I am delighted with our 2022 financial performance and strategic progress. The management team and all my Diploma colleagues do a brilliant job – thank you.

Very strong results and excellent strategic progress
I am delighted with our 2022 financial performance and strategic progress, proving the strength of our model and continuing our long track record of growth and value creation. Our colleagues have been brilliant, and the team has really risen to the challenges presented by the external environment.

Our execution has been very strong. Organic growth is the Group's number one priority, so I am particularly pleased that we have delivered 15% this year. We have also successfully maintained our adjusted operating margin at 18.9%, with our resilient value-added service model and pricing enabling us to offset inflation. We have invested £187m in seven strategically important acquisitions, which will accelerate future organic growth, and build scale in key business lines.

Growth is only one part of the strategy; our future success also depends on effectively scaling our businesses and the Group to ensure growth is sustainable. For our businesses, we are steadily developing their target operating models and continuously improving the core competencies of our value-added model. At a Group level, we continue to quietly evolve our structures, capability and culture for scale.

One of the most exciting aspects of 2022 has been the way in which our businesses and colleagues have embraced Delivering Value Responsibly (DVR), our ESG programme. Our businesses are executing initiatives aligned with our five DVR focus areas, we have embedded our framework into our commercial strategy and culture, and we are announcing ESG targets to drive continuous improvement in material areas.

A very strong financial performance
Financial results for the year were very strong across the key metrics of our model. Organic growth of 15% reflects the success of our revenue diversification initiatives, positive demand and pricing:

- **Controls +24%:** excellent Windy City Wire (WCW) performance; International Controls accelerating growth in exciting end segments while broadening US and European exposure.
- **Seals +14%:** accelerated market share gains in North American Aftermarket and broad-based growth in International Seals against a robust comparator.
- **Life Sciences –4%:** return to growth in Q4 as expected; organic growth of 2%, excluding last year's Covid-related revenues, was moderated by hospital staffing shortages.

Organic growth

+15%

Very strong organic growth driven by our revenue initiatives, positive demand and pricing

Reported revenue growth was 29%, including a positive contribution from high-quality acquisitions and a 5% benefit from foreign exchange movements.

We are very pleased to have maintained our adjusted operating margin at 18.9% (2021: 18.9%) despite a challenging operating environment and inflationary pressures. This was driven by pricing initiatives across the Group together with the benefits of our value-added model. We grew adjusted earnings per share by 26%.

Our H2 cash performance was strong; free cash flow conversion was in-line with our model at 90%. This has resulted in good deleveraging in the second half; year end net debt was 1.4x EBITDA (2021: 1.1x), underpinning our resilience and providing good flexibility to continue to invest in growth. We have good liquidity with undrawn facilities of £204m; 50% of our gross debt is at fixed interest rates (ca. 3%)[1].

Sustainable organic growth strategy: revenue diversification driving growth, building scale and increasing resilience
The Group's strategy is to build high-quality, scalable businesses for organic growth. All of our businesses have fantastic opportunities and our strategy is focused on growing, diversifying and scaling in three ways:

1. Positioning behind high growth end segments: many of which are also linked to our focus on end markets with a positive impact (see pages 48-49).

- **Technology** investment, including in data centres, digital antenna systems, telecommunications and electrification is creating exciting opportunities, particularly in Controls.
- **Renewable energy and infrastructure investment** in the US and elsewhere is benefiting Seals and Controls.
- **Accelerating diagnostics spending:** ageing populations and rising healthcare spending remain fundamental drivers for Life Sciences; moreover, we are also well-positioned to capitalise on changing healthcare spending priorities post-pandemic, particularly in clinical diagnostics.

2. Geographic penetration of core developed economies: we remain relatively underpenetrated in our core developed markets of North America, Europe and Australia.

- We are already benefiting from accelerated market share gains in **North American Aftermarket** and the potential in previously untapped Western and Midwestern states is hugely exciting.

1 Approximately half fixed post-year end.

- Geographic diversification in the **US and Europe at International Controls**, both organically and through acquisitions, creating a more balanced geographic revenue mix.
- The acquisition of Anti-Corrosion Technology (ACT) in Australia marks further progress in **Australian Seals** where, over the last three years, we have built a much bigger, higher quality business.
- We continue to build scale in **Europe in Life Sciences** with the acquisition of Accuscience.

