



DIPLOMA PLC

# HALF YEAR ANNOUNCEMENT

Six months ended 31 March 2019

13 May 2019



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# FIRST HALF RESULTS

ANOTHER GOOD PERFORMANCE ACROSS ALL THREE SECTORS

REVENUE GROWTH	UNDERLYING REVENUE GROWTH	ADJUSTED OPERATING MARGIN	FREE CASH FLOW	ADJUSTED EPS
+11%	+6%	+20BPS	£14m	+14%

ON TRACK TO MEET OUR FULL YEAR EXPECTATIONS



# FINANCIAL RESULTS

# OVERVIEW OF RESULTS

## HALF YEAR ENDED 31 MARCH

	2019	2018	
Revenue	<b>£260.4m</b>	£234.9m	+11%
Adjusted operating profit	<b>£45.6m</b>	£40.6m	+12%
Adjusted operating margin	<b>17.5%</b>	17.3%	+20bps
Adjusted profit before tax	<b>£45.5m</b>	£40.4m	+13%
Free cash flow	<b>£14.0m</b>	£17.7m	- 21%
Acquisition spend	<b>£7.5m</b>	£3.3m	
Cash funds	<b>£22.0m</b>	£17.7m	
Adjusted earnings per share	<b>30.5p</b>	26.7p	+14%
Total dividend per share	<b>8.5p</b>	7.7p	+10%

# FINANCIAL HIGHLIGHTS

## ANOTHER GOOD PERFORMANCE

- Strong underlying revenue growth of 6%
- Robust 20bps improvement in adjusted operating margin
- Good free cash flow of £14m, after additional investment in strategic inventories



