

DIPLOMA PLC

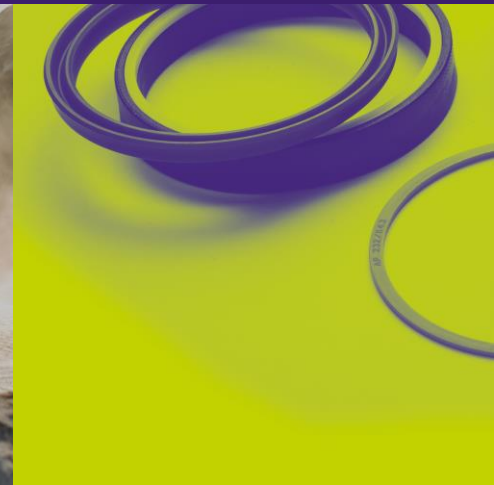
Full year results

Year ended September 2020



16 November 2020

Consistently delivering value



Agenda

01 Overview

02 Financial results

03 Business review and strategy

04 Summary and outlook

05 Q&A

Significant progress in 2020

- Successfully managing Covid-19
- Building high quality, scalable businesses for sustainable growth
- Exciting organic growth potential across all Sectors
- Significant cultural and management evolution
- Encouraging pipeline of high quality bolt-on acquisitions
- Continued focus on strong financial returns and balance sheet

Exciting prospects ahead

Full year results

Reported revenue growth	Underlying revenue growth	Adjusted operating margin	Free cash flow	Progressive dividend
-1%	-7%	16.2%	+28%	30.0p

Extremely resilient performance

Financial Results

Financial Highlights

Extremely resilient performance

- Underlying revenue growth of -7%
- Adjusted operating margin robust
- Strong free cash flow conversion of 113%
- Significant liquidity of £135m post-WCW
- ROATCE at 19%

Revenue



£538.4m

2019: £544.7m

-1%

Adjusted operating profit



£87.1m

2019: £97.2m

-10%

Adjusted operating margin



16.2%

2019: 17.8%

-160bps

Free cash flow



£72.5m

2019: £56.5m

+28%

Adjusted liquidity¹

£135m

ROATCE



19.1%

2019: 22.9%

¹Adjusted for Windy City Wire acquisition

Profit before tax

Year ended 30 September

	2020 £m	2019 £m	
Revenue	538.4	544.7	-1%
Adjusted operating profit	87.1	97.2	-10%
<i>Adjusted operating margin (%)</i>	<i>16.2%</i>	<i>17.8%</i>	
Interest expense	(2.7)	(0.7)	
Adjusted profit before tax	84.4	96.5	-13%
Acquisition related charges	(17.3)	(13.1)	
Fair value remeasurements	(0.4)	0.1	
Statutory profit before tax	66.7	83.5	-20%
<i>Group effective adjusted tax rate</i>	<i>24.0%</i>	<i>24.0%</i>	-
Adjusted earnings per share	56.4p	64.3p	-12%
Statutory earnings per share	43.5p	54.7p	-20%

Free cash flow

Year ended 30 September

	2020 £m	2019 £m	
Adjusted operating profit	87.1	97.2	
Depreciation	12.7	5.4	
Decrease/(increase) in working capital	9.5	(9.4)	
Previous CEO transition costs paid	-	(1.3)	
Pension and share schemes, net	0.6	0.4	
Other movements	(1.5)	-	
Operating cash flow, before acquisition expenses	108.4	92.3	+17%
Interest paid, net	(1.5)	(0.1)	
Tax paid	(21.5)	(21.9)	
Capital expenditure	(9.4)	(10.9)	
Proceeds from sale of property and investment	6.6	-	
Lease repayments	(7.6)	-	
EBT – share scheme funding	(2.5)	(2.9)	
Free cash flow	72.5	56.5	+28%
<i>Cash conversion</i>	113%	78%	

