DIPLOMA PLC

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FOR IMMEDIATE RELEASE

22 November 2021

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2021

Strong results and well-positioned for long-term growth

	FY 2021	FY 2020	Y/y change
Revenue	**£787.4m**	£538.4m	***+46%***
Underlying revenue growth(1)	***12%***	*(7)%*	
Adjusted operating profit(2)	**£148.7m**	£87.1m	***+71%***
Adjusted operating margin(2)	**18.9%**	16.2%	***+270bps***
Statutory operating profit	**£104.3m**	£69.8m	***+49%***
Free cash flow conversion(3)	**103%**	113%	
Adjusted earnings per share(2)	**85.2p**	56.4p	***+51%***
Basic earnings per share	**56.1p**	43.5p	***+29%***
Total dividend per share	**42.6p**	30.0p	***+42%***
ROATCE	**17.4%**	19.1%	***(170)bps***

(1) Adjusted for acquisition and disposal contribution and currency effects
(2) Before acquisition related charges and acquisition related finance charges
(3) Before cash flows on acquisitions, disposals and dividends

Strong full year financial performance

- Underlying revenue growth 12% year-on-year, well ahead of our 5% financial model and 7% up on FY 2019, driven by our organic growth initiatives and better demand.
- Strong overall acquisition contribution with an outstanding Windy City Wire ("WCW") performance.
- Adjusted operating margin +270bps to 18.9%, supported by our value-add servicing distribution model, offsetting inflation, and well ahead of our 17%+ financial model.
- 51% growth in adjusted earnings per share ("EPS") and 42% proposed increase in total dividend.

Delivering Value Responsibly ("DVR") - ESG

- Our colleagues have been brilliant and Engagement Survey results are encouraging.
- ESG priorities and metrics defined and starting to embed in our businesses' commercial and operational strategies.
- Products and solutions with a Positive Impact on the environment and society an important component of current revenues and future growth strategy.
- Sustainable supply chain: part of our value proposition to align with our supply partners on environmental and social responsibility.

Strong underlying growth in all three Sectors

- Controls +16%: International Controls +8%, benefiting from diversification initiatives and returning to underlying growth over FY 2019 by year end. Outstanding year for WCW, with underlying revenues +26% on the back of market share gains.
- Seals +7%: North American Seals +5%, starting to benefit from the transition to Louisville facility and building on a resilient FY 2020. International Seals +9% on the back of encouraging diversification activities.

- Life Sciences +14%: sharp recovery due to increased access to hospitals and laboratories, some Covid-related product, and excellent performances from our Scandinavian acquisitions (Simonsen & Weel and Kungshusen).

Strategic progress through acquisitions
- Portfolio: focusing around high quality, scalable businesses for organic growth.
- £456m invested in 10 strategically important acquisitions to accelerate our growth, including £348m on WCW.
- Five acquisitions completed in H2 for total spend of £55m including: Kungshusen (Life Sciences, Sweden), SWA (Controls, UK), Techsil (Controls, UK), AHW (Controls, US).
- The pipeline is encouraging. We remain disciplined and focused on ROATCE, which has increased during H2 to 17.4% for the full year (from 16.5% at H1).
- Disposals: a1-CBISS in H2, Kentek post-year end for a combined total of £22m.

Strong free cash generation and balance sheet to support future growth
- Cash conversion of 103% with selective inventory investment offset by good receivables collection.
- Faster than expected deleveraging: net debt/EBITDA 1.1x (0.8x excluding H2 acquisitions).

Positive outlook
- The market environment remains uncertain and we continue to manage supply chain disruption and labour pressures.
- Positive and unchanged outlook for FY 2022: expect ca.10% reported revenue growth including mid-single digit underlying revenue growth, consistent with our financial model and H1 weighted; and a margin between 18% and 19%.
- Confident in our ability to deliver long-term growth at sustainably high margins.

Commenting on the results, Johnny Thomson, Diploma's Chief Executive said:
"I want to thank all my Diploma colleagues for another outstanding year in very challenging circumstances. We have delivered strong results, including underlying growth and margin well ahead of our financial model. We have made significant strategic progress, including a record year for acquisitions, as we continue to develop high quality scalable businesses for organic growth. We are excited by the progress we have made with our Delivering Value Responsibly agenda, with clear priorities which we are embedding in our business activity. So, despite market uncertainties, I remain confident in our ability to deliver attractive long-term growth at sustainably high margins."

Notes:

1. *Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted operating profit, adjusted profit before tax, adjusted earnings per share, free cash flow and ROATCE. All references in this Announcement to "underlying" revenues refer to reported results on a constant currency basis, before acquired or disposed businesses (ex-growth basis) and include growth generated by acquisitions under our ownership. The narrative in this Announcement is based on these alternative measures and an explanation is set out in note 2 to the condensed consolidated financial statements in this Announcement.*

2. *Certain statements contained in this Announcement constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of Diploma PLC, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other factors include, among others, exchange rates, general economic conditions and the business environment.*

There will be a presentation of the results to analysts and investors at 9:00am this morning via audio conference call and webcast. Conference call dial in details:

- Dial in: +44 (0)330 336 9105
- Participant access code: 5220794

Register your attendance for the webcast at:
https://webcasting.brrmedia.co.uk/broadcast/6176d40ddf7b150b81e94079

This presentation will be available after the conference call at:
https://www.diplomaplc.com/investors/financial-presentations/.
A replay of the audio will be available on the same link after the event.

For further information please contact:

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NOTE TO EDITORS:

Diploma PLC is an international group supplying specialised products and services to a wide range of end segments in our three Sectors of Life Sciences, Seals and Controls.

Diploma's businesses are focused on supplying *essential products and services* which are critical to customers' needs, providing recurring income and stable revenue growth.

Our businesses then design their individual business models to closely meet the requirements of their customers, offering a blend of high quality customer service, deep technical support and value adding activities. By supplying *essential solutions*, not just products, we build strong long term relationships with our customers and suppliers, which support attractive and sustainable margins. Finally, we encourage an entrepreneurial culture in our businesses through our decentralised management structure. We want our managers to feel that they have the freedom to run their own businesses, while being able to draw on the support and resources of a larger group. These *essential values* ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment. The Group employs ca. 2,500 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.

Over the last ten years, the Group has grown adjusted earnings per share at an average of ca. **12%** p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£4.0bn**.

Further information on Diploma PLC can be found at www.diplomaplc.com
LEI: 2138008OGI7VYG8FGR19

FINANCIAL CALENDAR FOR 2022

- Q1 Trading Update and call: 19 January 2022
- Half Year Results: 16 May 2022
- Q3 Trading Update and call: 21 July 2022
- Preliminary Results: 21 November 2022

CHAIRMAN'S STATEMENT: STRONG PERFORMANCE AND PROGRESS

As I approach the end of my time as Chairman of Diploma, it gives me great pleasure to report another successful year, building on the Group's long track record of growth.

Our financial results are strong and I am delighted with how we have navigated the challenges of the last year, demonstrating the resilience and agility of our model. 2021 has also been a year of strategic progress, including through acquisitions and with the Group's environmental, social and governance ("ESG") agenda.

I shall leave the Group knowing that it is well positioned to deliver continued growth and to adapt to the rapidly changing world in which it operates.

Successfully navigating challenges

The Covid-19 pandemic has been a true test of our resilience in all aspects — strategy, business model, colleagues and culture, which combined have enabled us to deliver strong results. The last year has also demonstrated the strength of our decentralised model, with our businesses empowered to take local decisions to ensure the safety and wellbeing of our colleagues while also responding rapidly to the changing environment.

Having proven the strengths of our model in the early stages of the pandemic, FY 2021 brought new challenges. The easing of lockdowns and subsequent sharp recovery in demand to unprecedented levels led to supply chain disruption, inflation and labour pressures. Our businesses adapted quickly, with our colleagues working tirelessly to maintain high levels of customer service. The Group not only navigated these challenges, but also continued to deliver strong results and, more importantly, to make progress against our longer-term strategy. With some sense of normality returning, the management team has also reflected on the learnings from the pandemic, embracing new ways of working and opportunities to accelerate the strategy.

None of what we have achieved this year would be possible without our colleagues. I would like to thank everyone at Diploma for their commitment and contribution.

Evolving our organisation for growth

As I look back on my time with Diploma, I never cease to be impressed by what the Group has achieved. Over the last year, under the outstanding leadership of Johnny Thomson and his new Executive Team, we have delivered a step change in scale and brought additional focus to evolving our capabilities. As we continue to grow, delivering for our customers requires investment in our strong foundations and during FY 2021 we have continued to develop our Core Competencies and Capabilities. This will ensure we can deliver our value-add proposition at greater scale and at sustainably high margins.

An effective strategy for value creation

Our strategy is focused on building high-quality, scalable businesses for organic growth. This has remained consistent throughout the years. Through having the right balance of organic and inorganic growth, together with a focus on delivering sustainably high margins and returns, it has created considerable value. I am confident that our strategy has allowed us to emerge from the pandemic stronger and that the management team's approach will allow us to continue to grow and scale while delivering value for all stakeholders.

Strong full year results

The Group delivered strong full year results, with underlying revenue growth of 12% and a 46% year-on-year increase in reported revenues to £787.4m (2020: £538.4m). This includes a very pleasing contribution from acquisitions, particularly Windy City Wire ("WCW"). Adjusted operating profit increased 71% to £148.7m, with the Group's margin 270bps higher year-on-year at 18.9% (2020: 16.2%). All of this translated into 51% growth in adjusted earnings per share ("EPS") to 85.2p (2020: 56.4p).

The Group remains highly cash generative, with free cash conversion of 103% driving faster than expected deleveraging. With year end net debt/EBITDA of 1.1x, our balance sheet underpins our ability to invest in growth and provides good flexibility for future acquisitions.

Delivering Value Responsibly ("DVR")
Our purpose is to consistently deliver value and reward our stakeholders, and it is important that we do so in a manner that is environmentally and socially responsible. During FY 2021, we have made important progress with establishing a Group-wide approach and increasingly embedding DVR, our ESG programme, across our businesses. Delivering on this agenda will play a key role in our future performance and the success of our strategy. I believe that the team's thoughtful and rigorous approach is building strong foundations and establishing a solid baseline from which we can seek to deliver continuous improvement. Moreover, the essential products and solutions provided by many of our businesses have a positive impact on our environment and society in end segments which have significant growth potential for Diploma.

Colleagues and culture
Our strong financial performance speaks for itself, but we must recognise the hard work that underpins this, particularly during what has been a difficult time for many. Our success would not be possible without our colleagues and, on behalf of the Board, I would like to thank them all for their contribution and outstanding service over this past year.

Attracting and retaining the very best talent available are fundamental to our strategy, and we believe that our culture is a key enabler in this respect. The easing of lockdowns has enabled the Board to resume face-to-face interactions with the wider management team and workforce, including site visits to IS Group and Clarendon Specialty Fasteners in August.

I was also delighted with the results of our first Group Colleague Engagement Survey, which showed encouraging engagement levels. The learnings from this survey will inform future actions and activity to ensure colleagues continue to view Diploma as a great place to work. The results and learnings were also discussed by the Board, helping to shape and inform our views on culture and diversity. Culture also formed part of our wider discussions on strategy as we seek to gently evolve a Diploma corporate identity that works hand in glove with our highly successful decentralised model.

Dividends
The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with growth in adjusted EPS. The combination of strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a 51% increase in the final dividend to 30.1p (2020: 20.0p[1]) taking the total dividend for the year to 42.6p (2020: 30.0p). This represents dividend cover of 2.0x, in-line with our model. Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 4 February 2022 to shareholders on the register at 21 January 2022.

Board changes
Following the retirement of Charles Packshaw on 20 January 2021, Anne Thorburn was appointed Senior Independent non-Executive Director. Anne has served as a non-Executive Director since September 2015 and is also Chair of the Audit Committee.

We welcomed Dean Finch to the Board on 21 May 2021. Currently Group Chief Executive of Persimmon PLC, Dean is a highly experienced senior executive with deep commercial, operational and financial experience in Europe and North America. His experience of delivering success through customer service and operational excellence will benefit Diploma and the Board.

After eight years on the Board, and with a well-established management team in place, in July 2021 I announced my intention to retire as Chairman and from the Board. Anne Thorburn, together with the rest of the Nomination Committee, led a thorough selection process and in October 2021 we announced the appointment of David Lowden.

David brings a wealth of experience as an executive, non-Executive Director and Chair of UK listed companies, including in growing international and acquisitive services businesses.

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[1] Based on a notional 2020 final dividend of 20.0p per share (two thirds of the 2020 full and final dividend of 30.0p per share).

He joined the Board as non-Executive Director and Chairman designate on 19 October 2021 and, subject to election by shareholders, will take over as Chairman on my retirement at the conclusion of the Group's AGM on 19 January 2022.

