Diploma PLC

Q3 Trading Update 2026

16th July 2026

Transcript

Johnny Thomson: Good morning, everyone. Thanks for joining us. I'm here as usual with our CFO Wilson Ng. I'll say a few words on quarter three and then we'll move as usual to Q&A. It's been another great quarter for us, 15% organic growth continuing the momentum from the first half of the year. The sector trends are broadly the same as they were in the first half. Controls, very strong, broad-based growth. IS Group, Clarendon, Peerless, Windy, still growing double digits, taking good market share in fast growing end markets. Life Sciences, conversely, markets are tougher. We're going through a little bit of product lifecycle refresh. I'm really, really pleased with what we're doing in life sciences, what the team are doing, but we will expect low single digit growth for the year. Seals, we've seen some acceleration in quarter three. We're expecting a good quarter for two, not celebrating. International is a bit better, but and North American seals still doing very well.

So look, overall, we're really happy with the quality, with the performance of the portfolio. Peerless continues to perform fantastically, taking share in really good market conditions. Growth is moderating in the second half as we expected against very big comps. And that will continue to moderate into next year until we return to the track record of high single digit 10-ish percent growth. We're managing margin down modestly and we'll continue to see good profit growth going forward. Very, very pleased with the rest of the portfolio. Organic growth now up at 10% for the year, excluding Peerless. We've spoke in May about CDM, an acquisition we've now completed. $170 million deal, $80 odd million of revenue. It's a great interconnect business for us platform for them in the US and attractive exposure to the US defence markets. It's got a great team and they're settling in well.

We did five deals actually in quarter three, although they were all announced at a half year in May and that makes 15 new businesses in the last 12 months, a record number actually for us. Deals of course won't always be linear, but our pipeline is strong, diversified, and we've got plenty of balance sheet capacity. Just a few words on the full year outlook. We're increasing guidance as you can see a further 7% upgrade. Organic growth guidance increased to 14%. No change to acquisition guidance at 6%. Margins up to 26.5%. And altogether that represents 7% upgrades to profit growth for the year of a little over 40%. So overall, we're in very good shape. Momentum's encouraging loads of opportunity ahead. The mood is buzzing. We're feeling good about continuing successful long-term track records of sustainable quality compounding. And with that, I'll hand back four questions.

Operator: And thank you very much, Mr. Thomson. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad and just make sure that your line is unmuted to allow the signal to reach your equipment. That's star one for questions. Our very first question this morning is coming from Annelies calling from Morgan Stanley. Please go ahead.

Annelies Vermeulen: Morning, Johnny. Morning, Wilson. Thank you for the update. I have two questions please. So firstly, you've upgraded guidance yet again for full year 26, but could you comment a little bit on what this means for full year 27 as we start to approach the year end? And then secondly, related, given where you're running at now in terms of growth and margins, could we possibly expect an update to your medium term financial models when you report in November? Thank you.

Johnny Thomson: Great Annalise. Thank you for that. I mean, I'll try to take all of those in one go if I can. I suppose you're asking about a change in financial model. You made a comment about upgrades and looking forward into next year. So I'll try and take them all together if I can. First of all, on the financial model, look, as I've said before, if we can deliver our financial model forever, it'll drive incredible shareholder returns over the long term. Of course, we've got the ambition to beat it, but I think it's healthy for us to stay grounded. It's not get too greedy. And I see absolutely no reason therefore to upgrade our financial model. On the upgrades, I think we've had too many this year, if I'm honest. Part of that is because it's been a much, much bigger year way, way, way beyond our track record.

Secondly, a bit because the circumstances earlier in the year with a war kicking off in the Middle East, et cetera, we were just a bit cautious about the journeys through our upgrading. So I would say that I wouldn't get used to please this level of upgrading as we go forward. And the last point you asked about was guidance for next year. We don't normally guide at this point. We'll obviously be a bit more specific when we get to November. But as I was saying, just a few words on it, this is not a normal year for us. We're not going to be delivering 45% EPS growth, that kind of mid 20% return on capital every single year, are we? Obviously. And we won't be doing 15% organic growth every year either, particularly as I said, as Peerless just moderates a fraction over the months ahead.

Having said all that, we've got many decades of great compounding. We're feeling really good about our prospects. We're confident in our ability to keep compounding from this base. So practically speaking, as usual, you should expect that we'll revert back towards our financial model for next year, which is broadly where market consensus is right now.

Annelies Vermeulen: Perfect. Thank you, Johnny. And yeah, too many upgrades, at least that's a quality problem in this market.

Operator: Thank you very much, ma'am. Our next question will be coming from David Brockton of Deutsche Numis. Please go ahead. Elian is open.

David Brockton: Thank you very much. Good morning. Can I ask a question on Peerless, please? You described how the business is lapping tougher comps and you're managing the margin down modestly. Can you give an update on the demand trends you're still seeing in that business today? And is that sort of margin moderation deliberate price action on your part or on what volume trends you're seeing? And then as you look to next year and beyond, how your broader growth initiatives are developing for that business. Thank you.