Cash funds/(net bank debt)

Year ended 30 September

	2020 £m	2019 £m
Free cash flow	72.5	56.5
Acquisition cash paid	(13.8)	(77.2)
Deferred consideration paid	(1.1)	(1.1)
(Repayment of)/Proceeds from borrowings, net	(42.1)	41.1
Dividends paid	(23.4)	(30.1)
	(7.9)	(10.8)
Proceeds from issue of Share Capital	189.8	-
Decrease/(increase) in bank borrowings	42.1	(42.1)
Exchange and other adjustments	(2.1)	1.8
(Net bank debt)/cash funds brought forward	(15.1)	36.0
Cash funds/(net bank debt)	206.8	(15.1)
Comprising:		
Cash funds	206.8	27.0
Bank debt	-	(42.1)

Capital structure and liquidity

Capital structure




- Equity raise proceeds of £189.2m to finance WCW acquisition post year-end
- New financing package
 - \$170m term loan, £135m fully revolving multi-currency facility
 - 3x net debt : EBITDA covenant
 - 3 year term + 2 one-year extensions (to December 2025)
 - Initial interest rate of ca. 2.3%

Liquidity

- Liquidity post WCW acquisition of £135m, with debt of £180m
- Plenty of headroom to finance value-add bolt-on acquisitions
- One off cashflows post-period end in relation to VSP earn out (\$7m), pension scheme (£5m)

Current trading

Underlying growth rate trajectory very encouraging

		Q3	Q4	September
Life Sciences		-19%	0%	+2%
Seals		-12%	-7%	-4%
Controls		-34%	-20%	-18%
Group		-21%	-9%	-7%

Guidance – current view of FY21

- On track to deliver results in line with market expectations*
 - Expecting a Diploma performance in FY21 with a return to underlying mid-single digit revenue growth
 - Operating margin for the full year expected to be consistent with historic 17-18% range
 - Growth in revenues and margin expected to be weighted to H2
 - WCW (11½ months) to increase Group revenue by ca. 25%
 - Guidance based on current view and subject to market conditions
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*Current market consensus for the year ended 30 September 2021 is for revenue of £715m and adjusted operating profit of £125m

Business Review and Strategy

Diploma strategy

Consistently delivering value

Focus our growth

- Attractive, developed markets
- Focus on organic growth
- Acquisition opportunities
- Scalable businesses
- Attractive returns

Strengthen our core competencies

Five core competencies to operate value-add model at scale

- Supply chain
- Operational excellence
- Value-add
- Route to market
- Commercial discipline

Develop our organisational capability

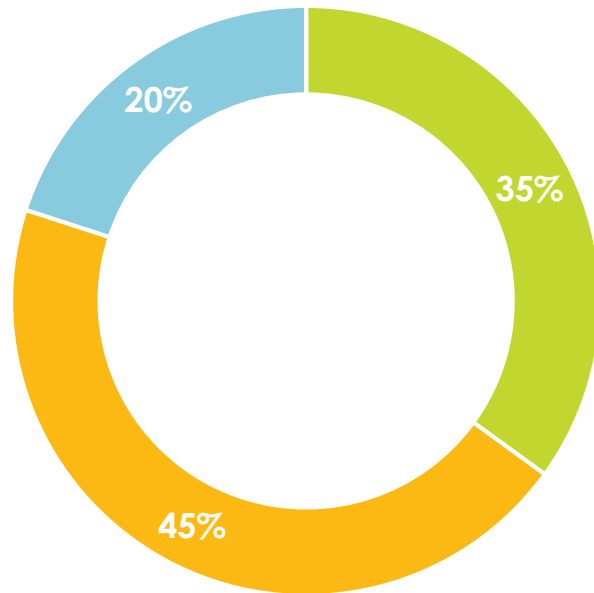
Building the capabilities to execute at scale