Conclusion

During my six years as Chairman, Diploma has enjoyed considerable and consistent growth and steady evolution. The fundamental strengths of the Group's value-add model remain unchanged and there is significant opportunity for growth in our core markets and geographies.

It has been a privilege to serve as Chairman, and I wish the Group much continued success. I would like to thank the Board, Johnny and the wider team for their support during my tenure. I am confident that I leave the Group in good hands, with an excellent management team and exciting prospects.

CEO REVIEW: BUILDING HIGH-QUALITY, SCALABLE BUSINESSES FOR SUSTAINABLE GROWTH

A highly successful FY 2021

FY 2021 was a highly successful year for the Group, continuing our long track record of growth and value creation. Our strong performance and strategic progress are testament to our outstanding colleagues. I would like to take the opportunity to thank the entire team for their massive contribution in a challenging environment.

Our financial results are strong, exceeding all of the metrics of our financial model, with underlying growth of 12% and attractive margins at nearly 19%. This is a reflection of the resilience of our business model, the work we have put in to diversify and scale our businesses, and the actions we have taken to mitigate the trading challenges in our markets, such as inflation.

FY 2021 was also a year of strategic progress through acquisitions. We welcomed over 500 new colleagues to the Group, and invested £456m in ten high-quality businesses to accelerate our growth. This includes Windy City Wire ("WCW") which has had an outstanding first year as part of Diploma, materially outperforming our expectations. We grew adjusted earnings per share ("EPS") by over 50%, our free cash flow conversion was 103% and our return on adjusted trading capital employed ("ROATCE") stepped up versus H1 to 17.4% (2020: 19.1%). Our strong balance sheet, with net debt/EBITDA of 1.1x gives us good flexibility to continue to invest in growth.

It has also been a year of significant strategic progress. I am particularly proud of our progress with 'Delivering Value Responsibly' ("DVR"), our environmental, social and governance ("ESG") programme. Historically, our businesses have worked hard to make a difference to their stakeholders and pursued individual sustainability initiatives. Our Group-wide approach will now complement and enhance this activity, overseen by our DVR Steering Committee, which I lead. The framework established is increasingly embedding sustainability not just in our operations and risk management, but also puts it at the heart of our commercial strategy.

Our outstanding colleagues

Our success would not be possible without our outstanding colleagues. Ensuring safe and flexible working environments and increasing mental health awareness remains an important area of focus.

One of the key highlights of the year was the 79% engagement score we received in our first Group Colleague Engagement Survey. This encouraging score reflects the great job our management teams have done to guide our colleagues safely through the pandemic. In an environment of labour scarcity, it is more important than ever that we differentiate ourselves in attracting, motivating and retaining talent.

Strong financial results, ahead of all of our targets
Underlying revenues grew 12% over FY 2020, with 7% underlying growth over FY 2019. Reported revenues increased 46% year-on-year, with acquisitions contributing 38% to revenue and a WCW performance well ahead of our expectations. Growth has been balanced across all three Sectors, driven by our organic revenue initiatives and recovering demand. Supply chain disruption, labour and inflation have presented challenges, but also create an opportunity to differentiate. The strength of our adjusted operating margin, up 270bps year-on-year to 18.9%, is testament to the hard work of our businesses to mitigate these challenges and, where this has not been possible, to implement price increases.

Delivering Value Responsibly
I am extremely pleased with our progress with DVR — our ESG programme, which is built around the five material focus areas for our businesses and stakeholders – Colleagues; Health & Safety; Diversity, Equity & Inclusion; Supply Chain; and Environment.

During the year, we have clearly defined our DVR priorities and key performance indicators ("KPIs"), established a DVR Steering Committee, which I chair, and created a reporting framework. These metrics are now embedded in our internal reporting and business reviews, and will set a baseline against which we will seek to drive continuous improvement and set targets. The level of engagement in the businesses has been exciting to see and we are weaving our DVR priorities into our core commercial strategy.

I am particularly excited about the opportunity to have a Positive Impact on our environment and society as part of our growth strategy. Positive Impact revenue is generated from the sale of products, services and solutions that benefit our society or environment, or support the transition to a more sustainable future. In this, we have deliberately chosen a challenging bar against which we can seek to deliver continuous improvement. A significant proportion of our current revenues relate to products with Positive Impact end uses and, with ESG increasingly embedded in our commercial strategy, we have a significant opportunity to make a real difference in driving sustainability.

As a distributor, our supply chain has a meaningful impact on the environment and society, and is another area that we will focus on in our assessment criteria for great supply chain partners of the future.

Engagement is critical in a decentralised model like ours, to which end we have run numerous workshops. I have been impressed by the enthusiasm with which our colleagues have responded and embraced our programme.

Strong underlying growth at all Sectors
Controls delivered 16% underlying growth. Our International Controls businesses grew underlying revenues by 8%, achieving underlying growth over FY 2019 by year end as a result of end segment diversification.

WCW's performance was outstanding, with underlying revenue growth of 26% as a result of market share gains. The business's well-invested platform also delivered positive operational leverage.

Underlying growth at Seals was 7%, building on a resilient FY 2020. End segment diversification of our International Seals businesses has delivered growth, including in markets such as Renewables, Medical and Food. In the US, we have now settled into our new state-of-the-art Aftermarket facility in Louisville and are starting to see some of the market share gains.

For Life Sciences, 14% underlying growth reflected a sharp recovery as we regained access to hospitals and laboratories after Covid-related restrictions. We have been developing our European Life Sciences footprint, and saw a good contribution from our Scandinavian acquisitions.

Sustainable double-digit growth
Our growth runway and market opportunity are significant. All three Sectors have equally exciting growth opportunities in the context of structurally favourable end markets – from investment in renewable energy and infrastructure to growth in technology-enabled markets and increasing investment in diagnostics.

We are under-penetrated in large, core developed economies; we have opportunities to expand our addressable market into adjacent product categories; and fragmented markets offer significant acquisition opportunities.

Our businesses' priorities are to diversify their revenue streams for growth, scale and resilience. They are also focused on developing their business model Core Competencies and their Talent, Technology and Facilities to be able to execute at scale.

Responsible growth
The pandemic has accelerated existing long-term trends and opportunities in our markets. Our role as a value-added distributor is to ensure our customers have access to the essential products and solutions they need to adapt to a rapidly changing world – and we are already doing so. There are numerous examples across our Sectors – from WCW cables that make buildings safer and connect emergency services, to diagnostic solutions supplied by Life Sciences that make it quicker and easier to identify life-threatening illnesses, to wind turbines that generate renewable energy and technical expertise that prevents toxic emissions in Seals. Positive Impact revenues are an important component of our growth to date, and our future commercial strategy for growth.

A diversified and resilient business
Over the past year and a half, our model and strategy have been tested. Our resilience in the early stages of the pandemic was driven by our focus on products critical to customer needs, our value-added services and solutions, and our geographic and end market diversification. Throughout the pandemic, the benefits of an agile, decentralised model with empowered management teams and close proximity to customers came into its own, enabling us to deliver highly profitable growth.

Acquisitions to accelerate our growth
In FY 2021, we invested £456m in ten high quality, value-add businesses to accelerate our growth, all of which are a fit with our portfolio and offer highly attractive returns. WCW, completed in October 2020, has accelerated growth for the Group as a whole. More detail on the business's performance can be found in the Controls Sector Review below.

In Controls, the addition of SWA has strengthened our UK Wire & Cabling business; AHW has added scale in the US for Specialty Fasteners; while the acquisition of Techsil has added an exciting new business line. In Seals, the acquisitions of PDI and FITT will help build scalable platforms for growth in US MRO and in Australia respectively. Finally, we have significantly diversified the geographic footprint of our Life Sciences businesses, increasing our European presence with the acquisitions of Simonsen & Weel and Kungshusen in Scandinavia.

Portfolio
In a growing, acquisitive Group, portfolio focus is key. During the year we disposed of a1-CBISS, formerly part of the Life Sciences Sector, for £12m to its largest supplier, ENVEA, who is ideally placed to continue to develop the business. We also completed the disposal of Kentek, formerly within the Seals Sector, after year end.

Operational strategy: sustaining our margins
Our key differentiator is our value-add proposition which supports our margins. To sustain our value-add customer proposition at greater scale, our operational strategy is focused on developing the Core Competencies of our business model and the Organisational Capability to execute effectively at scale. DVR is increasingly also at the heart of our operational strategy; embedding sustainability in our operations has broad-based benefits.

The pandemic has created an opportunity to accelerate the roll-out of our Core Competencies, highlighting in particular the importance of Strategic Supply Chain management and Route to Market.

In terms of route to market, the pandemic has highlighted the benefits of diversification, with organic revenue initiatives paying off across the Group. All of our businesses are building their route to market processes and capability, and have exciting growth plans. These include a significant element of Positive Impact opportunity.

Our businesses have worked hard to manage the supply chain challenges of recent months, and we are evolving a more strategic approach as we grow. This is supported by our new Group Supply Chain Policy and Group Supplier Code, both of which are aimed at ensuring a supply chain that is ethical, responsible and resilient.

Operational excellence remains an area of daily focus, streamlining our processes and footprint as well as waste and emissions reduction. Reducing our waste is not only responsible, but a commercial differentiator as demonstrated by the waste reduction initiatives at WCW, which delivered good benefits to the bottom line while also reducing our impact on the environment.

We continued to develop our Talent, Technology and Facility for scale. Across the Group, we have focused on colleague engagement, coupled with investment in talent management, succession planning and structures to support successful management of the Group at scale.

Our approach to technology is measured and in tune with our decentralised model. A number of our businesses have developed webstore offerings in the year, including VSP Technologies, which has benefited from knowledge sharing with Hercules Aftermarket, which operates a market-leading webstore.

As we invest and upgrade our facilities for scale, we are also improving our colleagues' working environments and reducing our environmental impact.

Evolving our organisation and culture for growth

Our structured, diverse Executive Team consists of both new and old faces as we seek to add new capabilities aligned with our strategy. I am very proud of and thankful to the Executive Team, who have done a brilliant job in gelling together effectively.

We are also quietly evolving our culture, preserving individual business identities and developing a complementary shared Diploma identity alongside this, which will encourage sharing of knowledge and best practice.

Positive outlook: sustainable growth and margins

In summary, I feel very proud of what we have achieved in FY 2021, and the way in which we have succeeded in delivering value for all our stakeholders – our customers, colleagues and our shareholders.

I want to thank all my Diploma colleagues for another outstanding year in very challenging circumstances. We have delivered strong results, including underlying growth and margin well ahead of our financial model. We have made significant strategic progress, including a record year for acquisitions, as we continue to develop high-quality, scalable businesses for organic growth. We feel excited that our DVR agenda has defined clearly our priorities and importantly is embedding them within our business activity.

We entered FY 2022 with good momentum and a positive outlook. For the year ahead, we expect to deliver another strong performance with ca. 10% reported revenue growth including mid single-digit underlying revenue growth, consistent with our model and H1 weighted; and an adjusted operating margin between 18% and 19%. Our prospects are exciting, and we are confident in our ability to deliver long-term growth at sustainably high margins.

SECTOR REVIEW: CONTROLS

The Controls Sector businesses supply specialised wiring, cable, connectors, fasteners, control devices and adhesives that are used in a range of technically demanding applications.

	FY 2021	FY 2020*	
Revenue	**£343.3m**	£156.6m	+119%
Underlying revenue growth	**+16%**	(14)%	
Adjusted operating profit	**£72.4m**	£25.5m	+184%
Adjusted operating margin	**21.1%**	16.3%	+480bps

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

FY 2021 highlights

- International Controls businesses +8% underlying driven by end segment diversification and recovery in demand; underlying growth over FY 2019 by year end.
- Outstanding Windy City Wire ("WCW") performance – double-digit growth, market share gains and a well-invested platform delivering strong leverage.
- Techsil acquisition in August adds exciting new business line in adhesives.

Sector financial performance

Full year revenues more than doubled to £343.3m (2020: £156.6m). This reflects very strong underlying growth of 16%, a 111% contribution from acquisitions and an 8% foreign exchange headwind.

Adjusted operating profit also increased substantially to £72.4m (2020: £25.5m), with the adjusted operating margin 480bps higher year-on-year at 21.1% (2020: 16.3%). This is due to the accretive impact of acquisitions, operating leverage on higher volumes and the sustainable benefits of FY 2020 restructuring actions.

WCW had an outstanding first year as part of the Group; we were also delighted with the return to underlying growth for the full year in International Controls (+8% underlying) after a good second half, driven by product and customer diversification initiatives and a recovery in end market demand.

