul style="list-style-type: none">✓ Organic growth✓ Synergies with existing US business✓ Introduce more value-add processes	<ul style="list-style-type: none">✓ Organic growth✓ Access to fast-growing diagnostics✓ Strong product pipeline	
PORTFOLIO FIT	<ul style="list-style-type: none">✓ Scale in core UK market✓ Product diversification for global Seals	<ul style="list-style-type: none">✓ US scale for Interconnect	<ul style="list-style-type: none">✓ Scale in Ireland and Europe✓ Product diversification✓ Access to new segments	
Disciplined portfolio management		<ul style="list-style-type: none">• Disposals: Kentek in Seals (November '21) and a1-envirosiences in Life Sciences (May '22)		

Value-add: operational execution

Sustaining our margins at scale



Controls



Revenue

£224.0m +47% y/y
+28% underlying

International Controls:

- Underlying growth 17%
- Diversifying end market and geographic revenues

Windy City Wire:

- Underlying growth 42%
- Strong double-digit volume growth: continued market share gains in high growth technology end market

Operating profit

£47.0m +51% y/y
Margin: 21.0% +60bps

Margin +60 bps:

- Margins higher at both International Controls and WCW
- Operational leverage more than offsetting copper pass through, investment in growth

Seals



Revenue

£137.4m +11% y/y
+15% underlying

North American Seals:

- Underlying growth 19%
- Accelerated Aftermarket growth

International Seals:

- Underlying growth 8% after a resilient 2021
- Well diversified end market exposure

Operating profit

£25.8m +25% y/y
Margin: 18.8% +210bps

Margin +210 bps:

- Significant step up in Aftermarket margin as expected
- Louisville: dual running costs end
- Positive operating leverage
- Disposal of Kentek is margin accretive



Life Sciences

Revenue

£87.1m -2% y/y
-7% underlying

Underlying revenue:

- +2% excluding 2021 one-off COVID-related revenue
- Canadian/Australian lockdowns affected 2022
- Not yet seeing catch-up in surgical backlog
- Strength in diagnostics
- Expect return to growth during H2

Operating profit

£19.6m -8% y/y
Margin: 22.5% -150bps

Margin -150bps:

- Very high margin maintained
- H1 2021 benefited from one-off COVID-related sales
- Controlled return of variable costs post-pandemic

Delivering Value Responsibly:

Building momentum

Positive progress in H1

- Embedding ESG in our commercial strategy
- Businesses implementing improvement initiatives
- Positive impact revenue initiatives an important component of our growth
- Engaging with supply chain and rolling out Supplier Code

Next steps:

- Defining our numbers in FY 2022
- Set targets for FY 2023
- Define pathway and timeline to net zero
- Drive business activity/performance

Our Colleagues

- ✓ Engagement & communication
- ✓ Learning & development

Health & Safety

- ✓ Potential hazard reporting
- ✓ Training inc. mental health first aiders

Diversity, Equity & Inclusion

- ✓ Training and awareness

Supply Chain

- ✓ Rolling out Supplier Code

Environment

- ✓ Waste reduction in focus
- ✓ Energy efficiency, inc. new facilities

Concluding remarks

The Half...

- Good results
- Significant strategic progress
- Business revenue diversification strategy delivering double-digit underlying growth
- Value-add model and pricing activity sustaining strong margins