REVENUE

**£260.4M**

2018: £234.9m

**+11%**

ADJUSTED OPERATING PROFIT

**£45.6M**

2018: £40.6m

**+12%**

ADJUSTED OPERATING MARGIN

**17.5%**

2018: 17.3%

**+20bps**

FREE CASH FLOW

**£14.0M**

2018: £17.7m

**-21%**

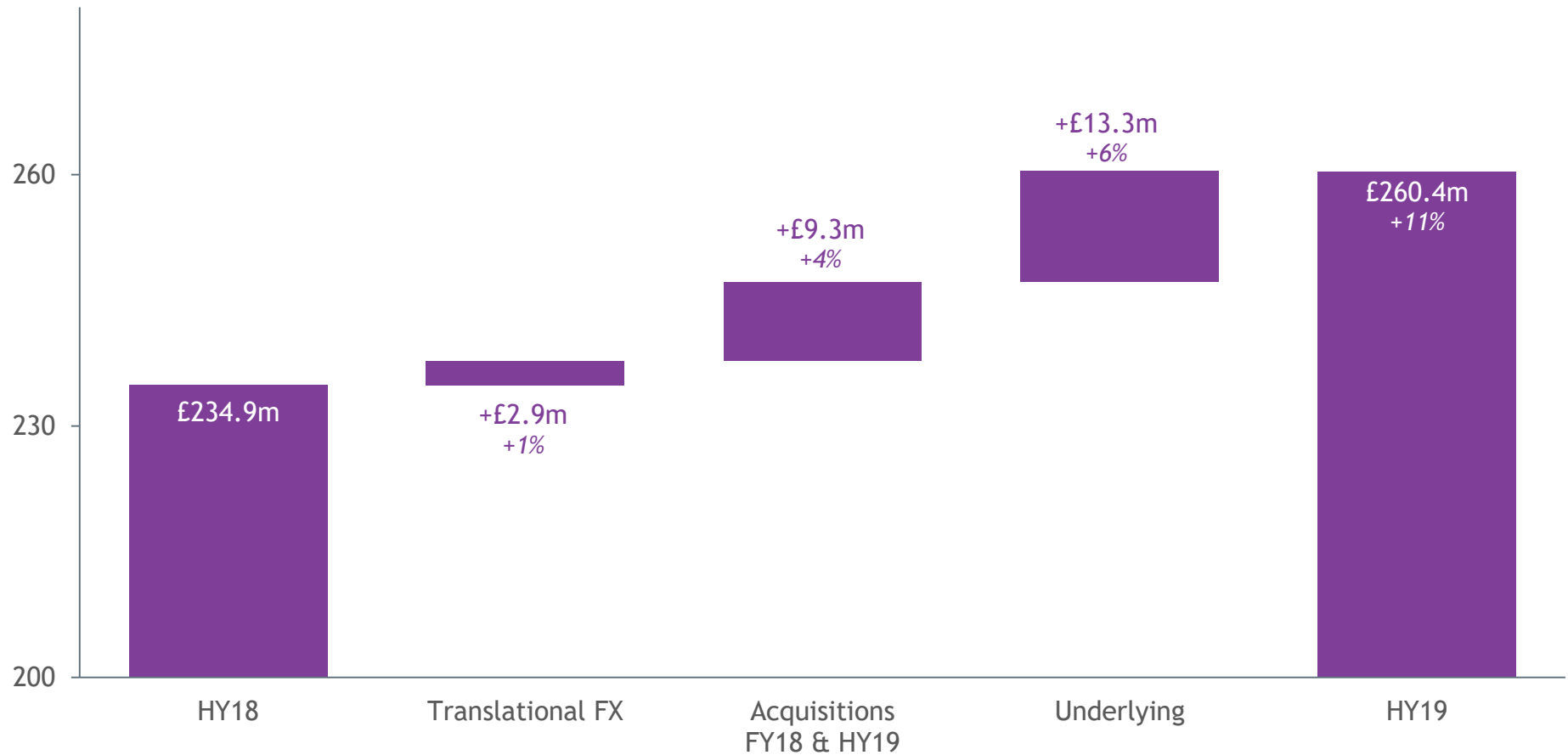
# PROFIT BEFORE TAX

## HALF YEAR ENDED 31 MARCH 2019

	2019 £m	2018 £m	
<b>Revenue</b>	<b>260.4</b>	<b>234.9</b>	<b>+11%</b>
<b>Adjusted operating profit</b>	<b>45.6</b>	<b>40.6</b>	<b>+12%</b>
<i>Adjusted operating margin (%)</i>	<i>17.5%</i>	<i>17.3%</i>	
<b>Interest expense</b>	<b>(0.1)</b>	<b>(0.2)</b>	
<b>Adjusted profit before tax</b>	<b>45.5</b>	<b>40.4</b>	<b>+13%</b>
<b>Previous CEO transition costs</b>	<b>-</b>	<b>(0.2)</b>	
<b>Acquisition related charges</b>	<b>(5.5)</b>	<b>(4.7)</b>	
<b>Fair value remeasurements</b>	<b>0.1</b>	<b>(0.1)</b>	
<b>Statutory profit before tax</b>	<b>40.1</b>	<b>35.4</b>	<b>+13%</b>

# REVENUE BRIDGE

GOOD UNDERLYING GROWTH OF 6%





# EARNINGS PER SHARE

## HALF YEAR ENDED 31 MARCH

	2019 £m	2018 £m	
<b>Adjusted profit before tax</b>	<b>45.5</b>	<b>40.4</b>	
Adjusted tax	(10.8)	(9.9)	
<i>Group effective adjusted tax rate</i>	<i>23.7%</i>	<i>24.5%</i>	<i>-80bps</i>
<hr/>			
<b>Earnings per share (pence)</b>			
Adjusted	<b>30.5p</b>	<b>26.7p</b>	<b>+14%</b>
Statutory	<b>26.4p</b>	<b>23.0p</b>	<b>+15%</b>

## FREE CASH FLOW

### HALF YEAR ENDED 31 MARCH

	2019 £m	2018 £m	
<b>Adjusted operating profit</b>	<b>45.6</b>	<b>40.6</b>	
Depreciation	2.6	2.4	
Working capital	(16.9)	(11.2)	
Previous CEO transition costs paid	(1.3)	-	
Pension and share schemes, net	0.1	0.1	
<b>Operating cash flow, before acquisition expenses</b>	<b>30.1</b>	<b>31.9</b>	<b>-6%</b>
Interest paid, net	(0.1)	-	
Tax paid	(9.6)	(9.7)	
Capital expenditure	(3.5)	(2.3)	
EBT - share scheme funding	(2.9)	(2.2)	
<b>Free cash flow</b>	<b>14.0</b>	<b>17.7</b>	<b>-21%</b>
<i>Cash conversion</i>	<b>41%</b>	<b>59%</b>	