Johnny Thomson: Yeah. Look, I don't want the fact that we're talking about moderation to get in the way of the fact that it continues to do fantastically well. I mean, it's been knocked out over the last few years as we know, and it continues to deliver well above the group averages and well above their own track record as well. So it continues to be fantastic. We're just trying to obviously be transparent about the fact that the tough comps will mean that the top line will moderate a little bit. And we're deliberately just easing off the margin, not aggressively, but just easing off the margin a little bit, taking a little bit of the heat out of some of the spot pricing and driving a little bit more volume as well. And as I said a minute ago, you'll still see very good profit growth going forward. To answer specifically your question, market demand is unchanged.

Market circumstances in general are unchanged. We still see of course a healthy backlog of new builds. We still see a healthy refurbishment environment and spot market and the characteristics of the supply chain constraints remain as they were as we expected they would be. So nothing is really new, David, from the market perspective. What is important, I think, to point out to your question is that we are driving, of course, our own initiatives. And that involves a little bit of, as I said, moderating spot prices to drive a bit more spot volume. We're putting more business development resource into both the US and Europe to drive the kind of base level of contract volume. We're broadening a little bit our product capability and we're investing a little bit more in inventory to do these things. And you'll see that I think play out when we get to the full year and beyond into next year as well.

So look, all of these are initiatives which are going to support sustaining great performance at their kind of track record level for the long term. So growth will moderate a little bit back towards that 10%ish. Margins will ease down a fraction. They're probably going to remain structurally above what we bought it at, but a bit below where we're at today. But overall, as I say, you should expect good profit growth going forward. So all in all, fantastic performance and we're just managing now the kind of exit into a sustainable delivery.

David Brockton: Thank you very much.

Operator: Thank you for your question, sir. Ladies and gentlemen, as a reminder, if you have any questions or follow-up questions, please press star one. We'll now go to Virginia Montorsi of Bank of America. Please go ahead.

Virginia Montorsi: Good morning. Thank you for taking my question. I know everyone always talks about Peerless, but I think what you guys are doing in defence is equally as interesting. So can you talk a little bit more about, potentially first, could you tell us how much is defence right now as a percentage of group revenues broadly speaking? And where do you see, given the current deals you've done this year, defence as an opportunity expanding? Are you thinking about doing maybe a bit more in the US? Are you thinking about land versus air? Is there anything about the conflict that has made you maybe identify some opportunities? And yeah, just how are you thinking about it medium term?

Johnny Thomson: Yeah, look, we're quite good in defence actually. If you include CDM on a, I guess a proforma basis, it's now about 6 or 7% of our revenues. And we've got quite a lot of activity going around to drive great growth from it. And certainly when you look at the performances of IS Group particularly, but also a bit of Clarendon and Peerless as well, there's a bit of that defence growth in there. So we're pretty pleased with that. Traditionally, we have been very European based and traditionally we have been very air defence based because it morphed out of our aerospace capability. What we've been looking to do, of course, is to double down on those two areas, but also expand. So by doubling down, I mean we've put some new facility resource and inventory into Eastern Europe, for example, to address that kind of East of Europe into the Nordics defence market.

We bought a small business earlier this year called Spring Solutions, which is a UK-based defence business. And Clarendon have been doing a lot on air defence in Europe as well. So we've been kind of doubling down on that European and air piece. But then what we've also been doing, of course, is expanding our capability and firstly going into the US and hence the CDM acquisition, which we're very pleased about. And that's our first major piece of business for defence in the US. But secondly, we're starting to move from air into land defence as well. A bit of that is coming through the work that we're doing out of Eastern Europe and with new product capability. And a bit of that is also coming out of CDM's expertise as well because they're a bit more land than air. So overall, we're pushing at getting a broader range both geographically and in terms of the market as well.

There's loads for us to go for still. So I think it's going to be a good market for us going forward. Thank you very much. Last thing I'd say on is we are putting a bit more investment behind these kind of things. We talked about it I think in November and we talked about it again in May, not just defence, but end markets exposures and the kind of end markets that we want to be in. We are putting just a fraction more investment into these kind of things, particularly resource, but also a bit of inventory and hopefully also occasionally the odd acquisition as well. And that'll be prevalent in our numbers as we go forward.

Virginia Montorsi: Thank you very much. Very helpful. Thank you very

Operator: Much, ma'am. We'll now go to Daniel Cowan of BNP Paribas, please go ahead.

Daniel Cowan: Good morning guys. Just one question for me please on Windy City. Why apologies if you've already spoken about this I joined a bit late, but can you just give us an idea of how that went in the quarter? Is growth accelerating there or is it about the same as it was in H1, please?

Johnny Thomson: Yeah, Windy's in great shape. Thanks for the question, Daniel. Windy's in really, really good shape. They've had a great year. They had a very strong quarter, mid-teens kind of growth rate, which is fantastic. Of course they're doing very well in data centres, but they're also doing well in other areas as well, petroleum, digital antenna systems, expanding their product capability. And again, we're investing in Windy City, particularly in sales resource for the future too. So very, very happy with how they've been progressing.