The Future

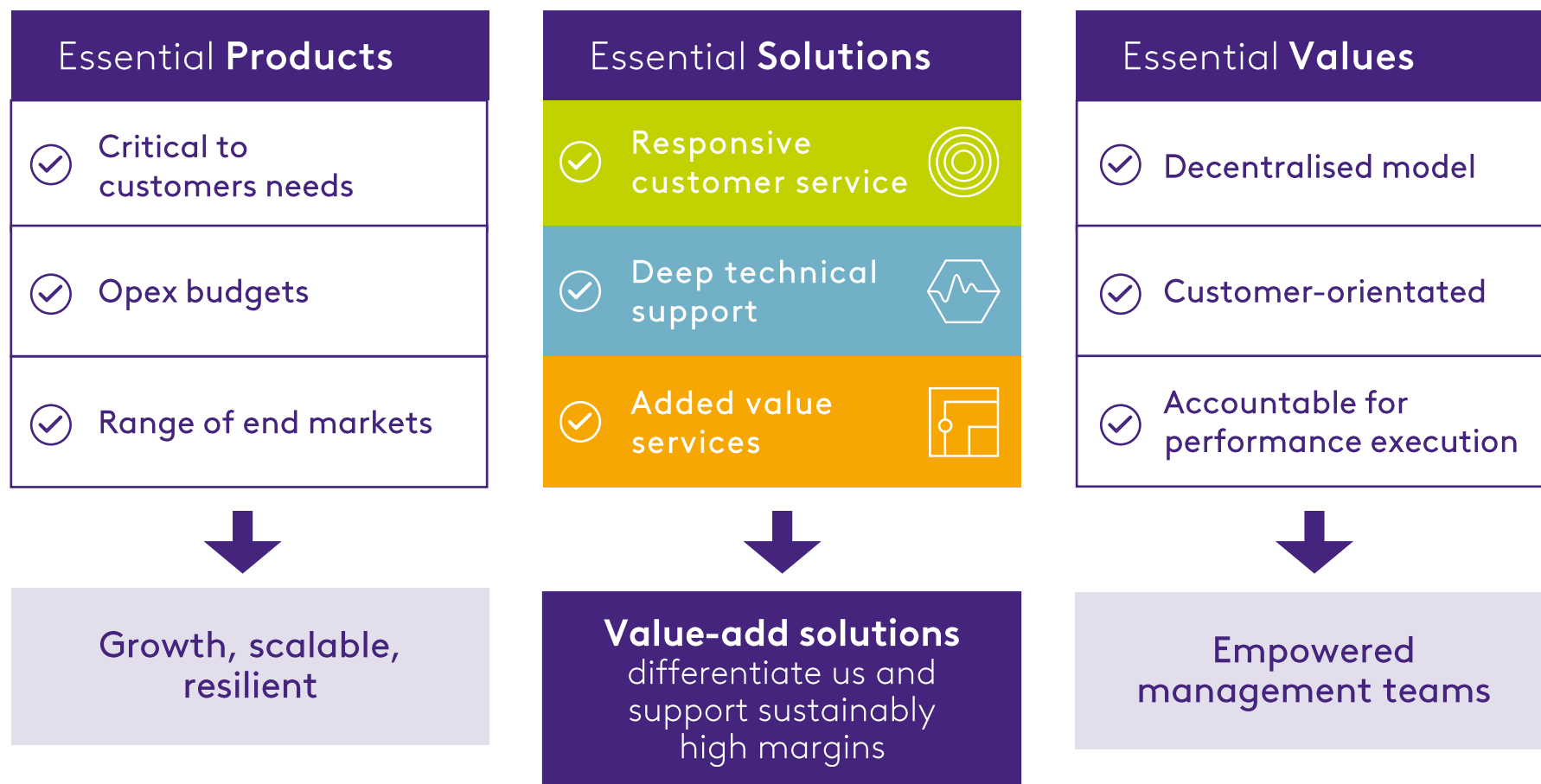
- Tougher trading environment ahead?
- Resilient business model
- Decentralised and agile
- Positive outlook: H2 started well and confident in upgraded April guidance

Well-positioned for long-term growth at sustainably high margins

Appendix



Value-add servicing supports differentiation



Delivering Value Responsibly



Positive Impact Revenue

Positioning ourselves for commercial growth with a positive impact on society and the environment

Sector revenue and profit

Half Year ended 31 March

	Revenue		
	H1 2022 £m	H1 2021 £m	Change
Controls	224.0	152.8	+47%
Seals	137.4	123.8	+11%
Life Sciences	87.1	88.6	(2)%
Group	448.5	365.2	+23%

Underlying growth	
H1 2022 %	H1 2021 %
+28%	(1)%
+15%	(2)%
(7)%	+14%
+16%	+2%

	Adjusted operating profit		
	H1 2022 £m	H1 2021* £m	Change
Controls	47.0	31.2	+51%
Seals	25.8	20.7	+25%
Life Sciences	19.6	21.3	(8)%
Central costs	(9.9)	(6.6)	+50%
Group	82.5	66.6	+24%

Adjusted operating margin		
H1 2022 %	H1 2021* %	Change
21.0	20.4	+60bps
18.8	16.7	+210bps
22.5	24.0	(150)bps
-	-	-
18.4	18.2	+20bps

* Re-presented to show central corporate costs separately in line with current year presentation

Balance sheet

Half Year ended 31 March

	2022 £m	2021 £m
Goodwill and acquisition intangible assets	612.1	564.4
Tangible and other intangible assets	39.9	47.3
Net lease liabilities	(6.5)	(2.9)
Net working capital	153.4	122.6
Assets held for sale	2.9	-
Trading capital employed - reported	801.8	731.4
<i>Working capital as % of revenue</i>	<i>17.7%</i>	<i>16.0%</i>
<i>ROATCE</i>	<i>17.5%</i>	<i>16.5%</i>
Retirement benefit obligations	(4.9)	(12.5)
Acquisition liabilities	(17.7)	(11.3)
Net debt	(209.5)	(191.1)
Minority interests and deferred tax, net	(22.0)	(20.3)
Total shareholders' funds (excluding minority interests)	547.7	496.2

Financial KPIs

Five year trends

	2021	2020	2019	2018	2017
Revenue	£787.4m	£538.4m	£544.7m	£485.1m	£451.9m
<i>Total growth</i>	+46%	(1)%	+12%	+7%	+18%
<i>Underlying growth</i>	+12%	(7)%	+5%	+7%	+7%
Adjusted operating margin	18.9%	16.2%	17.8%	17.5%	17.3%
Working capital (% revenues)	15.8%	16.0%	16.5%	15.1%	15.0%
Free cash flow	£108.8m	£72.5m	£56.5m	£60.5m	£55.7m
<i>Free cash conversion</i>	103%	113%	78%	95%	99%
ROATCE	17.4%	19.1%	22.9%	24.5%	24.0%

**Average
over
five years:**

CAGR revenue
growth

16% p.a.

Adjusted
operating margin

17.5%

ROATCE

22%

Free cash flow
conversion

97%