Wire & Cable (57% of Sector revenue[2]) grew underlying revenues by 24%, largely reflecting growth at WCW. This was driven by market share gains together with price increases to pass on higher copper prices. Key growth areas include Distributed Antenna Systems ("DAS"), which has also had a positive mix effect. The business is now settled within the Group and delivering on its huge potential. Operating profit growth was well ahead of revenues, driven by positive mix and the benefits of investment made in FY 2020 to improve processes, increase productivity and reduce waste.

As an earlier cycle business, Shoal Group returned to growth in late FY 2020 and continued to grow during FY 2021 off the back of focused business development efforts, continued growth through the e-commerce channel and a recovery in UK construction. The business also benefited from the FY 2020 combination of cabling and cable accessories and the resulting enhanced commercial leadership, as well as the complementary acquisition of Specialised Wiring Accessories ("SWA").

Underlying revenues increased 10% at **Interconnect** (22% of Sector revenue[2]) reflecting growth across all countries, with double-digit growth in Automotive, Energy and Industrial end markets. Both our French and German businesses had a very good year with the return of automotive demand in France and continued growth in Energy in Germany. Finally, HSP was acquired in October 2020 and successfully integrated into our German business.

[2] Pro forma revenues adjusted for acquisitions and disposals completed during the year.

Specialty Fasteners (11% Sector revenue[3]) delivered a strong second half, with full year underlying revenues down only 5%. Having been impacted by the downturn in civil aerospace, the business has been on a sharply improving trajectory since the half year. Revenue diversification initiatives have played an important role – non-aerospace revenues have grown at double-digit levels in FY 2021, driven by Industrial, Defence and Motorsport end markets and new and emerging areas, such as Space and Urban Air Mobility.

We remain confident in the long-term prospects for Aerospace; revenues have stabilised, order intake has picked up and we expect recovery at most customers in 2023/24. We are well placed to take market share as demand returns, having been specified onto new programmes and diversified our exposure within Aerospace, including through the acquisition of Aircraft Hardware West ("AHW") in September 2021.

After a tough FY 2020 for key Food and Beverage customers, **Fluid Controls** (7% Sector revenue[3]) returned to growth in FY 2021, with underlying revenue growth of 10%. This was driven by the business' second half performance as the hospitality industry picked up, with the trend towards 'staycations' in the UK contributing to a better than expected performance. Revenues related to refrigeration elements for food delivery vehicles also continued to grow.

Strategic progress
FY 2021 was a particularly busy year for acquisitions – WCW, Techsil, SWA and AHW all fit with our value-add model and will accelerate our growth:

- Growth from organic revenue initiatives, particularly in our existing Controls businesses.
- WCW: a step change which has diversified the Sector into the US and accelerated growth for the Group as a whole.
- Techsil acquisition has added a new and growing business line.
- AHW acquisition increases Specialty Fasteners' scale in the US, generates revenue and cost synergies, and diversifies and broadens our geographic footprint, giving strategic advantage with global customers.
- SWA, acquired in July, expands Shoal Group's UK footprint, adding a business with complementary products, giving access to the UK electrical wholesale market and creating opportunities for cross-selling and other synergies.

Significant growth runway

- Opportunities in structurally positive end markets: DAS, datacentres, other technology-enabled segments, renewables and infrastructure.
- Diversify businesses by customer set, product and geography.
- Build scale in the US, UK and Europe in Wire & Cable, Interconnect and Specialty Fasteners.
- Cross-selling: US into Europe/Europe into US.
- WCW: differentiated proposition with significant market potential.
- Material new business line opportunities.

[3] Pro forma revenues adjusted for acquisitions and disposals completed during the year.

SECTOR REVIEW: SEALS

The Seals Sector businesses supply a range of seals, gaskets, cylinders, components and kits used in heavy mobile machinery and specialised industrial equipment with Aftermarket, OEM and MRO applications.

	FY 2021	FY 2020*	
Revenue	**£263.7m**	£242.1m	+9%
Underlying revenue growth	**+7%**	(5)%	
Adjusted operating profit	**£46.5m**	£40.5m	+15%
Adjusted operating margin	**17.6%**	16.7%	+90bps

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

FY 2021 highlights

- Underlying growth of 7%, building on a resilient FY 2020.
- Well positioned for market share gains in North American Aftermarket, with transition to Louisville successfully completed.
- Strategic acquisitions in North America and Australia building scalable platforms for growth.

Sector financial performance

Reported revenues increased 9% to £263.7m (2020: £242.1m), reflecting underlying growth of 7%, a good performance given the Sector's resilience in FY 2020. Acquisitions contributed 7% to revenue while foreign exchange translation was a 5% headwind.

Adjusted operating profit was 15% higher at £46.5m (2020: £40.5m). The Sector's adjusted operating margin rose 90bps year-on-year to 17.6% (2020: 16.7%), with positive operational leverage on higher volumes partially offset by dual operating costs for Louisville which will not recur.

North American Aftermarket (24% of Sector revenue[4]) continued to gain momentum in H2, translating into underlying revenue growth of 6% for the full year, a strong result building on an extremely resilient flat underlying revenue performance in FY 2020. The business has benefited from robust construction activity, particularly homebuilding and roads, as well as good growth from rental customers and smaller distributors that buy from Hercules in order to benefit from shorter lead times and no minimum order quantities. International revenues saw double-digit growth, including a sharp recovery in demand in Canada.

The transition to our new facility in Louisville was successfully completed. Customer migrations were staged throughout the year and carefully managed, particularly in the context of a hot labour market and supply chain pressures. The facility's better location, combined with targeted investment in sales resource, is already delivering market share benefits with good growth in western states, such as California, towards the end of the year.

Underlying revenue growth at **US Industrial OEM** (22% of Sector revenue[4]) was 16%, reflecting significantly higher demand from key accounts. Growth has been strongest in Consumer Products and Medical but other end markets, including Fluid Handling, Energy and Automotive, also performed well whilst Aerospace remains weaker. The business has benefited from last year's investment in rebuilding the management team, which is focused firmly on driving market share growth.

Our later cycle **MRO** (12% of Sector revenue[4]) business experienced an underlying revenue decline of 12% in the year. The business has been on an improving trajectory, with Industrial markets returning to growth H1, followed by an uptick in key Transportation end markets during the second half of the year. As a proactive, sales-led solutions provider, the easing

[4] Pro forma revenues adjusted for acquisitions and disposals completed during the year.

of lockdowns has been positive for VSP, enabling sales teams to get back out onto customer sites. Organic revenue initiatives have also gained good traction, with new products expanding our addressable market. The business ended the year well and is positioned for growth in FY 2022.

Underlying revenue growth at **International Seals** (42% of Sector revenue[5]) was 9%, with our businesses benefiting from market share gains and growth in key target segments, including energy. In the UK, the focus on customer service throughout the pandemic meant that both UK businesses were well positioned to capitalise when demand returned towards the end of the first half; the UK businesses have also benefited from last year's reorganisation into OEM and Aftermarket clusters, allowing a targeted go-to-market approach.

In Continental Europe, Kubo had another good year with growth in Industrial more than offsetting lower Medical revenues. Our Scandinavian business, M Seals, enjoyed very good growth including in Renewable Energy. Success with multinationals supplying the wind turbine industry in Scandinavia is now translating into global opportunities; M Seals' high-quality, value-added proposition also means the business has been a beneficiary of supply chain consolidation by key customers. In Australia, our pump and accessory businesses performed particularly well in the Mining, Energy and Construction markets.

Strategic progress

During 2021, we continued to invest in initiatives to position the Sector for sustainable growth:

- Louisville: a major market share growth opportunity.
- Webstore investments at VSP and US Industrial OEM, leveraging the North American Aftermarket business's market-leading webstore capability.
- Acquisition of Power Dynamics International ("PDI") allows VSP to expand into new geographies and customers.
- The acquisition of FITT strengthened our platform for growth in Australia, diversifying revenues and giving access to new and resilient end markets in Water, Waste Water, Marine and Infrastructure, while allowing for scale in both our Eastern and Western Australian operations.
- Across the Sector, our businesses have continued to invest in talent, automation solutions and facilities.
- Disciplined portfolio management: disposal of Kentek completed post-year end.

Significant growth runway

- Structural tailwinds: US and European infrastructure and renewables investment.
- Louisville to accelerate market share gains in NA Aftermarket.
- Product development and end segment diversification in the US.
- Develop US OEM/MRO scale through acquisitions in key industrial regions.
- Portfolio: build scale in the best markets in Europe and Australia.
- Further progress in the European Aftermarket, both organically and via acquisition.

[5] Pro forma revenues adjusted for acquisitions and disposals completed during the year.

SECTOR REVIEW: LIFE SCIENCES

The Life Sciences Sector businesses supply a range of medical devices, consumables, instrumentation and related services to Healthcare and Environmental end markets.

	FY 2021	FY 2020*	
Revenue	**£180.4m**	£139.7m	+29%
Underlying revenue growth	**+14%**	(4)%	
Adjusted operating profit	**£43.2m**	£30.4m	+42%
Adjusted operating margin	**23.9%**	21.8%	+210bps

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

FY 2021 highlights

- Strong underlying growth of 14%.
- Build-out of European footprint provides diversification and growth opportunities.
- Very positive performance from Scandinavian acquisitions.
- Disciplined portfolio management: Q4 disposal of a1-CBISS.

Sector financial performance

In FY 2021, reported revenues increased 29% to £180.4m (2020: £139.7m), reflecting underlying revenue growth of 14%, an acquisition contribution of 14% and a 1% benefit from foreign exchange movements.

Adjusted operating profit was 42% higher at £43.2m (2020: £30.4m). The adjusted operating margin increased 210bps to 23.9% (2020: 21.8%) as a result of operating leverage on higher volumes, the positive impact of acquisitions and the benefit of pandemic-related travel cost savings.

Diploma Healthcare Group (94% of Sector revenue[6]) Reported revenues for our Healthcare businesses increased 34% year-on-year to £159.3m (2020: £118.5m), over half of which related to acquisitions, primarily Simonsen & Weel and Kungshusen. Full year underlying growth in Healthcare was 15%, with positive first half trading continuing into H2.
The easing of lockdown restrictions in most locations has been a positive, enabling sales teams to regain access to hospitals, laboratories and customers. Our surgical businesses, which were impacted by pandemic-related postponements of elective surgeries, have begun to experience a recovery, albeit still held back somewhat by capacity constraints in Canada and ongoing lockdowns in Australia. The backlog of surgeries will take time to unwind given the pressure on healthcare systems, underpinning mid-term growth for our businesses.

A number of our diagnostics businesses benefited from Covid-related testing, which has continued into FY 2021 alongside recovery in standard primary care testing areas such as allergy and diabetes. Across Healthcare, product pipeline development remains a key area of focus, with good progress in further diversifying our portfolio and bringing new suppliers into our pipeline.

At **DHG Canada** (42% Sector revenue[6]), underlying revenue growth was 15%, driven by a good recovery in non-Covid testing, while our surgical businesses benefited from improved access to hospitals.

DHG Australasia (22% Sector revenue[6]) delivered underlying revenue growth of 7%, a good performance given a strong FY 2020 driven by Covid-related sales. Our Australian surgical business continued to make good progress with diversifying its supplier base and growing its product portfolio.

Underlying revenue growth in **DHG Europe** (30% Sector revenue) was very strong at +26%. Simonsen & Weel had a positive first year as part of the Group, helped by ca. £9.4m of ventilator sales, which are not expected to recur. Technopath Distribution, our Irish diagnostics

[6] Pro forma revenues adjusted for acquisitions and disposals completed during the year

business, successfully captured the growth in Covid-related testing, translating into high levels of capital and consumable sales throughout the year.

Environmental (6% of Sector revenue[7]) Reported revenues were flat year-on-year with an underlying revenue increase of 5%. In early September we completed the disposal of a1-CBISS, our UK business supplying gas detection equipment and continuous emissions monitoring systems.

Strategic progress
During FY 2021 the Sector continued with its focus on product pipeline development and diversification:

- Product pipeline and diversification: continued intense focus and success in bringing new products into the pipeline and further diversifying the supply chain.
- Northern Europe: the acquisitions of Simonsen & Weel and Kungshusen bring important geographic and product diversification.
- Investing for scale: integration of operations functions into one centralised facility to generate efficiencies and create a more scalable Australian platform.
- Technology: ERP roll-out in Canada to bring AMT and Vantage onto the same platform.
- Leveraging digital: investment in camera studios and development of a virtual training offering.
- Disciplined portfolio management: disposal of a1-CBISS.

Significant growth runway

- Structural growth drivers: ageing populations and expectations for longer, healthier lifestyles driving increased healthcare spending and demand for new technologies.
- Increasing post-pandemic investment in diagnostics.
- Unwinding of elective surgery backlogs over the mid-term.
- Product pipeline development in surgical and diagnostics underpins growth.
- Product lifecycle management to build resilience and scale.
- Develop new healthcare segments.
- Cross-selling across existing businesses.
- Continued acquisitions, including build-out of Northern Europe, focused in Ireland and Scandinavia.