Daniel Cowan: Good to hear. Thank you.

Operator: Thank you very much, sir. Ladies and gentlemen, as a final reminder, if you have any questions or follow-up questions, please press star one at this time. Now go to Sam Dindol of Stifel. Please go ahead, sir. Your line is open.

Sam Dindol: Morning guys, just one from me please. Just first on the operating margin, obviously a significant step up in the year to a 6.5% guidance. Just given your commentary on a little bit of easing and peerless and the opportunity to invest in the business, is there any other factors we should think about when you think about the margin going forward, just because it's such a big step up year on year and clearly well above your 20% target? Thank you.

Wilson Ng: I'll take that. Well, first of all, we are very, very pleased with where the margin is this year, 26.5%. With our business and the strong top line growth, obviously we've seen a lot of operating leverage benefit. Here, as Johnny alluded to, has continued to perform very well and it started H2 better than expected and therefore it has been very accretive to margin. So as I said before, the feeling is that the margin is sort of at the top end. We do expect some moderation next year, mainly driven by the continued investments that we're making, particularly to continue sustaining the business in terms of end market, the organisational development and the assurance platform. But also we are, as Johnny mentioned, carefully moderating the margin of Peerless to continue maintaining it as a sustainable business and that will moderate margins a bit. And finally, with acquisitions and also the ones that we've already done, there will be some dilutive impact.

Look, I'm not going to go into specifics today. It's not the right time to guide today, but the overall message is the margins will continue to be strong, but it will moderate a bit next year.

Sam Dindol: Brilliant. Thank you.

Operator: Thank you, Mr. Dindol. We do have another question that just came in now and it is from Emanuele Sartori of Kepler Cheuvreux, please go ahead.

Emanuele Sartori: Hi, good morning all. Thank you for taking my question. I just wanted to touch quickly on Windy City again, just on the data centre mentioned just how material is the data centre demand today? Is that growth still accelerating? Just curious if you could share any percentage of exposure that you have there. And should we think of this as a structure AI data centre infrastructure pain wind or more as a broader commercial construction momentum? Thank you.

Johnny Thomson: Okay. So data centres, pretty small proportion of the group. It's about 15% of Windy, about 3% of the group, something like that. I suppose if we look forward from what... I hope I'm addressing your question here, but as we move forward, from what we can see, there's still very, very, very broad-based investment around data centre development. So there's still plenty of runway and plenty for us to go for on that. At the same time, we're broadening our exposure and thinking mainly about the MRO, more sustainable elements of data centre and infrastructure support. So we're doing quite a lot more in, for example, seals and gaskets into the data centre refurbishment market both in the US and in the UK. And that's starting to develop for us. And that of course will be sustainable beyond the new build phase, if you like. And that's a very, very important part for me to make sure that we're creating something which is sustainable.

In the meantime, the work that we're doing, particularly three windy and the new business development, new data centre development is pretty modest, but I suspect we'll sustain for quite some years to go.

Emanuele Sartori: Perfect. Thank you. Thank

Operator: Thank you for your question. As we have no further questions, Mr. Thompson, I'd like to call back. Oh, very sorry to interrupt you. So we just have one in now is from James Bayliss of Berenberg. Please go ahead.

James Bayliss: Hi guys. Sorry to dive in at the last minute. I just wondered if you had any comments on leadership at the group, if you've made any changes. I think we saw Dicsa leadership change over half one and you talked around the fact you were seeing progress off the back of that. I think that was a change in Australia as well. Just any comments as a catchall really on if you've made any kind of investment in headcount or leadership that's going to help drive that growth profile more sustainably? Thanks.

Johnny Thomson: Yeah. I mean, if you're asking about leadership, you're not really asking about leadership at the top level. If you're asking about Australia and Dicsa, that's going to leadership within the businesses. And of course we're always working all the time to develop our leaders across the business. We have from time to time as we had in Australia and indeed in Spain and Dicsa some retirements. So yes, we had two new general managers in there. What I would say more generally across the group is we're working very, very hard on leadership development as part of our sustainable capability and therefore execution. We're working very hard, as I've said to you before, particularly on internal succession and driving towards a more build your own model, if you like, over the years ahead. So that's a big part of what we're focused on internally.

And we're working very hard on the leadership development specifically of our general managers to support them as their businesses grow up. And that's a constant for us. So particularly I would say at the moment, as I've said, we do like to invest in businesses when maybe times are tougher and markets are a bit tougher. And maybe that's where your question's going a little bit. A few years ago we invested quite a bit in life sciences and we're really pleased with the way the management has developed in life sciences. We've done a little bit of the same in seals starting in North America and more recently in international seals. So I feel we're getting a stronger bench set across the seals sector and that'll put us in a very good position for the future.

Operator: Thank you, sir. Mr. Thompson, at this time, we have no further questions, sir.

Johnny Thomson: Thank you everyone for taking the time and we'll see you in November.