# CHAIRMAN'S STATEMENT

**JOHN NICHOLAS** CHAIRMAN

# RESILIENT BUSINESS, CONSISTENT DELIVERY, STRONG RESULTS

PRINCIPAL CORPORATE OBJECTIVES

ACHIEVE DOUBLE-DIGIT GROWTH IN ADJUSTED EPS OVER THE BUSINESS CYCLE

—

GENERATE TSR GROWTH IN THE UPPER QUARTILE OF THE FTSE 250

—

DELIVER PROGRESSIVE DIVIDEND GROWTH WITH TWO TIMES DIVIDEND COVER

Diploma's trading performance in 2018 was, once again, very strong. The Group delivered another year of double-digit growth in adjusted earnings per share and generated free cash flow of over £60m. The results demonstrate the resilience of the Group's businesses and the consistent delivery against the Group's strategy that have allowed Diploma to build a long track record of strong financial performance despite the vagaries of the macroeconomic environment during any period.

During the year the Board appointed a new Chief Executive Officer ("CEO") to succeed Bruce Thompson who retired from the Board after leading the Group for over 20 years. However, in August it was announced that Richard Ingram stepped down from his role as CEO and that I had agreed to take over as interim Executive Chairman until a new CEO is appointed. This process is under way and the Board is confident that we will find the right CEO to lead the Group to continued success. Over the course of this year, I have been consistently impressed by the capability and commitment of the Group's senior management team and I am grateful for their continued support and hard work during this period. My particular thanks are extended to our Group Finance Director, Nigel Lingwood, for the strength and leadership he has demonstrated throughout the year.

The Board has reviewed and reconfirmed its support for the Group's existing strategy that we believe continues to have excellent potential to create shareholder value in the years ahead. In addition to the underlying growth achieved this year, two acquisitions were completed during the year and a further small acquisition was also completed shortly after the year end.

## RESULTS

Group revenues increased in 2018 by 7% to £485.1m (2017: £451.9m), despite a currency headwind of 3% from translating the results of the overseas businesses, following a small appreciation in UK sterling this year. After adjusting for the contribution from acquisitions completed both this year and last year, net of a small disposal this year and for these currency effects on translation, Group revenues also increased by 7% on an underlying basis. The Seals businesses delivered strong underlying revenue growth of 10% and both the Life Sciences and Controls businesses reported a 5% growth in underlying revenues.

Adjusted operating profit increased by 9% to £84.9m (2017: £78.2m) reflecting the strong growth in revenues and a modest increase of 20bps in adjusted operating margins to 17.5% (2017: 17.3%). Adjusted profit before tax also increased by 9% to £84.8m (2017: £77.5m) and adjusted earnings per share ("EPS") increased by 13% to 56.4p (2017: 49.8p), reflecting the benefit from the reduction in the US Federal corporate income tax rate during the year.

On a statutory basis, the Group's operating profit was 7% ahead of last year at £73.2m (2017: £68.5m) after £9.6m (2017: £9.7m) of acquisition related charges, largely comprising amortisation of acquired intangible assets and one-off charges of £2.1m with respect to the CEO change in the year. Statutory profit

"THE GROUP HAS MAINTAINED ITS LONG TRACK RECORD OF CONSISTENT DELIVERY AGAINST ITS KEY PERFORMANCE METRICS"

before tax increased by 9% to £72.7m (2017: £66.8m) and statutory EPS was 13% up on last year at 47.5p (2017: 42.0p).

The Group's free cash flow remained robust at £60.5m (2017: £55.7m), which included £4.0m from the sale of a small non-core US gasket business. The outflow of cash to support working capital increased again this year by £5.1m (2017: £4.0m) reflecting the much stronger trading environment across the Group. Capital expenditure increased this year to £6.6m (2017: £3.3m) with investment focused on new facilities and IT infrastructure and a large investment by the Healthcare businesses in field equipment in support of customer contracts.

As indicated in last year's Annual Report, the environment to complete acquisitions continued to be challenging as vendors postponed their exit plans in the face of the continuing favourable macroeconomic conditions. The Group invested £20.4m (2017: £20.1m) in acquisitions and there were tentative signs towards the end of the year that this environment was easing. The pipeline of acquisition opportunities remains healthy and we are confident that good quality businesses in our acquisition pipeline will be brought to market by their vendors.

The Group's balance sheet remains robust with cash funds at 30 September 2018 of £36.0m (2017: £22.3m), after investing £20.4m in acquisitions and making distributions to shareholders of £26.8m (2017: £23.5m). The Group also has unutilised committed bank facilities of £30m with an accordion option to extend these facilities up to £60m.

### DIVIDENDS

The combination of strong results and free cash flow, supported by a robust balance sheet has led the Board to recommend an increase in the final dividend of 11% to 17.8p per share (2017: 16.0p). Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 23 January 2019 to shareholders on the register at 30 November 2018.

The total dividend per share for the year will be 25.5p (2017: 23.0p), which represents an 11% increase on 2017, with the level of dividend cover remaining unchanged at 2.2 times on an adjusted EPS basis.

### GOVERNANCE

During the year, we completed an external evaluation of the Board. The results of the review were discussed by the Board and an action plan to implement suggested improvements has been prepared. The review included an in-depth analysis of the CEO recruitment process with specific lessons to learn for the new search. The Nomination and Remuneration Committees have been focused during the latter part of the year on the leadership change and search for a new CEO. The Audit Committee has overseen the transition of the audit to the new auditor, PricewaterhouseCoopers LLP.

### EMPLOYEES

We continue to foster an entrepreneurial culture that encourages our employees to take responsibility for their own businesses. I would like to record my thanks to all our employees whose hard work and commitment has again been a driving force behind the Group's performance and the achievement of another year of strong financial results.

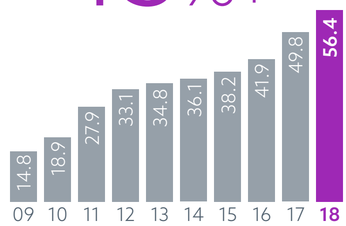
### OUTLOOK

Diploma has a strong and resilient business model with a broad geographic spread of businesses supported by a robust balance sheet and consistently strong free cash flow. This model has delivered another strong result this year with double-digit growth in earnings per share, benefiting from favourable trading conditions in most of its major markets.

Despite the global macroeconomic uncertainty, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady "GDP plus" underlying growth and from the Group's proven value-enhancing acquisition programme.

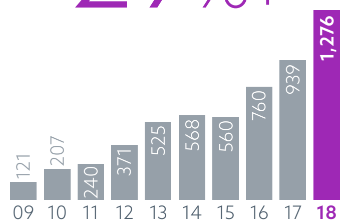
**ADJUSTED EPS GROWTH** (PENCE)

+13% p.a.[1]



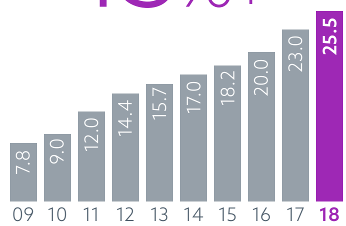

**TSR GROWTH** (TSR INDEX 2008 = 100)

+29% p.a.[1]




**DIVIDEND GROWTH** (PENCE)

+13% p.a.[1]




1 Ten-year compound.