# CASH

## HALF YEAR ENDED 31 MARCH

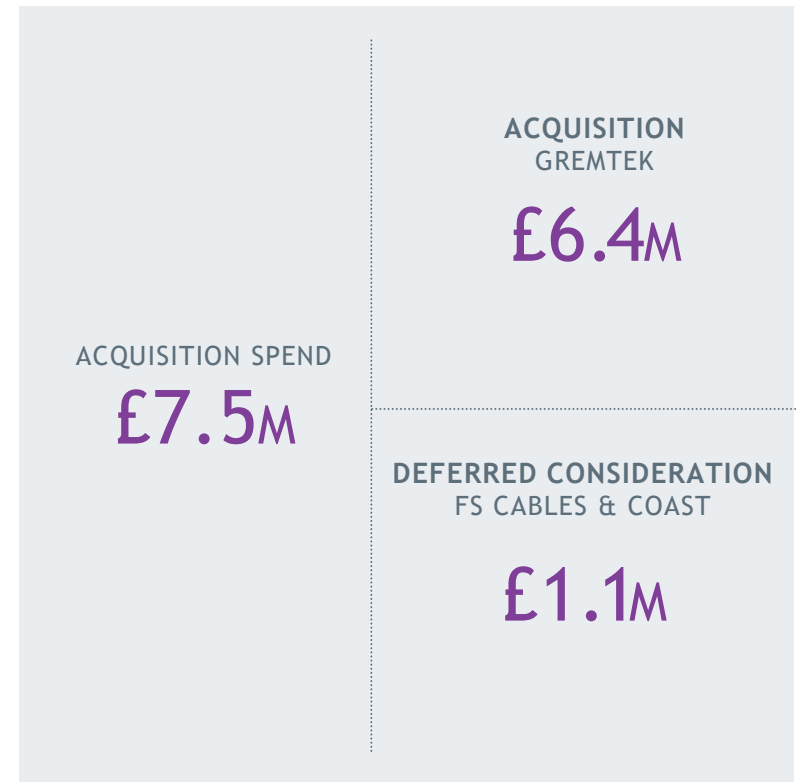
	2019 £m	2018 £m
<b>Free cash flow</b>	<b>14.0</b>	<b>17.7</b>
Acquisition cash paid	(6.4)	(3.2)
Deferred consideration	(1.1)	(0.1)
Dividends	(20.5)	(18.3)
	<u>(14.0)</u>	<u>(3.9)</u>
Net cash brought forward	36.0	22.3
Exchange adjustments	-	(0.7)
<b>Cash funds at 31 March</b>	<b><u>22.0</u></b>	<b><u>17.7</u></b>
Comprising:		
Cash balances	22.0	19.7
Borrowings	-	(2.0)

# ACQUISITIONS

PIPELINE STRENGTHENED BUT REMAINS VERY COMPETITIVE

Acquisitions are an integral part of the Group's strategy

- £7.5m spent on acquisitions during the period
- Pipeline strengthened, but remains very competitive
- We remain optimistic about acquiring quality businesses, but will remain disciplined



## SHAREHOLDERS' FUNDS

	31 Mar 2019 £m	30 Sept 2018 £m
Tangible assets and investments	25.9	25.5
Goodwill and acquisition intangible assets	179.2	182.1
Net working capital	92.9	75.2
<b>Trading capital employed - reported</b>	<b>298.0</b>	<b>282.8</b>
<i>Working capital (% of revenue)</i>	<i>17.0%</i>	<i>15.1%</i>
<i>ROATCE</i>	<i>24.2%</i>	<i>24.5%</i>
Retirement benefit obligations	(10.3)	(10.5)
Acquisition liabilities	(4.6)	(5.6)
Cash funds	22.0	36.0
Minority interests and deferred tax, net	(11.0)	(11.5)
<b>Total shareholders' equity</b>	<b>294.1</b>	<b>291.2</b>



# BUSINESS REVIEW

# THE GROUP

WELL DIVERSIFIED BY SECTOR AND GEOGRAPHY

### Revenue by Sector



■ Life Sciences   ■ Seals   ■ Controls  
28%   39%   33%

### Revenue by Geography\*



■ North America   ■ Europe   ■ Rest of World  
39%   50%   11%

\*By destination

# LIFE SCIENCES

## SEGMENTATION



### HEALTHCARE

**85%** OF REVENUES

Clinical diagnostics instrumentation, consumables and services supplied to hospital pathology and life sciences laboratories for the testing of blood, tissue and other samples.

Surgical medical devices and related consumables and services supplied to hospital operating rooms, GI/Endoscopy suites and clinics.

### ENVIRONMENTAL

**15%** OF REVENUES

Environmental analysers, containment enclosures and emission monitoring systems.

#### PRIMARY GROWTH DRIVERS

- Public and private healthcare spending
- Population ageing and increasing life expectancy
- Health & Safety and Environmental regulation



# LIFE SCIENCES

## STRONG TRADING AND OPERATING LEVERAGE

Half Year ended 31 March	2019	2018	
Revenue	£71.1m	£67.4m	+5%
Adjusted operating profit	£13.0m	£11.7m	+11%
Adjusted operating margin	18.3%	17.4%	+90bps



- Underlying Sector revenue growth of 5%
- Strong Clinical Diagnostics performance, particularly in Australia
- Surgical and Endoscopy growth in Canada
- Pleasing margin progression in a cost conscious end market
- Product life cycle management is key to success

## SEALS

### SEGMENTATION



#### NORTH AMERICA AFTERMARKET

**31%** OF REVENUES

Next day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery.