- Talent
- Technology
- Facility

The Group

Well diversified by Sector and geography

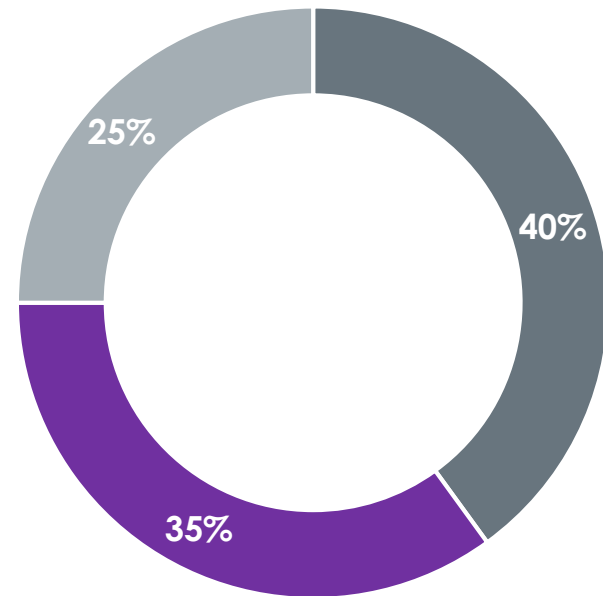
Revenue by Sector



■ Seals ■ Controls ■ Life Sciences

Revenue by geography

by destination



■ US ■ Europe ■ International

Approximate Sector and geography split after inclusion of Windy City Wire on a pro-forma basis



Seals

Strong trading through the year with excellent prospects

Full year ended 30 Sept	2020	2019	
Revenue	£242.1m	£220.6m	+10%
Adjusted operating profit	£36.0m	£38.1m	-6%
Adjusted operating margin	14.9%	17.3%	-240bps

- Performed well through the crisis – least impacted sector
- Excellent contribution from VSP
- Transition to Louisville facility opens up exciting market share gains for Aftermarket
- Margins down on one-off costs from facility transition and some restructuring charges
- Prospects for FY21 overall very positive

- Revenues up by 10% on a reported basis and down 5% on an underlying basis
- NA Aftermarket remained strong with exposure to repair segment in largely open SE States
- After China trade tariffs and pandemic impact, the new management team in Industrial OEM delivering great progress through Q4 and into the new year
- International Seals performed well due to diversity of end segments
- VSP contributed double digit growth and +400bps margin improvement

Focus our growth: New Louisville facility

- Facility investment to support next phase of Aftermarket growth as business scales
- State-of-the-art, robotic grid technology
- Expands reach of Aftermarket Seals across USA on next-day delivery guarantee basis
- \$8 million investment over two years now complete
- Successful transition on 1 September, completed by 1 December

Significant market share gain potential





Controls

Action taken to deliver return to growth in FY21

Full year ended 30 Sept	2020	2019	
Revenue	£156.6m	£178.3m	-12%
Adjusted operating profit	£22.8m	£31.6m	-28%
Adjusted operating margin	14.6%	17.7%	-310bps

- Sector most affected by crisis due to UK and Civil Aerospace exposures
- Restructuring complete: businesses focused on growth with positive trends for FY21
- Margins affected by de-leveraging and restructuring charges, the benefits of which will flow into FY21
- Exciting acquisition of high-quality, scalable US business in Windy City Wire



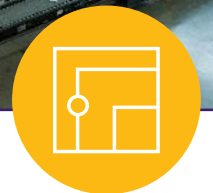
- Revenues down by 12% on a reported basis and 14% on an underlying basis
- Specialty Fasteners down 21% underlying due to Civil Aerospace, but recovering well
- Shoal Group (UK Wire & Cable) is short cycle and has recovered well from early lockdowns
- Fluid Controls affected by hospitality but positive momentum from the online food delivery
- IS Group longer cycle and affected by Civil Aerospace and Motorsport, but successfully building order book again with good revenue trends in Q4