[7] Pro forma revenues adjusted for acquisitions and disposals completed during the year

FINANCE REVIEW: DISCIPLINED GROWTH

Diploma has delivered a strong set of FY 2021 financial results, exceeding all of our financial targets and demonstrating the strength of our financial model. In addition to double-digit growth in revenue, operating profit and earnings per share ("EPS"), we have remained financially disciplined – return on adjusted trading capital employed ("ROATCE") of 17.4% is ahead of our expectations, and free cash flow conversion was 103%, enabling us to deleverage more quickly than expected following the acquisition of Windy City Wire ("WCW"). Net debt/EBITDA ended the year at 1.1x despite a busy second half during which we welcomed five new businesses to the Group.

These results are the product of a great deal of hard work both on organic growth initiatives and an intense focus on managing supply chain challenges to ensure availability of product and excellent customer service. Our colleagues have worked hard to mitigate inflationary pressures and where this has not been possible, price increases have been applied.

Another area of focus this year has been the evolution of our non-financial key performance indicators ("KPIs") as we have intensified our environmental, social and governance ("ESG") activity. Finance has an important role to play, not least in ensuring that the right metrics are embedded in our reporting processes and performance frameworks. I am confident that the foundations we have put in place over the last 12 months will stand us in good stead as we seek to deliver continuous improvement across the Group.

In summary, I am delighted with the performance and progress we have made in FY 2021, outperforming all of our key financial targets. Our strong balance sheet gives us flexibility to continue to invest in growth and we enter FY 2022 well positioned to continue to deliver on our financial model.

Financial highlights

		Reported results			Adjusted results		
		FY 2021	FY 2020	% change	**FY 2021**	FY 2020	% change
Revenue	£m	**787.4**	538.4	+46			
Operating profit	£m	**104.3**	69.8	+49	**148.7**	87.1	+71
Free cash flow conversion	%				**103**	113	
Earnings per share	pence	**56.1**	43.5	+29	**85.2**	56.4	+51
Total dividend per share	pence	**42.6**	30.0	+42			

- Underlying revenue growth of 12% year-on-year, +7% compared with FY 2019.
- Very positive acquisition contribution, WCW outperformance.
- Adjusted operating margin +270bps to 18.9% due to accretion from acquisitions, positive operating leverage, Covid-related cost savings and sustainable benefits of FY 2020 restructuring.
- Free cash flow conversion of 103%, above target of ca. 90%.
- 51% growth in adjusted EPS.

Strong underlying growth in all three Sectors

Reported revenues increased by 46% to £787.4m (2020: £538.4m) and adjusted operating profit increased by 71% to £148.7m (2020: £87.1m). The results reflect a 38% contribution from acquisitions, and underlying growth of 12%, partly offset by a currency headwind of 4%. The Group also disposed of a1-CBISS during the final quarter of the year for £12m. a1-CBISS contributed ca. £9m to the Group's revenues in FY 2021.

Underlying revenues refer to reported results on a constant currency basis, before acquired or disposed businesses (ex-growth basis) and include growth generated by acquisitions under our ownership. Underlying revenues increased by 12%.

Underlying revenue was also 7% above FY 2019 (+2% in H1 and +11% in H2), reflecting the success of organic growth initiatives in addition to a recovery in demand across all Sectors and a positive contribution from acquisitions. Further detail of Sector revenue performance can be found in the Sector Reviews above.

Covid-19 has had a disruptive effect on the shape of our growth in 2021. Having delivered a resilient H1, with underlying revenues 2% higher year-on-year over what was essentially a pre-Covid comparative, the Group's underlying revenue growth in H2 was sharply higher at 23%. This reflects not only recovering demand and the impact of our growth initiatives, but also Covid-affected comparators. We also saw some element of pent-up demand as customers stocked up in the face of supply chain issues, particularly through our third quarter. We believe we are now largely through this period of distortion, and expect a return to mid-single digit underlying revenue growth in line with our financial model for the year ahead.

Sustaining high margins
The Group's adjusted operating margin increased by 270bps to 18.9% (2020: 16.2%), with all Sectors showing good progression.

	Adjusted operating profit			Adjusted operating margin		
	2021 £m	2020* £m	Change %	**2021 %**	2020* %	Change bps
Controls	**72.4**	25.5	+184	**21.1**	16.3	+480
Seals	**46.5**	40.5	+15	**17.6**	16.7	+90
Life Sciences	**43.2**	30.4	+42	**23.9**	21.8	+210
Central costs	**(13.4)**	(9.3)	+44			
Group	**148.7**	87.1	+71	**18.9**	16.2	+270

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

The margin improvement reflects the positive leverage impact from the increased revenues as well as the benefits from the restructuring concluded last year, accretion from our acquisitions, and Covid-related expense savings primarily in travel and marketing as restrictions remained in place for the majority of the year. During the second half in particular, we experienced some cost inflation. Where it was not possible to mitigate this through other actions, price increases were implemented. We also continued to invest in growth. Corporate costs are shown separately and have increased to £13.4m (2020: £9.3m) principally due to investment in headcount, and a provisions increase.

Increased financing cost
The interest expense this year increased to £6.8m (2020: £2.7m), including £4.6m on increased borrowings to finance acquisitions, fees in connection with the new facility which are amortised over the term of the loan, and £1.8m relating to the IFRS 16 interest charge.

Profit before tax
Adjusted profit before tax increased by 68% to £141.9m (2020: £84.4m). Statutory profit before tax was £96.6m (2020: £66.7m) and is stated after charging acquisition related costs of £44.4m (2020: £17.3m), principally comprising the amortisation of acquisition related intangible assets of £33.1m (2020: £15.4m) and £9.7m of acquisition related costs (2020: £1.9m), primarily in respect of the ten acquisitions completed during the year.

Higher effective tax rate
The Group's effective tax charge on adjusted profit has increased to 25.4% (2020: 24.0%) mainly due to an increased mix of profits from higher tax jurisdictions. The Group's cash tax rate of 17% (2020: 25%) remains below the adjusted effective tax rate primarily due to the impact of acquisition related deductible goodwill.

The Group's approach to tax is to comply with tax laws in the countries in which it operates and we aim to pay our fair share of tax. Tax legislation is not always prescriptive and the impact of a transaction or item can give rise to more than one interpretation of the law. The Group assesses all such exposures and, where it is considered probable that further tax payments will be payable, an uncertain tax provision is recognised. The provision is based on a single best estimate of the most likely outcome on a case-by-case basis. The Group's tax strategy and policy was approved by the Board and tax risks are regularly reviewed by the Audit Committee.

51% growth in adjusted EPS, total dividend +42%

Adjusted EPS increased by 51% to 85.2p (2020: 56.4p); statutory EPS rose 29% to 56.1p (2020: 43.5p). The growth in EPS reflects the impact of the change in capital structure in connection with the acquisition of WCW with the dilution from the increased number of shares in issue (10% share placing in September 2020). The higher interest resulting from increased leverage and higher tax charge have also affected EPS growth.

For FY 2021, the Board has recommended a final dividend of 30.1p per share making the proposed full year dividend 42.6p (2020: 30.0p). This represents a 42% increase in the total dividend with dividend cover at 2.0x adjusted EPS, continuing the Group's progressive dividend track record.

The Board has a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long-term growth strategy and the target level of dividend cover. The Board continues to target ca. 2x dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year), which provides a prudent buffer. The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified below that could adversely impact the performance of the Group.

Free cash flow conversion >100%

Free cash flow represents cash available to invest in growth through value-enhancing acquisitions or to return to shareholders. Free cash flow conversion for the year was 103% (2020: 113%), well ahead of our targeted 90%+, demonstrating the highly cash-generative qualities of the business model despite the increasing revenue profile and targeted investment in inventory. Free cash flow benefited from fixed asset disposal proceeds of £4.8m (2020: £5.8m).

The working capital outflow of £12.6m (2020: £9.5m inflow) is driven by the targeted investment in inventory and higher receivables, reflecting the impact of the improved trading activity as all Sectors returned to positive growth. The investment in inventory was largely offset by a corresponding increase in trade creditors from those inventory purchases and these creditors will unwind in H1 2022. The Group's working capital to revenue at 30 September 2021 improved to 15.8% (2020: 16.0%).

Group tax payments increased by £2.7m to £24.2m (2020: £21.5m). On an underlying basis, cash tax payments decreased to ca. 17% (2020: ca. 25%) of adjusted profit before tax. The cash tax rate benefited from the acquisition of WCW and specifically its related goodwill which is deductible for US tax purposes. The US and UK cash tax rates also benefited from enhanced deductions on capital spend. The prior year also included two additional quarterly UK tax payments following a change in legislation.

The Group's capital expenditure was lower this year at £6.2m (2020: £9.4m) largely consisting of ongoing investment in both new field equipment in the Healthcare businesses (£2.0m) and investment in technology across the Group to improve or replace legacy IT systems (£1.4m). The prior year also included investment in the new distribution centre in Louisville (£3.1m).

The Group spent £462.2m (2020: £14.9m) of free cash flow on acquisitions as described overleaf and £53.2m (2020: £23.4m) on paying dividends to both Company and minority shareholders. The current year included the FY 2020 full year dividend (30.0p) which included the catch-up from a deferral at the FY 2020 half year.

Strategic progress through acquisitions

Acquisition spend of £455.6m, which includes fees, mainly comprises the spend for WCW (£347.7m), which was acquired in October 2020, as well as an additional nine smaller businesses. There was also deferred consideration of £6.6m, primarily related to VSP Technologies. We remain highly disciplined in our approach to acquisitions. As outlined elsewhere, WCW has outperformed our acquisition assumptions on growth and returns since joining the Group. All of these businesses are great examples of high-quality, value-add acquisitions offering our Sectors opportunities to accelerate their organic growth and create value.

Goodwill at 30 September 2021 was £260.7m (2020: £159.0m). Goodwill is not amortised but is assessed each year to determine whether there has been any impairment in the carrying value. The exercise to assess whether goodwill has been impaired is described in note 10 to the consolidated financial statements. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

Disciplined portfolio management

The Group disposed of a1-CBISS during the final quarter of the year for £12m. a1-CBISS generated £9m of revenues in the year. The proceeds are not included in free cash flow and the profit on disposal of £5.8m is not included in adjusted operating profit. On 16 November 2021, the Group completed the disposal of its 90% interest in Kentek for £10m. As at 30 September 2021, the net assets of Kentek have been classified as held for sale, and written down to their fair value which resulted in a £7.3m charge within acquisition related charges.

Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2021 increased by £12.2m to £23.7m (2020: £11.5m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior year.

The liability to acquire minority shareholdings outstanding at 30 September 2021 relates to a 10% interest held in both M Seals and Kentek and a 5% interest in Techsil. These options are valued at £5.2m (2020: £4.2m), based on the Directors' latest estimate of the earnings before interest and tax ("EBIT") of these businesses when these options crystallise.

The liability for deferred consideration payable at 30 September 2021 was £18.5m (2020: £7.3m). This liability represents the Directors' best estimate of any outstanding amounts likely to be paid to the vendors of businesses, based on the expected performance of these businesses during the measurement period.

ROATCE: WCW outperforming our acquisition case

ROATCE is a key metric used to measure our success in creating value for shareholders. The outperformance of WCW in FY 2021 translated into a lower than expected initial reduction in the Group's ROATCE as a result of this acquisition and others in the year. As at 30 September 2021, the Group's ROATCE was 17.4% (2020: 19.1%) and, subject to future acquisition activity, we expect ROATCE to increase.

ROATCE acts as an important check and balance for the Group and is a fully loaded metric including all acquisition related expenditure and investment; it is a pre-tax measure that is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings as well as the add back of all acquisition related costs. Adjusted trading capital employed is defined in note 2 to the consolidated financial statements.

Faster than expected deleveraging, strong balance sheet to support growth

Very strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2021, the Group's net bank debt stood at £181.4m, representing 1.1x EBITDA (as defined by the bank facility covenant). Excluding the acquisitions completed in the second half of the year, the Group's net debt ratio would have fallen to 0.8x EBITDA, ahead of half year guidance of just under 1.0x EBITDA. The Group continues to maintain a robust balance sheet with net bank debt comprised of borrowings of £206.2m, less cash funds of £24.8m.

On 13 October 2020, the Group entered into a debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The SFA is due to expire in December 2023 and there is an option to extend for a further two 12-month periods. The facility also has an accordion option to increase the committed facility by a further £50.0m to £185.0m, which was exercised in the second half of the year to support the acquisition activity in the final quarter of the year.