3. Product range extension to expand addressable markets: we do this incrementally, within the businesses, and at portfolio level.

- The acquisition of **R&G Fluid Power Group (R&G) represents a step change for Seals** in the UK, broadening Seals' fluid power offering.
- Continued development of our **exciting Adhesives business line in Controls:** Techsil, acquired last year, has delivered impressive organic growth, and the tuck-in acquisition of Silicone Solutions further strengthens our position in the UK.
- Across our portfolio, **incremental product adjacency initiatives** formed a key part of growth in the year with future plans including: supplier diversification in International Controls; proprietary product development in US MRO; initiatives across Seals relating to O-rings, cylinders and gaskets; and ongoing Life Sciences product pipeline development in new, innovative technologies, for example leveraging artificial intelligence, and in diagnostics.

Focused portfolio development

Focused portfolio development is key to the sustainability of our organic growth. As the Group grows, we must focus on business lines that best represent our model and for which we are the right owners to grow and scale. This means being disciplined about acquisitions and disposals.

Acquisitions to accelerate organic growth

Acquisitions are a key part of our growth strategy, with a disciplined focus on businesses with strong value-add distribution characteristics and high gross margins, and with organic growth potential and great management teams. During 2022, we acquired seven high-quality businesses for a total of £187m, deploying capital across all three Sectors:

- **LJR Electronics (Controls):** acquired in February for £21m (annualised revenue ca. £16m) to give Interconnect improved access to the large, attractive and growing US interconnect market.
- **R&G (Seals):** a value-added aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products, including seals and gaskets, acquired in April for £101m (annualised revenue ca. £69m). The business has added scale in the UK and broadened the Seals product portfolio to expand addressable markets.
- **Accuscience (Life Sciences):** a market-leading life sciences and med-tech distributor in Ireland, acquired in May for £51m (annualised revenue ca. £28m), adding scale in Ireland, continuing the build out of the European pillar of Life Sciences and giving access to the exciting diagnostics segment.
- **ACT (Seals):** a specialist provider of sustainable materials engineering and corrosion control solutions. Acquired in July for £7m (annualised revenue ca. £4m), highly complementary, and a further step in building a high-quality, scalable Australian platform for growth.
- **Silicone Solutions (Controls):** acquired for £3m in September (annualised revenue ca. £2m), continuing to build out and diversify our new adhesives business line.
- **Two small bolt-ons at R&G (Seals):** R&G continues to consolidate smaller regional players, acquiring two businesses for £4m (annualised revenue ca. £5m).

Our acquisition pipeline is encouraging, albeit given the wider market uncertainties, we will maintain our strict financial discipline. Nonetheless, we continue to invest in value-accretive bolt-ons at very attractive multiples. Since our H1 results, and prior to year end, we invested £14m in four bolt-ons; since year end R&G has completed a further two bolt-on acquisitions for £5m. These businesses were acquired for a 5x blended average multiple.

Portfolio discipline

As part of a disciplined approach to portfolio management, we made two small, non-core disposals in the year. In early May, we disposed of a1-envirosciences, formerly part of the Life Sciences Sector for £11m (annualised revenue ca. £13m). In November last year, we also disposed of Kentek, our Russian filters business, for £10m (annualised revenue ca. £23m).

Scaling our value-added businesses and the Group

Scaling our value-added businesses

As our businesses grow and scale, they need to evolve their operating models to continue to deliver their value-add customer proposition. All of our businesses have defined their future target operating models, and the strategy to achieve this.

As part of this, we seek to continuously improve the **Core Competencies** of our model:

- **Supply chain:** development of a more structured and proactive approach, including category management techniques and evaluation of partners on a fuller set of criteria, including location, flexibility, environmental and employment practices, not just quality and cost. While we have much more to do, management of our supply chain has been a differentiator in 2022; in some cases better product availability, particularly at WCW, has enabled market share gains.
- **Commercial discipline (or pricing):** the combination of improving pricing processes and the value we deliver for customers has enabled us to protect our operating margins. We have more to learn and more we can do with better data, through working with our suppliers and greater forward planning with customers to deliver the right pricing outcomes.
- **Operational excellence:** another focus area this year as we improve warehouse processes across the portfolio; as our businesses scale, they are making increasing use of automation. Through our network of best practice, we are also working to standardise processes.