#### INTERNATIONAL

**40%** OF REVENUES

Sealing products and filters supplied outside North America to Aftermarket and Industrial OEM customers as well as to MRO operations.

#### NORTH AMERICA INDUSTRIAL OEM

**29%** OF REVENUES

Sealing products, custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

#### PRIMARY GROWTH DRIVERS

- General economic growth
- Activity and spending levels in Heavy Construction and Infrastructure
- Growth in industrial production
- MRO expenditure in Mining and process industries

## SEALS

FURTHER PROGRESS LED BY STRONG GROWTH IN INTERNATIONAL SEALS

Half Year ended 31 March	2019	2018	
Revenue	£102.4m	£99.2m	+3%
Adjusted operating profit	£17.1m	£17.1m	-
Adjusted operating margin	16.7%	17.2%	-50bps



- Underlying Sector revenue growth of 4%
- International businesses progressing well with 9% increase in underlying revenue
- NA Aftermarket temporarily slower in H1
- NA OEM affected by ERP launch in H1
- Operating margins down 50bps as we invest in management and infrastructure
- Short term market trends uncertain
- Long term outlook for the Sector very positive

# CONTROLS

## SEGMENTATION



### INTERCONNECT

**64%** OF REVENUES

Wiring, cable, harness components and cable accessories used in specialised technical applications in Aerospace, Defence, Motorsport, Energy, Medical, Rail and Industrial.

### SPECIALTY FASTENERS

**20%** OF REVENUES

Specialty aerospace-quality fasteners supplied to Civil Aerospace, Motorsport, Industrial and Defence markets.

### FLUID CONTROLS

**16%** OF REVENUES

Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

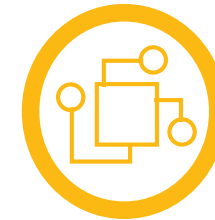
#### PRIMARY GROWTH DRIVERS

- General growth in the industrial economy
- Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail
- Equipment installation and maintenance in Food, Beverage and Catering

# CONTROLS

## EXCELLENT PERFORMANCE IN POSITIVE END MARKETS

Half Year ended 31 March	2019	2018	
Revenue	£86.9m	£68.3m	+27%
Adjusted operating profit	£15.5m	£11.8m	+31%
Adjusted operating margin	17.8%	17.3%	+50bps



- Underlying Sector revenue growth of 9%
- Acquisitions of FS Cables and Gremtek contributed growth of 14%
- Interconnect business expansion into Germany and France progressing well
- Exciting developments in our Fastener business, with product and market expansion
- Positive margin progression as we successfully leverage our scale
- Some Brexit stocking benefit
- Outlook remains strong for the second half



# CEO FIRST IMPRESSIONS

## INITIAL IMPRESSIONS

### STRONG FOUNDATIONS

- People: open, passionate, accountable, customer-centric
- Niche value-add model
- Strong positions in attractive markets
- M&A history
- Excellent financial performance
- Strong balance sheet

### EXCITING OPPORTUNITIES

- Retain successful foundations
- Leverage common capabilities
- Talent development
- Strategic organic growth plans
- Opportunities to develop infrastructure and technology
- Developing the portfolio around scalable markets



# OUTLOOK AND PROSPECTS



## OUTLOOK AND PROSPECTS

- Strong start to the year
- Some early signs of slower activity in Industrial Seals markets
- Resilient and successful business model
- Optimistic about acquisition pipeline
- Full year expectations positive and unchanged





# APPENDIX

## FINANCIAL KPIS

### FIVE YEAR TRENDS

	2014	2015	2016	2017	2018
<b>Revenue</b>	£305.8m	£333.8m	£382.6m	£451.9m	£485.1m
<i>Total growth</i>	+7%	+9%	+15%	+18%	+7%
<i>Underlying growth</i>	+8%	+1%	+3%	+7%	+7%
<b>Operating margin</b>	18.5%	18.1%	17.2%	17.3%	17.5%
<b>Working capital (% revenues)</b>	17.2%	17.0%	16.6%	15.0%	15.1%
<b>Free cash flow</b>	£37.8m	£40.3m	£59.0m	£55.7m	£60.5m
<i>Cash conversion (%)</i>	93%	93%	124%	99%	95%
<b>ROATCE</b>	25.8%	23.9%	21.1%	24.0%	24.5%

Average over  
five years:

CAGR revenue  
growth

**11%** p.a.

Operating  
margins

**18%**

ROATCE

**24%**

Free cash flow  
conversion

**101%**

# FOREIGN EXCHANGE

STRENGTHENING IN UK STERLING PROVIDED TRANSLATION HEADWIND

GBP VS G10 CURRENCY BASKET SECURITIES



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