Employee pension obligations

Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in FY 2021 of £5.5m (2020: £4.3m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. The Group is currently funding this deficit with cash contributions of £0.5m (2020: £0.5m) which increases annually on 1 October by 2%. In addition, a one-off contribution of £5.2m was paid into the Scheme in October 2020 to address an increase in Scheme liabilities as a result of falling bond yields subsequent to the agreement of the ten-year deficit repayment plan. This additional contribution was made to address the shortfall and leave the repayment plan on track to eliminate the deficit over the original ten-year timeline.

In Switzerland, local law requires our business Kubo to provide a contribution-based pension for all employees, which is funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies, which pools the funding risk between participating companies. In Switzerland, Kubo's annual cash contribution to the pension scheme was £0.5m (2020: £0.4m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (revised). At 30 September 2021, the aggregate accounting pension deficit in these two schemes decreased by £13.4m to £4.9m reflecting better returns on assets and the one-off pension payment. The next formal triennial funding valuation is due for the year ending 30 September 2022. Further information on these schemes is included in note 25 to the consolidated financial statements.

GOING CONCERN

Directors' assessment of going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this announcement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. In addition, the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Given the continued uncertainty of the Covid-19 pandemic and taking into account the recent guidance issued by the FCA and FRC, the Directors have again considered a more comprehensive going concern assessment. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described further below.

Liquidity and financing position

During the year, the Group entered into a new SFA which comprises a three-year amortising term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £185.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The SFA had an accordion option to increase the revolving facility amount which was exercised during the second half of the year, increasing the revolving facility aggregate principal amount by £50.0m to the aforementioned £185.0m. Interest on the SFA is payable between 125–275bps above the applicable interbank or risk-free rate, depending on the ratio of net debt to EBITDA.

As at 30 September 2021, the term loan is fully drawn and has an outstanding principal amount of £113.5m ($153.0m). The Group has also utilised £95.1m of the revolving facility.

Operational and business impact of Covid-19

The Group operates businesses which continued to trade successfully throughout the lockdown periods, demonstrating the resilience and power of our value-add model, the diversity of our end segments and the benefits of a geographically diverse scalable business. Changes were made to the operating processes and practices in the prior year to ensure the business can respond to and meet the specific local government requirements in each country in which it operates. Despite the continued challenges from the pandemic the Group continues to generate strong profit and free cash flows in each month. The Group generated free cash flows for the year of £108.8m (103% cash conversion) and adjusted operating profits of £148.7m which was 71% up on the prior year.

Financial modelling

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business-by-business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models a steep decline in revenues and operating margins as well as materially adverse working capital movements. These sensitivities factor in a continued unfavourable impact from the Covid-19 pandemic.

The purpose of this exercise is to consider if there is a significant risk that the Group could breach either its facility headroom or financial covenants. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

Going concern basis

Accordingly and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

Set out below are the principal risks and uncertainties affecting the Group that have been determined by the Board, based on a robust risk evaluation process, to potentially have the greatest impact on the Group's future viability. The risks are each classified as either strategic, operational, financial or accounting.

These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. Three new principal risks have been identified from the review process carried out by the Board this year: geopolitical disruptions (strategic risk), supply chain disruptions (operational risk) and tax (financial risk). Further information on these can be found below. The Group's decentralised operations with different Sectors and geographical spread helps mitigate the impact of these principal risks.

Risk description and assessment	Mitigation	Change
Strategic risk **Downturn/instability in major markets**		Relative movement versus prior year: decrease
Adverse changes in the major markets in which the businesses operate can result in slowing revenue growth, due to reduced or	The businesses identify key market drivers and monitor trends and forecasts, as well as maintaining close relationships with key	Covid-19 has changed the macro environment in which our businesses operate. This risk has, however, marginally

Risk description and assessment	Mitigation	Change
delayed demand for products and services, or margin pressures due to increased competition. A number of characteristics of the Group’s businesses moderate the impact of economic and business cycles: • The Group’s businesses operate in three different Sectors with different cyclical characteristics and across a number of geographic markets. • The businesses offer specialised products and services, which are often specific to their application, increasing customers’ switching costs. • A high proportion of the Group’s revenue comprises consumable products, which are purchased as part of the customer’s operating budget, rather than through capital budgets. • In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer.	customers who may give an early warning of slowing demand. Significant global events are closely monitored to determine any potential impact on key markets. The diversified nature of the business model in terms of geographies, customers and end segments provided resilience against the impact of Covid-19.	reduced from last year as the economic outlook becomes more positive with easing of restrictions across most countries we operate in. Our response was timely and effective, benefiting from a decentralised business model with a strong entrepreneurial culture.
Strategic risk **Supplier concentration/loss of key suppliers**		Relative movement versus prior year: no change
For manufacturer-branded products, there are risks of cancellation of existing distribution agreements and vertical integration of suppliers, therefore losing access to key distribution channels. There is also the risk of a supplier taking away exclusivity. Currently no single supplier represents more than 6% of Group revenue and only four other suppliers represent more than 2% of Group revenue. Relationships with suppliers have been built up over many years and a strong degree of interdependence has been established. The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand, relying on suppliers to invest in new development and technologies.	Long-term, multi-year exclusive contracts signed with suppliers with change of control clauses, where applicable, for protection or compensation in the event of acquisition. Management continues to pursue diversification strategies and regularly seeks alternative sourcing. Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings. Meeting with key customers regularly to gain insight into their product requirements and market developments.	This risk has remained at a similar level to last year and it is addressed continuously in our risk management process.

Risk description and assessment	Mitigation	Change
Strategic risk **Customer concentration/loss of key customer(s)**		Relative movement versus prior year: no change
The loss of one or more major customers can be a material risk. The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer. Only one customer represents more than 3.5% of Sector revenue and no single customer represents more than 1.5% of Group revenue.	Specific large customers are important to individual operating businesses and a high level of effort is invested in ensuring that these customers are retained and encouraged not to switch to another supplier. In addition to providing high levels of customer service and value-added activities, close integration is established where possible with customers' systems and processes.	This risk has remained at a similar level to last year and it is addressed continuously in our risk management process.
Strategic risk **Unsuccessful acquisition**		Relative movement versus prior year: increase
Diploma has a strong history of disciplined acquisitions. The business model of the Group is based on successful acquisitions in large and developed markets and in our products. The following are the key risks of an acquisition process: • The Group may overpay for a target. • The acquired business may experience limited growth post acquisition. • Loss of key customers or suppliers post integration. • Potential lack of cultural fit as businesses that are relatively small in size are faced with the new requirements of a listed Group. The above may be the result of inadequate due diligence, poor integration or unrealistic assumptions used in the investment case.	A clearly defined acquisition strategy is in place, with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group. An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the Chief Executive Officer ("CEO"). A formal due diligence process is followed for every acquisition, with close supervision by the CEO and relevant Group senior management. A formal governance process is in place up to Board level. A disciplined post-acquisition integration process covers operational, financial, governance, legal and reporting matters.	The acquisition pipeline remains healthy and the Group retains its disciplined approach to bringing high-quality, value-enhancing businesses into the Group. This risk has increased with the Group having completed the highest annual level of acquisition spend in FY 2021.
Strategic risk **Geopolitical disruptions**		Relative movement versus prior year: increase
Diploma operates in established economies with stable political and legal systems. Geopolitical events that could disrupt the Group's operations are mainly related to: • Interruption of trade agreements. • Tariffs. • Change of trade relationships amongst countries in which we operate (e.g. Brexit). • Government budget spending.	We continue to diversify our supply base and product development to mitigate exposure to any single market or region. Whenever possible, we capitalise on Group synergies and leverage inter-company trading.	This risk has increased as government budget spending continues to affect main markets in North America, namely infrastructure in the US and healthcare in Canada. Additionally, the tariffs imposed under the previous US administration, and previously thought to be temporary, are likely to remain in place.

Risk description and assessment	Mitigation	Change
• Political elections.		
Operational risk **Health & Safety**		Relative movement versus prior year: increase
The Covid-19 pandemic has placed a much greater focus on Health & Safety and preventive measures to limit the spread of Covid-19. An increased number of measures are required by businesses across the world to ensure a safe work environment. As Health & Safety regulation related to Covid-19 is subject to rapid change, there is a risk of non-compliance with the latest government guidelines. Local government measures on lockdowns as a response to Covid-19 could result in business interruption, where employees cannot fully perform their duties for a limited time period. Additionally, there is a risk of potential working time loss as a result of a potential increase in sick days or prevention measures employees may have to undergo.	The Group has undertaken a risk assessment in each of its businesses in line with government guidelines on working safely during Covid-19. Further Health & Safety measures have been added across all businesses, including social distancing and PPE equipment. The businesses' response to the implications of Covid-19 has been timely and agile, with remote working practices being effectively utilised when needed. Additionally, management continues to promote mental health and wellbeing awareness, offering support to colleagues, and access to an employee assistance programme.	There continues to be a significant increase in Health & Safety risk as a result of the Covid-19 pandemic. Business disruptions continue to be minimal across the Group, and all the businesses remained open and operational during FY 2021.
Operational risk **Cybersecurity/information technology/business interruption**		Relative movement versus prior year: increase
Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses. Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable. Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber-attack may also lead to disruption, including fraud.	The decentralised nature of the Group, including stand-alone IT systems for each business limits the potential impact to any individual business. There is good support and back-up built into local IT systems. All businesses in the Group have a robust cybersecurity programme and we regularly engage with cybersecurity experts to continuously improve and strengthen our IT systems. A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business. Business continuity plans exist for each business with ongoing testing.	The risk of cyber-attacks remains high in 2021. The businesses have maintained a high standard of cybersecurity whilst accommodating remote working practices in territories where strict lockdowns were in place as a response to the Covid-19 pandemic. At 30 September 2021, all existing businesses had achieved or renewed the UK Government-endorsed Cyber Essentials accreditation. It is expected that recently acquired businesses will be fully accredited in FY 2022.
Operational risk **Loss of key personnel**		Relative movement versus prior year: increase
The success of the Group is built upon strong, self-standing	Contractual terms such as notice periods and non-compete clauses	This risk has increased in the year, mainly due to current

Risk description and assessment	Mitigation	Change
management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have an impact on performance for a limited time period. The average length of service of the ca. 120 senior managers in the Group is nine years and for all personnel in the Group is consistently ca. seven years.	can mitigate the risk in the short term. The Group places very high importance on planning development, motivation and reward for key managers: • Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses. • Implementing a structured talent review process for the development, retention and succession of key personnel. • Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans. • Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.	market labour conditions with the tightening of labour markets, particularly in North America, affecting candidate availability and retention, and putting upwards pressure on wage levels.
Operational risk **Product liability**		Relative movement versus prior year: no change
There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. The Group business may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. In situations where a Group business is selling own-branded products and cannot subrogate the liability to a supplier, the business will be liable for failure of the product. The Group has liability insurance in place providing appropriate cover for each business.	Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake product risk assessments and comprehensive supplier quality assurance assessments. The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers to limit any liabilities.	This risk has remained at a similar level to last year.
Operational risk **Supply chain disruptions**		Relative movement versus prior year: increase
The ability to service our customers in a timely manner is a key component of our value-added proposition. There is a risk that manufacturing lead times increase as a result of supply chain shortages. We have	Businesses evaluate dual sourcing opportunities, where applicable. We maintain strong communication levels with suppliers and keep customers updated in the event of change to retain key business.	This risk has increased from last year with disrupted supply chains domestically and in Asia, leading to materials and components shortages, causing operational interruptions both at suppliers and customers. Inflationary

Risk description and assessment	Mitigation	Change
experienced this, particularly in our supplier sources based in Asia, in the current year. There is also a risk that freight costs negatively affect margins as a result of container shortages and capacity restrictions at key ports that drive prices upwards.	We implemented stronger inventory management processes and effective procurement practices to mitigate the impact of supplier disruptions. We continuously undertake risk mapping of our key suppliers to identify gaps and build redundancy plans to ensure continuity.	pressures and elevated freight costs remain.
Financial risk **Foreign currency**		Relative movement versus prior year: no change
The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, due to operating businesses' revenues or product costs being denominated in a currency other than their local currency. Translational foreign exchange risk arises primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro. A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit by approximately £13.8m (9%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £22.6m (4%). Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.	The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets. The Group's businesses may hedge up to 80% of forecast (for a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts. Rolling monthly forecasts of currency exposures are reviewed on a regular basis. Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 14 to this announcement.	This risk has remained at a similar level to last year.
Financial risk **Tax**		Relative movement versus prior year: increase
The international corporate tax environment is complex with increasing compliance, and regulatory and reporting requirements for global businesses leading to a higher non-compliance risk.	The Group seeks to plan and manage its tax affairs responsibly to ensure that it complies fully with relevant legal obligations and pays the correct amount of tax in the countries in which the Group operates while also endeavouring to protect value for shareholders.	Increased focus by global regulators on international taxes have increased compliance risk with the introduction of new complex legislation and tax reporting obligation.