Focus our growth: Windy City Wire

- Expands Controls presence in key industrials market of the US
- Value-add customer proposition with attractive margins
- Significant potential in structurally high growth end segments
- Completed 16 October and successfully onboarded
- Increased opportunities as part of the Diploma Group
- Excellent start to life with Diploma



Accretive to our growth and margins





Life Sciences

Rapid recovery, potential for accelerated growth in FY21

Full year ended 30 Sept	2020	2019	
Revenue	£139.7m	£145.8m	-4%
Adjusted operating profit	£28.3m	£27.5m	+3%
Adjusted operating margin	20.3%	18.9%	+140bps

- Sharp declines in Q3 as hospitals / labs focused on the virus
- Rapid recovery in Q4 continues as procedures largely returned to normal
- Margins strong following tight cost control
- Backlog should deliver accelerated growth over 1-2 years depending on supply/demand factors

- Sector declined by 4% on a reported and underlying basis.
- In Australia, a quicker recovery from the pandemic together with significant one-off PPE revenues drove growth of 7%
- In Canada, underlying revenues down 9% with a slower recovery from the pandemic but hospitals and labs now largely back to normal
- Solid performance from Environmental businesses down only 2% underlying

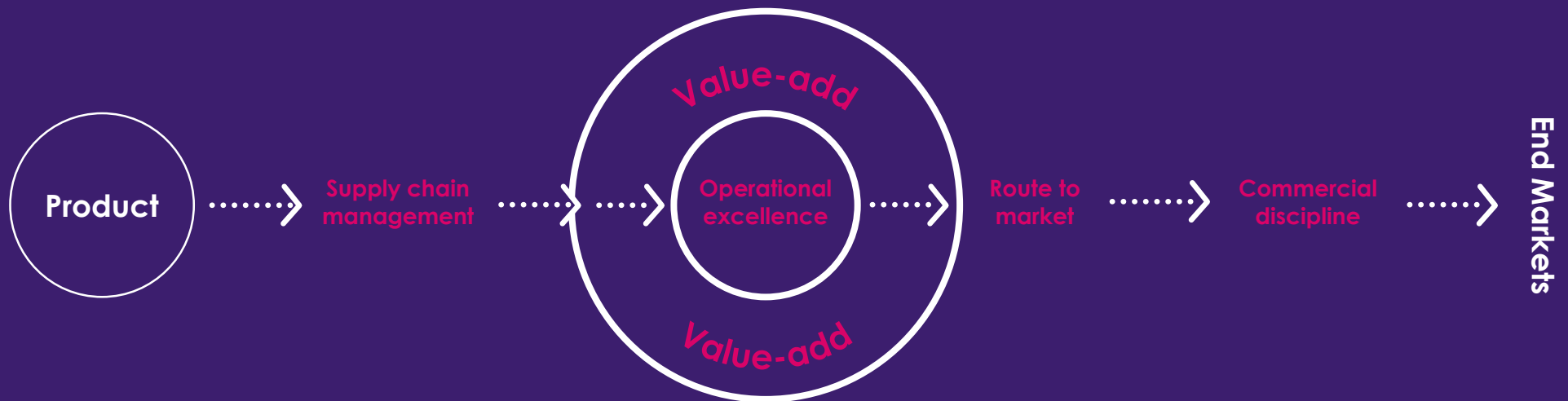
Focus our growth: Sustainable product pipeline

- Growing healthcare spend in specialty surgery, GI endoscopy and diagnostics
- Product lifecycle management is key
- Expanding range of tier 2 and 3 products as funnel to higher revenue contribution
- Covid-19 to increase healthcare spend in clinical research, testing and diagnostics
- Improved focus on new product development
- Unrivalled industry experience in core markets