We support the development of these Core Competencies through reinvesting in capability – **Talent, Technology and Facility:**

- **Talent:** investment in talent remains a key driver for future growth, with a number of important appointments made in the year – these range from 25 functional appointments in Finance, Operations, Supply Chain and Commercial, to a newly created role heading up the Life Sciences European pillar. We remain focused on retention and have made important progress with the training and development available to colleagues and business leaders.
- Our approach to **Technology** is incremental, and success is dependent on having the right people in place to successfully implement change. We have a number of small upgrade projects ongoing at any one time, and many businesses are developing their webstore capabilities.
- Our investments in **Facility** support the growth of our businesses as well as providing opportunities to reduce emissions and to improve colleague working environments. During the year, we opened new facilities in Life Sciences in Australia and Europe; and we are in the planning stages for a further two new facilities over the next 18 months.

We have maintained high-teens margins of

18.9%

Scaling the Group

We continue to quietly evolve the structures, capability and culture of the Group. Over the last three years, we have evolved the Group's organisational structure around core, scalable business lines and developed our strategic and performance frameworks. At Group centre, we retain a lean head office focused on providing a service to the businesses, also selectively investing in upskilling functions such as Finance, Legal, Corporate Development and Internal Audit.

Alongside our powerful decentralised approach and strong local cultures, we continue to develop a complementary shared Diploma culture and identity based on best practice sharing.

Delivering Value Responsibly: embedding into our commercial strategy and culture

Over the past year, there has been a real step change in momentum with DVR, our ESG programme. Our colleagues and businesses are executing initiatives aligned with our five focus areas. We have improved reporting with metrics now embedded, supported by strong governance at Group, Sector and business level. Looking ahead, new targets will drive further progress in 2023, and we are well on the way to submitting net zero targets to the Science Based Targets initiative.

Key performance highlights of the year include:

- **Excellent and consistent colleague engagement score**: 79% (2021: 79%), and a very high response rate of 86%. This is a brilliant achievement given the challenging operating environment, and I am delighted with how leaders across the Group have worked hard to engage colleagues and leverage last year's engagement survey feedback.
- **Increasing the diversity of our Senior Management Team (SMT)**: female representation at SMT increased to 27% (2021: 24%), driven by external recruitment (40% female) which more than offset the impact of acquisitions (SMT talent additions from acquisitions >90% male).
- **Carbon emissions flat despite 15% organic revenue growth**: due to business initiatives and our investments in facility.

We are also announcing DVR targets aligned to our five focus areas. We are committed to net zero emissions across our value chain by 2050 at the latest, and have set an interim 50% reduction target for Scope 1 & 2 by 2030. We are currently calculating our Scope 3 emissions in order to submit net zero targets to the Science Based Targets initiative (SBTi) in 2023. For further details on our targets, please see the Delivering Value Responsibly section on pages 34-57.

Increasing resilience underpins our outlook

While we are mindful of the uncertain economic outlook and prospect of a tougher demand environment, we remain confident in the Group's increasing resilience.

We have grown EPS by

26%

sustaining our impressive compounding track record

Diploma has an excellent track record of compounding growth and delivering strong financial returns through the cycle. Our model is resilient, and our strategic activity makes us more so over time as we diversify and scale. Increasing revenue diversification means we are exposed to exciting, structurally growing end segments. Our focus on value-added products and solutions critical to customer needs and predominantly serving opex budgets, together with our service component, fosters sticky customer relationships and pricing power and supports sustainable margins. Our highly cash-generative model and strong balance sheet underpin our resilience.

At this stage, FY 2023 is expected to be in line with our long-term model:

- Organic revenue growth: mid-single digit, consistent with our model and likely to be weighted to H1
- Acquisitions announced to date are expected to add ca. 6% to reported revenue growth
- Strong, resilient operating margin, in a range of 18-19%
- At this stage, the foreign exchange benefit from weaker sterling and higher interest costs are expected to be neutral to adjusted EPS

FY 2023 has started well, consistent with our guidance. We remain focused on executing our strategy of building high-quality, scalable businesses for organic growth and are confident in our ability to deliver long-term growth at sustainably high margins.

Johnny Thomson
Chief Executive Officer