Risk description and assessment	Mitigation	Change
Upwards pressure on corporate tax rates could affect the Group's financial performance.	The Group does not engage in arrangements with the sole purpose of obtaining tax benefits. Internal tax resource oversees and advises on tax related matters with support from tax specialists as required.	
Accounting risk **Inventory obsolescence**		Relative movement versus prior year: no change
Working capital management is critical to success in specialised industrial distribution businesses as this has a major impact on cash flow. The principal risk to working capital is in inventory obsolescence and write-off.	Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover both excess inventory and potential obsolescence.	The charge against operating profit in respect of aged or surplus inventory in the year was £2.0m, but inventories are mostly not subject to technological obsolescence. Inventories were reviewed carefully, considering reduced sales volumes as a result of Covid-19, to ensure all surplus stock was appropriately identified and dealt with. During the year, we have invested carefully and selectively in inventory holdings in order to build resilience in a disrupted supply chain environment.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT 2021

The Directors confirm that to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces; and

- the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors of Diploma PLC and their respective responsibilities are listed in the Annual Report & Accounts for 2020 and on the Company's website at *www.diplomaplc.com*.

This responsibility statement was approved by the Board of Directors on 22 November 2021 and is signed on its behalf by:

JD Thomson
Chief Executive Officer

B Gibbes
Chief Financial Officer

Registered office:
12 Charterhouse Square
London
EC1M 6AX

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	**2021 £m**	2020 £m
Revenue	3,4	**787.4**	538.4
Cost of sales		**(499.0)**	(344.0)
Gross profit		**288.4**	194.4
Distribution costs		**(23.9)**	(14.0)
Administration costs		**(160.2)**	(110.6)
Operating profit	3	**104.3**	69.8
Financial expense, net	5	**(7.7)**	(3.1)
Profit before tax		**96.6**	66.7
Tax expense	6	**(26.9)**	(16.9)
Profit for the year		**69.7**	49.8
Attributable to:			
Shareholders of the Company		**69.8**	49.3
Minority interests		**(0.1)**	0.5
		69.7	49.8
Earnings per share			
Basic earnings	7	**56.1p**	43.5p
Diluted earnings		**55.9p**	43.4p

ALTERNATIVE PERFORMANCE MEASURES*

	Note	**2021 £m**	2020 £m
Operating profit		**104.3**	69.8
Add: Acquisition related charges included in administration costs	3	**44.4**	17.3
Adjusted operating profit	3,4	**148.7**	87.1
Deduct: Interest expense	5	**(6.8)**	(2.7)
Adjusted profit before tax		**141.9**	84.4
Adjusted earnings per share	7	**85.2p**	56.4p

**The adjusted numbers set out above are non-statutory measures which are defined in note 2 of the financial statements.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
Profit for the year		**69.7**	49.8
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial gains/(losses) in the defined benefit pension schemes		**7.4**	(0.4)
Deferred tax on items that will not be reclassified	6	**(0.8)**	0.4
		6.6	–
Items that may be reclassified to Consolidated Income Statement			
Exchange rate losses on foreign currency net investments		**(16.2)**	(7.6)
Gains/(losses) on fair value of cash flow hedges		**0.4**	(0.1)
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement		**0.1**	(0.4)
Deferred tax on items that may be reclassified	6	**(0.1)**	0.1
		(15.8)	(8.0)
Total Other Comprehensive Income		**(9.2)**	(8.0)
Total Comprehensive Income for the year		**60.5**	41.8
Attributable to:			
Shareholders of the Company		**60.8**	41.2
Minority interests		**(0.3)**	0.6
		60.5	41.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	**Shareholders' equity £m**	Minority interests £m	**Total equity £m**
At 1 October 2019		5.7	–	36.0	0.2	279.4	321.3	3.3	324.6
Total Comprehensive Income		–	–	(7.7)	(0.5)	49.4	41.2	0.6	41.8
Issue of share capital		0.6	188.6	–	–	–	189.2	–	189.2
Share-based payments		–	–	–	–	0.8	0.8	–	0.8
Tax on items recognised directly in equity	6	–	–	–	–	0.2	0.2	–	0.2
Notional purchase of own shares		–	–	–	–	(2.5)	(2.5)	–	(2.5)
Dividends	13	–	–	–	–	(23.2)	(23.2)	(0.2)	(23.4)
At 30 September 2020		6.3	188.6	28.3	(0.3)	304.1	**527.0**	3.7	**530.7**
Total Comprehensive Income		–	–	(16.2)	0.5	76.5	**60.8**	(0.3)	**60.5**
Share-based payments		–	–	–	–	1.8	**1.8**	–	**1.8**
Tax on items recognised directly in equity	6	–	–	–	–	1.0	**1.0**	–	**1.0**
Notional purchase of own shares		–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Acquisition of businesses		–	–	–	–	–	**–**	0.9	**0.9**
Minority interest put option		–	–	–	–	(0.9)	**(0.9)**	–	**(0.9)**
Minority interest issued		–	–	–	–	–	**–**	0.7	**0.7**
Dividends	13	–	–	–	–	(52.9)	**(52.9)**	(0.3)	**(53.2)**
At 30 September 2021		**6.3**	**188.6**	**12.1**	**0.2**	**329.1**	**536.3**	**4.7**	**541.0**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2021

	Note	**2021 £m**	2020 £m
Non-current assets			
Goodwill	10	**260.7**	159.0
Acquisition intangible assets		**344.9**	87.2
Other intangible assets		**3.4**	3.0
Property, plant and equipment		**35.4**	27.9
Leases – right-of-use assets		**44.9**	31.6
Deferred tax assets		**0.4**	0.7
		689.7	309.4
Current assets			
Inventories		**139.8**	100.6
Trade and other receivables		**117.8**	77.8
Assets held for sale		**11.3**	–
Cash and cash equivalents	9	**24.8**	206.8
		293.7	385.2
Current liabilities			
Borrowings	9	**(18.0)**	–
Trade and other payables		**(127.0)**	(87.1)
Current tax liabilities	6	**(10.0)**	(4.7)
Other liabilities	12	**(11.7)**	(11.5)
Lease liabilities		**(9.7)**	(7.2)
		(176.4)	(110.5)
Net current assets		**117.3**	274.7
Total assets less current liabilities		**807.0**	584.1
Non-current liabilities			
Retirement benefit obligations		**(4.9)**	(18.3)
Borrowings	9	**(188.2)**	–
Lease liabilities		**(38.6)**	(26.5)
Other liabilities	12	**(12.0)**	–
Deferred tax liabilities		**(22.3)**	(8.6)
Net assets		**541.0**	530.7
Equity			
Share capital		**6.3**	6.3
Share premium		**188.6**	188.6
Translation reserve		**12.1**	28.3
Hedging reserve		**0.2**	(0.3)
Retained earnings		**329.1**	304.1
Total shareholders' equity		**536.3**	527.0
Minority interests		**4.7**	3.7
Total equity		**541.0**	530.7

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
Operating profit		**104.3**	69.8
Acquisition related charges	8	**44.4**	17.3
Non-cash items and other	8	**9.8**	11.8
(Increase)/decrease in working capital	8	**(12.6)**	9.5
Cash flow from operating activities	8	**145.9**	108.4
Interest paid, net		**(5.6)**	(1.5)
Tax paid		**(24.2)**	(21.5)
Net cash from operating activities		**116.1**	85.4
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	11	**(451.4)**	(13.8)
Deferred consideration paid	12	**(6.6)**	(1.1)
Proceeds from sale of business		**11.0**	0.8
Purchase of property, plant and equipment		**(4.9)**	(8.4)
Purchase of other intangible assets		**(1.3)**	(1.0)
Proceeds from sale of property, plant and equipment		**4.8**	5.8
Net cash used in investing activities		**(448.4)**	(17.7)
Cash flow from financing activities			
Proceeds from issue of share capital (net of fees)		**(0.6)**	189.8
Dividends paid to shareholders	13	**(52.9)**	(23.2)
Dividends paid to minority interests		**(0.3)**	(0.2)
Proceeds from minority interests		**0.7**	–
Purchase of own shares by Employee Benefit Trust		**–**	(1.8)
Notional purchase of own shares on exercise of share options		**(0.6)**	(0.7)
Proceeds from borrowings		**215.3**	–
Repayment of borrowings		**(12.4)**	(42.1)
Lease repayments		**(9.5)**	(7.6)
Net cash from financing activities		**139.7**	114.2
Net (decrease)/increase in cash and cash equivalents		**(192.6)**	181.9
Cash and cash equivalents at beginning of year		**206.8**	27.0
Effect of exchange rates on cash and cash equivalents		**10.6**	(2.1)
Cash and cash equivalents at end of year	9	**24.8**	206.8

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)

	Note	2021 £m	2020 £m
Net increase/(decrease) in cash and cash equivalents		**(192.6)**	181.9
Add: Dividends paid to shareholders	13	**52.9**	23.2
Dividends paid to minority interests		**0.3**	0.2
Proceeds from minority interests		**(0.7)**	–
Acquisition of businesses (net of cash acquired)	11	**451.4**	13.8
Acquisition and disposal expenses paid		**4.2**	–
Proceeds from sale of business (net of expenses)		**(11.0)**	–
Proceeds from issue of share capital (net of fees)		**0.6**	(189.8)
Deferred consideration paid	12	**6.6**	1.1
(Proceeds from)/repayment of borrowings (net)	9	**(202.9)**	42.1
Free cash flow		**108.8**	72.5
Cash and cash equivalents		**24.8**	206.8
Borrowings		**(206.2)**	–
(Net debt)/cash and cash equivalents	9	**(181.4)**	206.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021

1. General information

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group") and were authorised by the Directors for publication on 22 November 2021. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with International Accounting Standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies have been consistently applied in the current and the comparative year.

The financial information set out in this Preliminary Announcement, which has been extracted from the audited consolidated financial statements, does not constitute the Group's statutory financial statements for the years ended 30 September 2021 and 2020. Statutory financial statements for the year ended 30 September 2020 have been delivered to the Registrar of Companies and are available on the website at *www.diplomaplc.com.* The statutory financial statements for the year ended 30 September 2021, which were approved by the Directors on 22 November 2021, will be sent to shareholders in December 2021 and delivered to the Registrar of Companies, following the Company's Annual General Meeting.

The auditor has reported on the consolidated financial statements for the years ended 30 September 2021 and 2020. The reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Company's Annual General Meeting will be held at 12.00 midday on 19 January 2022 in The Great Chamber, The Charterhouse, Charterhouse Square, EC1M 6AN. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) financial measures which are not defined within IFRS. The Directors use these measures for internal management reporting of key performance indicators ("KPIs") in order to assess the operational performance of the Group on a comparable basis against the Group's KPIs, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. As such these measures should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Preliminary Announcement:

2.1 Adjusted operating profit
At the foot of the Consolidated Income Statement, "adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets or goodwill, acquisition expenses and adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of a material restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's revenue.

2.2 Adjusted profit before tax
At the foot of the Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (but before acquisition related finance charges) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

2.3 Adjusted earnings per share
"Adjusted earnings per share" ("adjusted EPS") is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact on the items included in the calculation of adjusted profit, less profit/(loss) attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year. The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

2. Alternative performance measures (continued)

2.4 Free cash flow
At the foot of the Consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations/investments and proceeds from business disposals, borrowings received to fund acquisitions and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment or distribution to shareholders.

2.5 Trading capital employed and ROATCE
In the Sector analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents ("cash funds") and after adding back: borrowings (other than lease liabilities); retirement benefit obligations; deferred tax; and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets). Return on adjusted trading capital employed ("ROATCE") at the Group and Sector level is defined as the adjusted operating profit, divided by adjusted trading capital employed and adjusted for the full year effect of acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

3. Business Sector analysis

The Chief Operating Decision Maker ("CODM") for the purposes of IFRS 8 is the CEO. The financial performance of the business Sectors are reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

For management reporting purposes, the Group is organised into three main reportable business Sectors: Life Sciences, Seals and Controls. These Sectors are the Group's operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures below. The CODM reviews discrete financial information at this operating segment level. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

Sector assets exclude cash and cash equivalents, deferred tax assets and corporate assets that cannot be allocated on a reasonable basis to a business Sector. Sector liabilities exclude borrowings (other than lease liabilities), retirement benefit obligations, deferred tax liabilities, acquisition liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business Sector. These items are shown collectively in the following analysis as "unallocated assets" and "unallocated liabilities", respectively.