Sustaining long-term growth

Core Competencies: Executing our value add model at scale



Organisational Capability: Talent development



→ Established a balanced and high performing Group executive team

→ Replenished MD pool across the Group

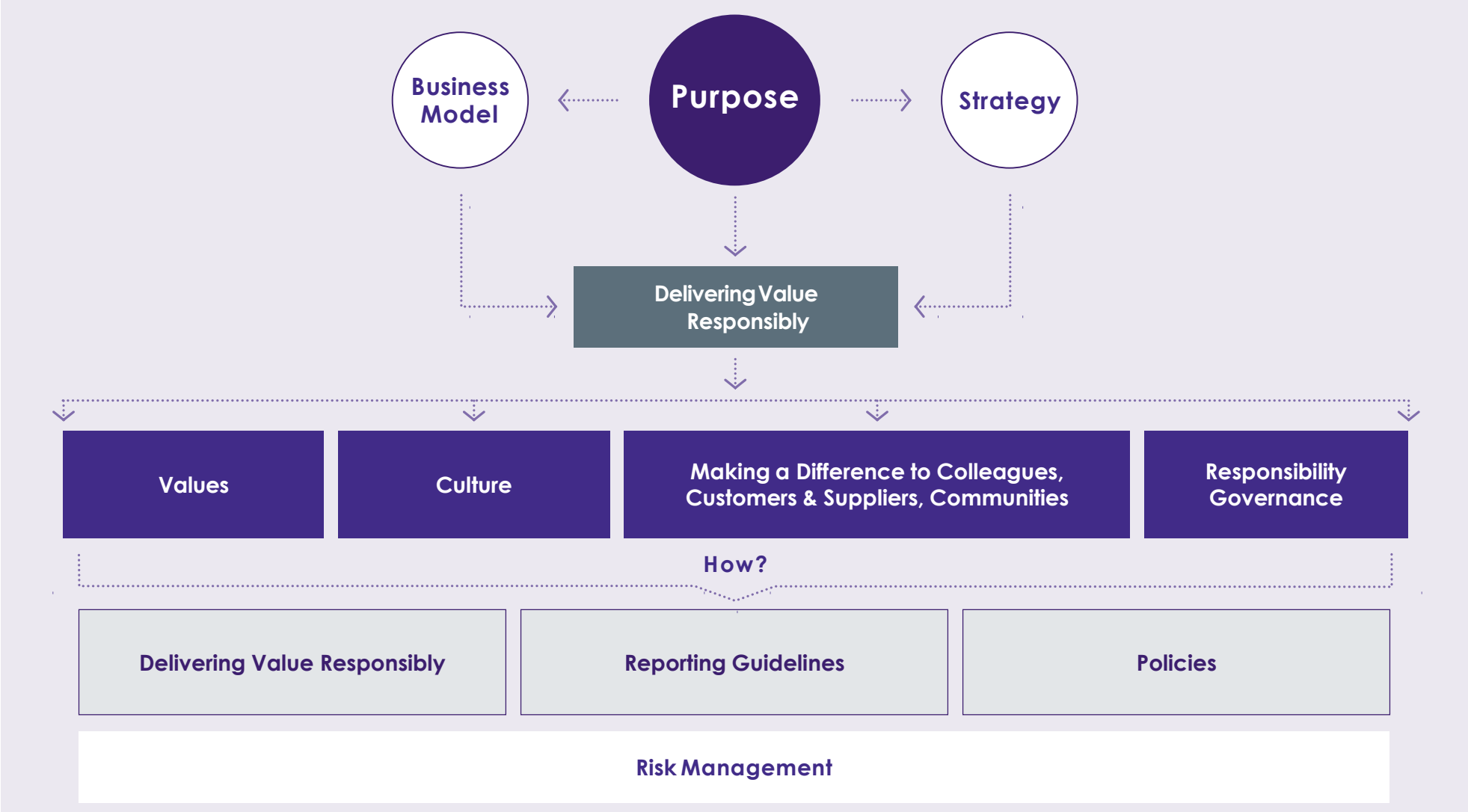
→ Focusing on key functions in the business