	Life Sciences		Seals		Controls		Corporate		Group	
	2021 £m	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020 £m
Revenue – existing	**156.8**	139.7	**250.5**	242.1	**169.2**	156.6	**–**	–	**576.5**	538.4
Revenue – acquisitions	**23.6**	–	**13.2**	–	**174.1**	–	**–**	–	**210.9**	–
Revenue	**180.4**	139.7	**263.7**	242.1	**343.3**	156.6	**–**	–	**787.4**	538.4
Adjusted operating profit – existing	**37.0**	30.4	**44.6**	40.5	**31.6**	25.5	**(13.4)**	(9.3)	**99.8**	87.1
Adjusted operating profit – acquisitions	**6.2**	–	**1.9**	–	**40.8**	–	**–**	–	**48.9**	–
Adjusted operating profit	**43.2**	30.4	**46.5**	40.5	**72.4**	25.5	**(13.4)**	(9.3)	**148.7**	87.1
Acquisition related charges	**(4.6)**	(2.4)	**(9.7)**	(9.1)	**(30.1)**	(5.8)	**–**	–	**(44.4)**	(17.3)
Operating profit	**38.6**	28.0	**36.8**	31.4	**42.3**	19.7	**(13.4)**	(9.3)	**104.3**	69.8

* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

Acquisition related charges are £44.4m (2020: £17.3m) and comprise £33.1m (2020: £15.4m) of amortisation of acquisition intangible assets, £9.7m of acquisition expenses (2020: £1.9m) and a £1.6m (2020: nil) net charge, being the gain on disposal of a1-CBISS offset by the write-down of assets now held for sale.

3. Business sector analysis (continued)

	Life Sciences		Seals		Controls		Corporate		Group	
	2021 £m	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020 £m
Operating assets	**51.2**	47.3	**134.4**	123.1	**164.8**	66.7	**–**	–	**350.4**	237.1
Goodwill	**81.4**	62.0	**60.0**	60.5	**119.3**	36.5	**–**	–	**260.7**	159.0
Acquisition intangible assets	**47.2**	12.6	**50.4**	53.9	**247.3**	20.7	**–**	–	**344.9**	87.2
	179.8	121.9	**244.8**	237.5	**531.4**	123.9	**–**	–	**956.0**	483.3
Unallocated assets:										
– Deferred tax assets							**0.4**	0.7	**0.4**	0.7
– Cash and cash equivalents							**24.8**	206.8	**24.8**	206.8
– Corporate assets							**2.2**	3.8	**2.2**	3.8
Total assets	**179.8**	121.9	**244.8**	237.5	**531.4**	123.9	**27.4**	211.3	**983.4**	694.6
Operating liabilities	**(30.2)**	(27.6)	**(58.4)**	(52.5)	**(68.1)**	(31.8)	**–**	–	**(156.7)**	(111.9)
Unallocated liabilities:										
– Deferred tax liabilities							**(22.3)**	(8.6)	**(22.3)**	(8.6)
– Retirement benefit obligations							**(4.9)**	(18.3)	**(4.9)**	(18.3)
– Acquisition related liabilities							**(23.7)**	(11.5)	**(23.7)**	(11.5)
– Corporate liabilities							**(28.6)**	(13.6)	**(28.6)**	(13.6)
– Borrowings							**(206.2)**	–	**(206.2)**	–
Total liabilities	**(30.2)**	(27.6)	**(58.4)**	(52.5)	**(68.1)**	(31.8)	**(285.7)**	(52.0)	**(442.4)**	(163.9)
Net assets	**149.6**	94.3	**186.4**	185.0	**463.3**	92.1	**(258.3)**	159.3	**541.0**	530.7

* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	Life Sciences		Seals		Controls		Group	
	2021 £m	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020 £m
Net assets	**149.6**	94.3	**186.4**	185.0	**463.3**	92.1	**541.0**	530.7
Add/(deduct):								
– Deferred tax, net							**21.9**	7.9
– Retirement benefit obligations							**4.9**	18.3
– Acquisition related liabilities							**23.7**	11.5
– (Cash funds)/net debt							**181.4**	(206.8)
Reported trading capital employed							**772.9**	361.6
– Historic goodwill and acquisition related charges, net of deferred tax	**32.0**	34.7	**55.3**	47.3	**42.3**	17.4	**129.6**	99.4
Adjusted trading capital employed	**181.6**	129.0	**241.7**	232.3	**505.6**	109.5	**902.5**	461.0
Pro forma adjusted operating profit[1]	**44.8**	30.4	**47.4**	41.0	**78.6**	25.7	**157.4**	87.9
ROATCE	**24.7%**	23.6%	**19.6%**	17.6%	**15.5%**	23.5%	**17.4%**	19.1%

* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

1 After annualisation of adjusted operating profit of acquisitions and disposals.

3. Business sector analysis (continued)

Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2021 £m	2020* £m	**2021 £m**	2020 £m	**2021 £m**	2020* £m	**2021 £m**	2020* £m	**2021 £m**	2020 £m
Capital expenditure	**2.3**	2.9	**2.5**	5.1	**1.1**	1.3	**0.3**	0.1	**6.2**	9.4
Depreciation and amortisation	**2.6**	2.6	**2.9**	2.1	**4.1**	0.6	**0.1**	0.1	**9.7**	5.4
Revenue recognition										
– immediately on sale	**164.2**	124.6	**260.1**	239.3	**343.3**	156.6	**–**	–	**767.6**	520.5
– over a period of time	**16.2**	15.1	**3.6**	2.8	**–**	–	**–**	–	**19.8**	17.9
	180.4	139.7	**263.7**	242.1	**343.3**	156.6	**–**	–	**787.4**	538.4

* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

Accrued income ("contract assets") at 30 September 2021 of £0.8m (2020: £0.9m) and deferred revenue ("contract liabilities") of £2.5m at 30 September 2021 (2020: £2.4m) are included in trade and other receivables and trade and other payables, respectively.

4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[2]		Trading capital employed		Capital expenditure	
	2021 £m	2020 £m	**2021 £m**	2020[1] £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
United Kingdom	**142.5**	134.0	**10.5**	11.5	**82.5**	64.7	**83.4**	71.4	**0.5**	1.4
Rest of Europe	**166.5**	126.8	**31.9**	21.0	**115.3**	73.5	**140.3**	85.8	**0.8**	0.9
North America	**411.8**	228.5	**94.7**	46.7	**443.7**	133.8	**496.1**	165.7	**4.1**	6.3
Rest of world	**66.6**	49.1	**11.6**	7.9	**47.8**	36.7	**53.1**	38.7	**0.8**	0.8
	787.4	538.4	**148.7**	87.1	**689.3**	308.7	**772.9**	361.6	**6.2**	9.4

1 Re-presented to include central corporate costs separately in line with current year presentation.
2 Non-current assets excludes deferred tax assets.

5. Financial expense, net

	2021 £m	2020 £m
Interest (expense)/income and similar charges		
– bank facility and commitment fees	**(0.5)**	(0.2)
– interest income on bank deposits	**–**	0.1
– interest expense on bank borrowings	**(4.1)**	(0.9)
– notional interest expense on the defined benefit pension scheme	**(0.1)**	(0.3)
– amortisation of capitalised borrowing fees	**(0.3)**	–
– interest on lease liabilities	**(1.8)**	(1.4)
Net interest expense and similar charges	**(6.8)**	(2.7)
– acquisition related finance charges	**(0.9)**	(0.4)
Financial expense, net	**(7.7)**	(3.1)

Acquisition related finance charges includes fair value remeasurements of put options for future minority purchases of £0.1m debit (2020: £0.1m credit), unwind of discount on acquisition liabilities of £nil (2020: £0.5m debit), and £0.8m debit (2020: £nil) for the amortisation of capitalised borrowing fees on acquisition related borrowings.

6. Tax expense

	2021 £m	2020 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**5.5**	3.5
Overseas tax	**21.5**	15.6
	27.0	19.1
Adjustments in respect of prior year:		
UK corporation tax	**2.1**	0.1
Overseas tax	**0.5**	0.1
Total current tax	**29.6**	19.3
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(1.9)**	(1.1)
Overseas	**(0.8)**	(1.3)
Total deferred tax	**(2.7)**	(2.4)
Total tax on profit for the year	**26.9**	16.9

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax balance relating to the retirement benefit scheme and cash flow hedges of £0.9m was debited (2020: £0.5m credit) directly to the Consolidated Statement of Comprehensive Income. A further £1.0m was credited (2020: £0.2m credit) to the Consolidated Statement of Changes in Equity, comprising current tax of £0.8m (2020: £0.2m) and deferred tax of £0.2m (2020: £nil) which relates to share-based payments.

Factors affecting the tax charge for the year
The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.0% to the profit before tax of £96.6m and the amount set out above is as follows:

	2021 £m	2020 £m
Profit before tax	**96.6**	66.7
Tax on profit at UK effective corporation tax rate of 19.0% (2020: 19.0%)	**18.4**	12.7
Effects of:		
– higher tax rates on overseas earnings	**4.7**	3.6
– adjustments in respect of prior years	**2.6**	0.2
– change to future tax rate in the United Kingdom	**0.5**	0.5
– other permanent differences	**0.7**	(0.1)
Total tax on profit for the year	**26.9**	16.9

The Group earns its profits in the UK and overseas. The Group prepares its consolidated financial statements for the year to 30 September and the statutory tax rate for UK corporation tax in respect of the year ended 30 September 2021 was 19.0% (2020: 19.0%) and this rate has been used for tax on profit in the above reconciliation.

The Group's net overseas tax rate is higher than that in the UK, primarily because profits earned in the US, Canada, Germany and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2021 have been calculated by reference to the future UK corporation tax rate of 25% (2020: 19.0%), as substantively enacted at 30 September 2021.

At 30 September 2021, the Group had outstanding tax liabilities of £10.0m (2020: £4.7m) of which £2.7m (2020: £0.6m) related to UK tax liabilities and £7.3m (2020: £4.1m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

7. Earnings per share

Basic and diluted earnings per share
Basic earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,468,210 (2020: 113,397,329) and the profit for the year attributable to shareholders of £69.8m (2020: £49.3m). Basic earnings per share is 56.1p (2020: 43.5p). Diluted earnings per share is 55.9p (2020: 43.4p) and is based on the average number of ordinary shares (which includes any potentially dilutive shares) of 124,794,473.

7. Earnings per share (continued)

Adjusted earnings per share
Adjusted EPS, which is defined in note 2, is calculated as follows:

	2021 pence per share	2020 pence per share	**2021 £m**	2020 £m
Profit before tax			**96.6**	66.7
Tax expense			**(26.9)**	(16.9)
Minority interests			**0.1**	(0.5)
Earnings for the year attributable to shareholders of the Company	**56.1**	43.5	**69.8**	49.3
Acquisition related charges and acquisition related finance charges, net of tax	**29.1**	12.9	**36.3**	14.7
Adjusted earnings	**85.2**	56.4	**106.1**	64.0

8. Reconciliation of operating profit to cash flow from operating activities

	2021 £m	**2021 £m**	2020 £m	2020 £m
Operating profit		**104.3**		69.8
Acquisition related charges (note 3)		**44.4**		17.3
Adjusted operating profit		**148.7**		87.1
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	**20.7**		12.7	
Share-based payments expense	**1.8**		0.8	
Defined benefit pension scheme payment in excess of interest	**(5.8)**		(0.2)	
Profit on disposal of assets	**(2.8)**		(1.0)	
Acquisition and disposal expenses paid	**(4.2)**		–	
Other non-cash movements	**0.1**		(0.5)	
Non-cash items and other		**9.8**		11.8
Operating cash flow before changes in working capital		**158.5**		98.9
(Increase)/decrease in inventories	**(13.5)**		1.6	
(Increase)/decrease in trade and other receivables	**(16.3)**		10.3	
Increase/(decrease) in trade and other payables	**17.2**		(2.4)	
(Increase)/decrease in working capital		**(12.6)**		9.5
Cash flow from operating activities		**145.9**		108.4

9. Net cash funds/(net debt)

The movement in cash funds/(net debt) during the year is as follows:

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**30 Sep 2021 £m**
Cash and cash equivalents	206.8	(192.6)	10.6	–	**24.8**
Borrowings	–	(202.9)	(3.3)	–	**(206.2)**
Cash funds/(net debt)	206.8	(395.5)	7.3	–	**(181.4)**

	1 Oct 2019 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sep 2020 £m
Cash and cash equivalents	27.0	181.9	(2.1)	–	206.8
Borrowings	(42.1)	42.1	–	–	–
(Net debt)/cash funds	(15.1)	224.0	(2.1)	–	206.8

During the year, the Group entered into a new SFA which comprises a three-year amortising term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £185.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The SFA had an accordion option to increase the revolving facility amount which was exercised during the second half of the year, increasing the revolving facility aggregate principal amount by £50.0m to the aforementioned £185.0m. Interest on the SFA is payable between 125–275bps above the applicable interbank or risk-free rate, depending on the ratio of net debt to EBITDA.