→ Embedding talent management processes

→ Progress on succession: more to do

→ Progress on diversity and inclusion: more to do

Delivering value responsibly



Summary and Outlook

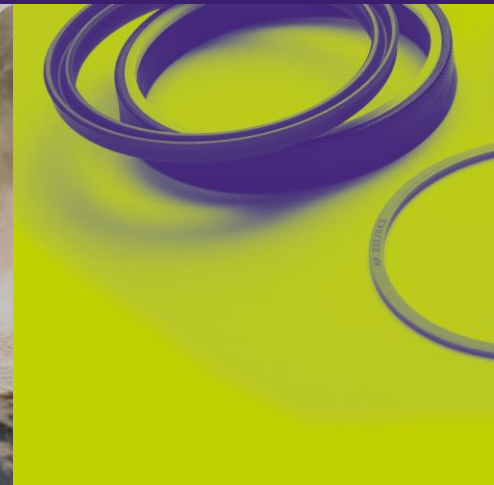
- Significant progress in FY20
 - Continue to build high quality, scalable businesses
 - Significant management and cultural development
 - Exciting organic growth potential across all Sectors
 - Encouraging pipeline of high quality bolt-on acquisitions
 - Confident in our future prospects
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DIPLOMA PLC

Q&A



Consistently delivering value



Appendix

Value-add proposition

Essential Products

✓ Critical to customers needs

✓ Opex budgets

✓ Range of end markets



Growth and resilience

Essential Solutions

✓ Responsive customer service 

✓ Deep technical support 

✓ Added value services 



Sustainable high margins

Essential Values

✓ Decentralised model

✓ Customer-orientated

✓ Accountable for performance execution



Empowered management teams

Balance sheet

	2020 £m	2019 £m
Goodwill and acquisition intangible assets	246.2	251.1
Tangible and other intangible assets	30.9	29.4
Net lease liabilities	(2.1)	-
Net working capital	86.6	96.6
Trading capital employed - reported	361.6	377.1
<i>Working capital as % of revenue</i>	<i>16.0%</i>	<i>16.5%</i>
ROATCE	19.1%	22.9%
Retirement benefit obligations	(18.3)	(17.8)
Acquisition liabilities	(11.5)	(11.3)
Cash funds/(net bank debt)	206.8	(15.1)
Minority interests and deferred tax, net	(11.6)	(11.6)
Total shareholders' funds (excluding minority interests)	527.0	321.3

Financial KPIs

Five year trends

	2020	2019	2018	2017	2016
Revenue	£538.4m	£544.7m	£485.1m	£451.9m	£382.6m
<i>Total growth</i>	-1%	+12%	+7%	+18%	+15%
<i>Underlying growth</i>	-7%	+5%	+7%	+7%	+3%
Adjusted operating margin	16.2%	17.8%	17.5%	17.3%	17.2%
Working capital (% revenues)	16.0%	16.5%	15.1%	15.0%	16.6%
Free cash flow	£72.5m	£56.5m	£60.5m	£55.7m	£59.0m
<i>Free cash conversion (%)</i>	113%	78%	95%	99%	124%
ROATCE	19.1%	22.9%	24.5%	24.0%	21.1%

Average over five years:

CAGR revenue growth

10% p.a.

Adjusted operating margin

17%

ROATCE

22%

Free cash flow conversion

102%

DIPLOMA PLC

Johnny Thomson

Chief Executive Officer

Barbara Gibbes

Chief Financial Officer

Tel: +44 (0) 20 7549 5700
Email: investors@diplomapl.com
Web: www.diplomapl.com

12 Charterhouse Square
London EC1M 6AX

Tulchan Communications

Martin Robinson
Olivia Peters
Guy Bates

Tel: +44 (0) 20 7353 4200
Email: diploma@tulchangroup.com



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