As at 30 September 2021, the term loan is fully drawn and has an outstanding principal amount of £113.5m ($153.0m). The Group has also utilised £95.1m of the revolving facility. Borrowings include £0.4m (2020: £nil) of accrued interest and the carrying amount of capitalised debt fees is £2.8m (2020: £nil). As at 30 September 2020, the Group had a committed multi-currency revolving facility of £60.0m, of which £nil had been utilised.

9. Net cash funds/(net debt) (continued)

Total net debt is £229.7m (2020: net cash of £173.1m) comprising cash funds of £24.8m (2020: £206.8m), borrowings of £206.2m (2020: £nil), and lease liabilities of £48.3m (2020: £33.7m). Bank covenants are tested against net cash funds/(net debt) only.

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	**Total £m**
At 1 October 2019	64.0	59.1	31.9	**155.0**
Acquisitions	–	2.2	4.1	**6.3**
Exchange adjustments	(2.0)	(0.8)	0.5	**(2.3)**
At 30 September 2020	62.0	60.5	36.5	**159.0**
Acquisitions (note 11)	24.1	6.8	86.7	**117.6**
Disposals	(3.8)	–	–	**(3.8)**
Reclassification to held for sale	–	(4.7)	–	**(4.7)**
Exchange adjustments	(0.9)	(2.6)	(3.9)	**(7.4)**
At 30 September 2021	81.4	60.0	119.3	**260.7**

The Group tests goodwill for impairment at least once a year. For the purposes of impairment testing, goodwill is allocated to each of the Group's three cash-generating units ("CGUs"), which are the three operating Sectors: Life Sciences; Seals; and Controls. This represents the lowest level within the Group at which goodwill is monitored by management and reflects the Group's strategy of acquiring businesses to drive synergies across a Sector, rather than within an individual business. The impairment test requires a "value in use" valuation to be prepared for each Sector using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and the Group's strategic plan.

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The cash flow forecasts use the budgeted figures for 2022, and then the three-year strategy cash flows for the next two years. From year four onwards a long-term growth rate of 2% is utilised.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2020: ca. 11%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well-developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors, the Board considers that it is appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

Based on the criteria set out above, no impairment in the value of goodwill in the CGUs was identified.

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a "reasonably possible adverse change" in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a "reasonably possible adverse change" would not give rise to an impairment charge to goodwill in any of the three CGUs.

11. Acquisitions and disposals of businesses

Acquisition of Windy City Wire Cable & Technology Products LLC
On 16 October 2020, the Group completed the acquisition of SEP III Wire & Holdings, LLC, the holding company of Windy City Wire Cable & Technology Products LLC ("WCW"), a leading value-add distributor of premium quality, low voltage wire and cable in the US. The consideration was £347.7m ($449.6m), net of cash acquired of £0.9m ($1.1m).

The acquisition was funded partly by an equity placing announced on 22 September 2020 (gross proceeds of £193.7m offset by related transaction costs of £4.5m) with the remaining balance being funded through a new committed debt facility. On 13 October 2020, the Group entered into a new debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The term loan was fully drawn and RCF partly drawn to assist with the acquisition of WCW.

11. Acquisition and disposals of businesses (continued)

Acquisition expenses of £7.6m have been recognised in respect of the transaction across FY 2020 and FY 2021. This includes $5.5m (£4.0m) of remuneration due to WCW's management which is predicated on the individuals remaining within the business at the end of three years. The maximum outflow is $15.0m at the end of FY 2023.

The provisional fair value of WCW net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £45.1m following fair value adjustments of £3.1m. The principal fair value adjustments relate to fixed assets (£1.2m reduction in the book value) and an increase in the provisions held against inventory (£0.8m) and trade receivables (£0.7m).

Acquisition of Simonsen and Weel A/S

On 31 December 2020, the Group completed the acquisition of Simonsen and Weel A/S ("S&W"), a distributor of clinical nutrition products and medically supervised compression garments, as well as specialty medical devices for operating rooms and intensive care units, based in Denmark, for initial consideration of £31.3m (DKK 257.3m), net of cash acquired of £1.3m (DKK 11.0m). Deferred consideration of up to £3.6m (DKK 30.0m) is payable based on the performance of S&W in the 12 months following the acquisition and has been recognised in full.

Acquisition expenses of £0.4m have been recognised in FY 2021.

The provisional fair value of S&W net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £0.2m following fair value adjustments of £0.2m. The provisions held against inventory and trade receivables were increased by £0.3m and £0.1m, respectively, and an excess accrual of historic tax liabilities of £0.2m was released.

Other acquisitions

The Group completed a further eight other acquisitions during the year. This comprised the purchase of the trade and assets of Power Dynamics Gasket Company, Inc. ("PDI") (22 December 2020); HSP GmbH ("HSP") (2 October 2020); Biospecifix (30 June 2021) and Aircraft Hardware West, Inc. ("AHW") (20 September 2021). In addition, the Group purchased 100% of the share capital of FITT Management Pty Limited ("FITT Resources") (15 January 2021); Kungshusen Medicinska Aktiebolag ("Kungshusen") (14 July 2021); Specialised Wiring Accessories Limited ("SWA") (31 July 2021); and 95% of the share capital of Techsil Group Holdings Limited ("Techsil") (30 August 2021).

The combined consideration for these acquisitions was £72.4m, net of cash acquired of £7.1m. Deferred consideration of up to £13.5m is payable based on the performance of the businesses.

Acquisition expenses of £3.2m have been recognised in respect of these transactions in the financial year.

The provisional fair value of the combined net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £17.1m following fair value adjustments of £2.4m. Fair value adjustments principally relate to an increase in provisions held against inventory of £1.7m.

The following table summarises the consideration paid for the acquisitions completed in the period and fair value of assets acquired and liabilities assumed, with values being provisional pending completion of a final valuation.

	WCW		S&W		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets[1]	–	233.1	–	25.3	–	48.4	–	306.8
Deferred tax	–	(3.2)	–	(5.6)	–	(8.6)	–	(17.4)
Property, plant and equipment	21.0	19.8	0.3	0.3	1.6	1.7	22.9	21.8
Inventories	19.3	18.5	2.7	2.4	18.3	16.6	40.3	37.5
Trade and other receivables	18.9	18.2	4.2	4.1	10.3	10.1	33.4	32.4
Trade and other payables	(11.0)	(11.4)	(6.8)	(6.6)	(10.7)	(11.3)	(28.5)	(29.3)
Net assets acquired	**48.2**	**275.0**	**0.4**	**19.9**	**19.5**	**56.9**	**68.1**	**351.8**
Goodwill (see note 10)	–	72.7	–	15.0	–	29.9	–	117.6
Minority interests	–	–	–	–	–	(0.9)	–	(0.9)
Cash paid		348.6		32.6		79.5		460.7
Cash acquired		(0.9)		(1.3)		(7.1)		(9.3)
		347.7		31.3		72.4		451.4
Deferred consideration		–		3.6		13.5		17.1
Total consideration		**347.7**		**34.9**		**85.9**		**468.5**

1 Acquired intangibles relate to customer and supplier relationships (£265.4m), patented technology (£34.0m), and brand (£7.4m).

11. Acquisition and disposals of businesses (continued)

Acquisitions revenue and adjusted operating profit

From the date of acquisition to 30 September 2021, each acquired business contributed the following to Group revenue and adjusted operating profit:

	Acquisition date	Revenue £m	Adj.[2] £m	Pro forma revenue £m	Operating profit[1] £m	Adj.[2] £m	Pro forma operating profit[1] £m
WCW	16 Oct 2020	168.3	7.3	175.6	39.8	1.7	41.5
S&W	31 Dec 2020	21.2	7.2	28.4	5.7	1.9	7.6
FITT	15 Jan 2021	11.0	4.5	15.5	1.9	0.8	2.7
PDI	22 Dec 2020	2.2	0.7	2.9	–	–	–
HSP	2 Oct 2020	3.2	–	3.2	0.6	–	0.6
Biospecifix	30 Jun 2021	0.3	0.6	0.9	0.1	0.1	0.2
Kungshusen	14 Jul 2021	2.1	8.1	10.2	0.4	1.7	2.1
SWA	31 Jul 2021	1.6	7.8	9.4	0.1	0.7	0.8
Techsil	30 Aug 2021	0.9	9.8	10.7	0.3	2.9	3.2
AHW	20 Sep 2021	0.1	7.2	7.3	–	0.9	0.9
		210.9	**53.2**	**264.1**	**48.9**	**10.7**	**59.6**

1 Adjusted operating profit.
2 Pro forma revenue and adjusted operating profit has been extrapolated from the results reported since acquisition to indicate what these businesses would have contributed if they had been acquired at the beginning of the financial year on 1 October 2020. These amounts should not be viewed as confirmation of the results of these businesses that would have occurred if these acquisitions had been completed at the beginning of the year.

Disposals

On 2 September 2021, the Group disposed of 100% of a1-CBISS Limited for £12.0m. A profit on disposal of £5.8m was recognised on the sale and is included as a credit within acquisition related charges.

12. Other liabilities

	2021 £m	2020 £m
Future purchases of minority interests	**5.2**	4.2
Deferred consideration	**18.5**	7.3
	23.7	11.5
Analysed as:		
Due within one year	**11.7**	11.5
Due after one year	**12.0**	–

The movement in the liability for future purchases of minority interests is as follows:

	2021 £m	2020 £m
At 1 October	**4.2**	4.3
Minority interest on acquisition of Techsil	**0.9**	–
Exchange movements	**–**	–
Fair value remeasurements	**0.1**	(0.1)
At 30 September	**5.2**	4.2

At 30 September 2021, the Group's minority interests retained options to sell their minority interests of 10% held in each of M Seals and Kentek and 5% in Techsil (acquired during the year). At 30 September 2021, the estimate of the financial liability to acquire these outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2021. This led to a remeasurement of these options and the liability increased by £0.1m (2020: £0.1m decrease) reflecting a revised estimate of the future performance of these businesses. In aggregate, £0.1m (2020: credit £0.1m) has been debited to the Consolidated Income Statement in respect of this remeasurement of the liability. Through acquiring Techsil during the year, a further £0.9m financial liability has been recognised on the Consolidated Statement of Financial Position.

12. Other liabilities (continued)

Deferred consideration comprises the following:

	1 Oct 2020 £m	Additions £m	Revaluation £m	Payments £m	Foreign Exchange £m	**30 Sep 2021 £m**
VSP Technologies	5.5	–	–	(5.5)	–	**–**
Sphere	0.8	–	0.1	–	0.1	**1.0**
CR Systems	1.0	–	–	(1.1)	0.1	**–**
HSP	–	0.1	–	–	–	**0.1**
PDI	–	0.8	–	–	(0.1)	**0.7**
S&W	–	3.6	–	–	(0.1)	**3.5**
FITT	–	1.7	0.6	–	(0.1)	**2.2**
Biospecifix	–	0.4	–	–	–	**0.4**
Kungshusen	–	5.4	–	–	–	**5.4**
Techsil	–	1.1	–	–	–	**1.1**
AHW	–	4.0	–	–	0.1	**4.1**
	7.3	**17.1**	**0.7**	**(6.6)**	**–**	**18.5**

During the year, outstanding deferred consideration of £6.6m was paid to the vendors of VSP Technologies (£5.5m) and CR Systems (£1.1m).

13. Dividends

	2021 pence per share	2020 pence per share	**2021 £m**	2020 £m
Interim dividend, paid in June	**12.5**	–	**15.6**	–
Final dividend of the prior year, paid in January	**30.0**	20.5	**37.3**	23.2
	42.5	20.5	**52.9**	23.2

The Directors have proposed a final dividend in respect of the current year of 30.1p per share (2020: 30.0p), which will be paid on 4 February 2022, subject to approval of shareholders at the Annual General Meeting ("AGM") on 19 January 2022. The total dividend for the current year, subject to approval of the final dividend, will be 42.6p per share (2020: 30.0p).

The Diploma PLC Employee Benefit Trust holds 90,640 (2020: 118,553) shares, which are ineligible for dividends.

14. Exchange rates

The exchange rates used to translate the results of the overseas businesses are as follows:

	Average		Closing	
	2021	2020	**2021**	2020
US dollar (US$)	**1.37**	1.29	**1.35**	1.29
Canadian dollar (C$)	**1.73**	1.73	**1.71**	1.73
Euro (€)	**1.15**	1.14	**1.16**	1.10
Swiss franc (CHF)	**1.25**	1.23	**1.26**	1.19
Australian dollar (AUD)	**1.83**	1.89	**1.87**	1.80

15. Post balance sheet events

On 16 November 2021, the Group completed the disposal of its 90% interest in Kentek Oy ("Kentek") for £10.0m. As at 30 September 2021, the net assets of Kentek have been classified as held for sale, and written down to their fair value which resulted in a £7.3m charge within acquisition related charges.